OAO Holding Company METALLOINVEST

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2012

Contents

Independent Auditor's Report

To the Shareholders of OAO Holding Company METALLOINVEST:

We have audited the accompanying consolidated financial statements of OAO Holding Company METALLOINVEST and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statements of 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.

Auditor's 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 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

29 March 2013
Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit,
White Square Office Center, 10 Butyrsky Val, Moscow, Russia, 125047
T:+7 (495) 967 6000, F: +7 (495) 967 6001, www.pwc.ru

(in thousands of US dollars, unless otherwise stated)

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets:			
Property, plant and equipment	7	3,274,453	2,961,272
Intangible assets	8	586,989	598,260
Mineral rights		1,618,391	1,590,348
Goodwill	8	617,059	540,480
Investments in associates	9	69,270	100,994
Available-for-sale financial assets	10	1,470,858	1,039,655
Loans advanced	12	156,746	394,031
Other non-current assets	11	238,193	257,137
Total non-current assets		**8,031,959**	**7,482,177**
Current assets:			
Inventories	13	732,141	730,190
Trade and other receivables	14	689,680	735,217
Loans advanced and other investments	12	346,250	27,430
Current income tax prepayment		5,625	3,404
Restricted cash	15	730	-
Cash and cash equivalents	15	468,369	1,165,980
		2,242,795	**2,662,221**
Assets held for sale	30	77,584	320,197
Total current assets		**2,320,379**	**2,982,418**
TOTAL ASSETS		**10,352,338**	**10,464,595**
EQUITY			
Share capital	27	187,640	187,640
Retained earnings and other reserves		1,976,642	3,063,735
Capital and reserves attributable to the Company's owners		**2,164,282**	**3,251,375**
Non-controlling interests		68,728	86,071
TOTAL EQUITY		**2,233,010**	**3,337,446**
LIABILITIES			
Non-current liabilities:			
Long-term borrowings	16	6,133,004	4,481,332
Deferred income tax liability	17	569,986	561,575
Liability to the regional administration	20	54,520	52,038
Accounts payable		3,482	2,645
Employee benefit obligations	19	348,746	268,804
Total non-current liabilities		**7,109,738**	**5,366,394**
Current liabilities:			
Short-term borrowings	16	337,728	1,116,984
Accounts payable	18	526,591	445,897
Income tax payable		24,711	47,079
Value added tax and other taxes payable		90,825	96,509
Liability to the regional administration	20	4,449	4,378
		984,304	**1,710,847**
Liabilities directly associated with assets held for sale	30	25,286	49,908
Total current liabilities		**1,009,590**	**1,760,755**
TOTAL LIABILITIES		**8,119,328**	**7,127,149**
TOTAL LIABILITIES AND EQUITY		**10,352,338**	**10,464,595**

Approved for issue and signed on 29 March 2013

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

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

(in thousands of US dollars, unless otherwise stated)

	Note	2012	2011
Sales	21	8,194,488	9,918,589
Cost of sales	22	(4,149,015)	(4,485,445)
Gross profit		**4,045,473**	**5,433,144**
Distribution expenses	23	(1,349,095)	(1,641,562)
General and administrative expenses	24	(474,378)	(482,065)
Impairment loss on available-for-sale financial assets	10	-	(706,204)
Loss on initial recognition of available-for-sale financial assets	10	-	(262,491)
Dividend income on available-for-sale financial assets		42,842	44,013
Other operating (expenses)/income – net	25	(353,128)	36,547
Operating profit		**1,911,714**	**2,421,382**
Finance income	26	257,811	30,375
Finance costs	26	(487,371)	(361,055)
Foreign exchange gain/(loss) from borrowings		22,619	(62,451)
Share of net loss of associates	9	(8,324)	(4,244)
Profit before income tax		**1,696,449**	**2,024,007**
Income tax charge	17	(396,171)	(679,520)
Profit for the year from continuing operations		**1,300,278**	**1,344,487**
Discontinued operations			
Profit for the year from discontinued operations	30	424,118	87,712
Profit for the year		**1,724,396**	**1,432,199**
Other comprehensive income			
Available-for-sale financial assets:			
Gains/(losses) arising during the year	10, 27	245,463	(762,221)
Losses transferred to profit or loss	10, 27	-	762,221
Currency translation differences		280,405	(356,393)
Actuarial (loss)/gain		(36,530)	23,002
Other comprehensive income for the year		**489,338**	**(333,391)**
Total comprehensive income for the year		**2,213,734**	**1,098,808**
Profit is attributable to:			
Owners of the Company		1,718,402	1,421,844
Non-controlling interests		5,994	10,355
		1,724,396	**1,432,199**
Total comprehensive income is attributable to:			
Owners of the Company		2,207,740	1,088,453
Non-controlling interests		5,994	10,355
		2,213,734	**1,098,808**
Basic and diluted earnings per ordinary share for profit attributable to the owners of the Company (in USD per share)	**28**	**0.0216**	**0.0178**
From continuing operations		0.0163	0.0167
From discontinued operations		0.0053	0.0011

(in thousands of US dollars, unless otherwise stated)

	Note	2012	2011
Cash flows from operating activities:			
Profit before income tax including discontinued operations		2,132,539	2,122,504
Adjustments for:			
Depreciation of property, plant and equipment		350,904	356,542
Amortisation of intangible assets and mineral rights		71,283	90,648
Loss on disposal of property, plant and equipment		10,731	23,877
Finance costs (net)		229,445	336,002
Foreign exchange loss/(gain)		166,294	(8,108)
Loss on initial recognition of available-for-sale financial assets	10	-	262,491
Impairment loss on available-for-sale financial assets	10	-	706,204
Net gain on disposal of available-for-sale financial assets	10	-	(37,985)
Employee benefits	19	13,931	13,748
Share of net loss of associates	9	8,324	4,244
Dividend income on available-for-sale financial assets		(42,842)	(44,013)
Gain on disposal of discontinued operations	30	(368,659)	-
Net realised loss from foreign exchange forward contract	25	85,793	-
Other		(21,082)	8,569
Operating cash flow before changes in working capital		**2,636,661**	**3,834,723**
Inventories		57,893	(14,757)
Trade and other receivables		87,620	73,282
Trade and other payables		(31,477)	59,146
Employee benefit obligations		(17,578)	(17,712)
Cash generated from operations		**2,733,119**	**3,934,682**
Interest paid		(390,134)	(382,701)
Income tax paid		(488,109)	(669,197)
Waiver fees and other charges		(6,888)	(7,020)
Net cash from operating activities		**1,847,988**	**2,875,764**
Cash flows from investing activities:			
Purchases of property, plant and equipment; intangible assets		(463,326)	(512,329)
Exploration and evaluation expenditure		(40,344)	(34,985)
Proceeds from disposal of a licence for the Sladkovsko-Zarechnoe oil and gas deposit and related assets	8	125,000	-
Acquisition of promissory notes		(2,478,726)	-
Proceeds from disposal of promissory notes		2,504,280	-
Acquisition of interest in subsidiaries, net of cash acquired		(87,600)	(236,327)
Proceeds from disposal of discontinued operations, net of cash disposed	30	552,153	-
Acquisition of interest in associates		(7,307)	(27,827)
Proceeds from disposal of associates		5,948	-
Acquisition of available-for-sale financial assets	10	(185,740)	(2,225,824)
Proceeds from disposal of available-for-sale financial assets	10	-	255,459
Loans advanced		(1,089,405)	(317,662)
Repayment of loans advanced and short-term deposits with maturity more than three months		1,029,416	18,046
Interest received		45,258	15,797
Dividends received on available-for-sale financial assets		42,842	44,013
Other		(5,090)	(11,691)
Net cash used in investing activities		**(52,641)**	**(3,033,330)**
Cash flows from financing activities:			
Proceeds from borrowings		3,579,691	4,312,945
Repayment of borrowings		(2,758,371)	(2,696,535)
Payments of financial liability		-	(15,893)
Acquisition of additional interest in subsidiaries		(1,973)	(27,634)
Acquisition of own shares	27, 31	(3,022,698)	-
Dividends paid to owners of the Company	27	(290,077)	(267,001)
Net cash (used in)/from financing activities		**(2,493,428)**	**1,305,882**
Effect of exchange rate changes on cash and cash equivalents		(34,576)	(99,295)
Net (decrease)/increase in cash and cash equivalents		**(732,657)**	**1,049,021**

(in thousands of US dollars, unless otherwise stated)

	Note	2012	2011
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	15	1,165,980	152,005
Included in the assets of the disposal group	30	35,046	-
Cash and cash equivalents at the end of the year, net of restricted cash		**468,369**	**1,201,026**
Included in cash and cash equivalents per the statement of financial position	15	468,369	1,165,980
Included in the assets of the disposal group	30	-	35,046

(in thousands of US dollars, unless otherwise stated)

	Note	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		Attributable to owners of the Company					
Balance at 1 January 2011		**187,640**	**(91,332)**	**2,344,704**	**2,441,012**	**92,261**	**2,533,273**
Profit for the period		-	-	1,421,844	1,421,844	10,355	**1,432,199**
Other comprehensive income							
Fair value loss on available-for-sale financial assets	10, 27	-	(762,221)	-	(762,221)	-	**(762,221)**
Losses on available-for-sale financial assets transferred to profit or loss	10, 27	-	762,221	-	762,221	-	**762,221**
Currency translation differences		-	(356,393)	-	(356,393)	-	**(356,393)**
Actuarial gain on employee benefit obligations		-	-	23,002	23,002	-	**23,002**
Total comprehensive income for the year ended 31 December 2011		**-**	**(356,393)**	**1,444,846**	**1,088,453**	**10,355**	**1,098,808**
Acquisition of additional interest in subsidiaries		-	-	(11,089)	(11,089)	(16,545)	**(27,634)**
Dividends declared by the Company	27	-	-	(267,001)	(267,001)	-	**(267,001)**
Balance at 31 December 2011		**187,640**	**(447,725)**	**3,511,460**	**3,251,375**	**86,071**	**3,337,446**
Profit for the period		-	-	1,718,402	1,718,402	5,994	**1,724,396**
Other comprehensive income							
Fair value gain on available-for-sale financial assets	10, 27	-	245,463	-	245,463	-	**245,463**
Currency translation differences		-	280,405	-	280,405	-	**280,405**
Actuarial loss on employee benefit obligations		-	-	(36,530)	(36,530)	-	**(36,530)**
Total comprehensive income for the year ended 31 December 2012		**-**	**525,868**	**1,681,872**	**2,207,740**	**5,994**	**2,213,734**
Acquisition of own shares	27, 31	-	-	(3,022,698)	(3,022,698)	-	**(3,022,698)**
Acquisition of additional interest in subsidiaries		-	-	9,341	9,341	(23,337)	**(13,996)**
Dividends declared by the Company	27	-	-	(281,476)	(281,476)	-	**(281,476)**
Balance at 31 December 2012		**187,640**	**78,143**	**1,898,499**	**2,164,282**	**68,728**	**2,233,010**

(in thousands of US dollars, unless otherwise stated)

1 General information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2012 for OAO Holding Company METALLOINVEST (the "Company") and its subsidiaries (the "Group"). The Group's principal business activity is the production and sale of iron ore products and ferrous metals. These products are sold both in Russia and abroad. The Company is incorporated and domiciled in Russia. The address of its registered office is Rublyovskoye shosse, 28, Moscow, Russia. The Group's manufacturing facilities are primarily based in the Kursk, Belgorod and Orenburg regions.

At 31 December 2012, USM Steel & Mining Group Limited (prior to 7 May 2012 named Gallagher Holdings Limited) owned a 35% stake in the Company, Seropaem Holdings Limited (Cyprus) owned a 21% stake and USM Investments Limited owned a 20% stake. All three companies are 100%-owned direct or indirect subsidiaries of USM Holdings Limited.

At 31 December 2012, Metalloinvest Limited, the Group's wholly-owned subsidiary, owned a 24% stake in the Company (Note 27).

The ultimate controlling party of the Company is Alisher B. Usmanov, who owns 60% stake in USM Holdings Limited through his fully owned company ABU Holdings International Limited.

At 31 December 2011, Gallagher Holdings Limited (Cyprus) 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.

The following table sets out the principal subsidiary undertakings of the Group:

		Nominal ownership, %	
Entity	**Activity**	**31 December 2012**	**31 December 2011**
OAO Holding Company METALLOINVEST	Holding company	Holding company	
OOO Management Company METALLOINVEST	Management company	100%	100%
OAO Lebedinskiy Mining and Processing Works ("LGOK")	Production and sale of iron ore products	100%	100%
OAO Oskol Electrometallurgical Combine ("OEMK")	Production and sale of ferrous metal products	100%	100%
OAO Mikhailovsky Mining and Processing Works ("MGOK")	Production and sale of iron ore products	98.48%	98.02%
OAO Ural Steel ("Ural Steel")	Production and sale of ferrous metal products	100%	100%
OOO Metalloinvesttrans	Transportation services	-	100%
Metalloinvest Holding Limited (Cyprus)	Holding of investments	100%	100%
OOO Ural Scrap Company	Collection and processing of metal scrap	100%	100%
Metalloinvest Trading AG (Switzerland)	Iron ore and steel products trading	100%	100%

2 Basis of preparation and summary of significant accounting policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention except as described below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

Consolidated financial statements. Subsidiaries are those entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has the power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

2 Basis of preparation and summary of significant accounting policies (continued)

The acquisition method of accounting is used to account for the acquisition of subsidiaries. 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 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 the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and 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 appropriateness of their measurement.

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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 Company. Non-controlling interest forms a separate component of the Group's equity.

Transactions with non-controlling interests. The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Investments in associates. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in profit or loss for the period, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Property, plant and equipment. Property, plant and equipment are stated at historical acquisition or construction cost less accumulated depreciation and provision for impairment, where required.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss in the financial period in which they are incurred.

At each end of the reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the recoverable amount. Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

2 Basis of preparation and summary of significant accounting policies (continued)

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	7 to 50
Plant and equipment	3 to 25
Transport	5 to 20
Other	2 to 10

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 residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capitalisation of borrowing costs. Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred less any investment income on the temporary investment of those borrowings are capitalised.

Goodwill. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, 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. The Group's intangible assets other than goodwill have finite useful lives and primarily include acquired computer software licences, licensed technology and customer relationships acquired in business combinations. Intangible assets are amortised using the straight-line method over their estimated useful lives of three to five years and assessed for impairment whenever there is an indication that the intangible assets may be impaired. 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.

Exploration and evaluation expenditure. Exploration and evaluation expenditure include licenses and other expenditure incurred by the Group in connection with the exploration and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. The costs associated with acquisition of licenses are recognised as exploration and evaluation assets. The Group does not capitalise borrowing costs as part of the costs of exploration and evaluation assets. The Group classifies exploration and evaluation assets as tangible or intangible according to the nature of the assets. Exploration and evaluation assets are measured at cost and are not depreciated or amortised. Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of the assets may exceed their recoverable amount. At 31 December 2012 and 2011 the exploration and evaluation expenditure included primarily costs associated with acquisition of licenses.

Development expenditure. Development expenditure includes costs directly attributable to the construction of production facilities and related infrastructure and is accumulated separately for each area of interest. Development expenditure is capitalised and is recorded as a component of property, plant and equipment or intangible assets, as appropriate. No depreciation is charged on the development expenditure before the start of commercial production.

2 Basis of preparation and summary of significant accounting policies (continued)

Mineral rights. In accordance with provisions of IFRS 3 “Business Combinations” mineral rights acquired in business combinations are recorded at their fair values at the date of acquisition, based on their appraised fair value. Other mineral rights and licences are recorded at cost.

Mineral rights stated at 31 December 2012 and 2011 represent mineral rights recognised as a result of acquisition of MGOK in December 2006 which grant access to reserves that will be extracted over periods in excess of 100 years. The appraised value of these rights reflects expected cash flows over thirty years from the date of acquisition, since the impact of cash flows beyond this period is not material. The Group's production plans for these reserves are such that there is no material difference between amortisation calculated using the units of production and using the straight-line method. These rights are therefore amortised on a straight line basis over thirty years.

Financial assets. The Group classifies its financial assets in the following categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss.

(a) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. The Group’s loans and receivables comprise “trade and other receivables”, “loans advanced” and “cash and cash equivalents” in the statement of financial position.

(b) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

(c) Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each end of the reporting period.

(d) Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

All purchases and sales of financial assets that require delivery within a time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at the trade date, which is the date that the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are initially recognised at fair value plus transaction costs directly attributable to the acquisition or issue of the financial assets, except for financial assets at fair value through profit or loss which are initially recognised at fair value and respective transaction costs are expensed in the period when incurred. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Gain or loss on partial disposal of available-for-sale assets is calculated using the FIFO method.

Gains or losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are recognised in profit or loss as “other income/(expenses) – net” in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss for the period as part of other income when the Group’s right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in other comprehensive income. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

2 Basis of preparation and summary of significant accounting policies (continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are reclassified from other comprehensive income to profit or loss for the period. Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss as part of finance income. Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Held-to-maturity investments are carried at amortised cost using the effective interest method, net of a provision for incurred impairment losses.

The Group assesses at each end of the reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired, such as significant financial difficulty of the issuer or debtor; a default or delinquency in interest or principal payments; a significant or prolonged decline in the fair value of an equity security below its cost. Impairment losses are recognised in profit or loss for the year when incurred as a result of one or more events that occurred after the initial recognition of a financial asset.

For "loans and receivables" the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through allowance account and the amount of the impairment loss is recognised in profit or loss within 'general and administrative expenses'. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is reversed through current period's profit or loss.

For equity investments classified as available-for-sale, the cumulative impairment loss is 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. The impairment loss is reclassified from other comprehensive income to profit or loss for the year. Impairment losses on equity instruments are not reversed through profit or loss.

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 current period's profit or loss.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the end of the reporting period are included in other non-current assets. Bank overdrafts are shown within borrowings in current liabilities.

Advances issued. Advances issued are carried at cost less provision for impairment. An advance issued is classified as non-current when the goods or services relating to the advance issued are expected to be obtained after one year, or when the advance issued relates to an asset which will itself be classified as non-current upon initial recognition. If there is an indication that the assets, goods or services relating to an advance issued will not be received, the carrying value of the advance issued is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Inventories. Inventories are stated at the lower of cost and net realisable value. Cost of inventory is determined using the weighted average method. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Financial liabilities. The Group classifies its financial liabilities in the following categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Other financial liabilities include trade and other payables, liability to the regional administration and borrowings. Other financial liabilities are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2 Basis of preparation and summary of significant accounting policies (continued)

Derivative instruments are measured at fair value with the fair value gains and losses recognised in profit or loss. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in the variables relative to their terms. They are classified into the trading category and presented as current or non-current, depending on their maturity dates.

Income taxes. The income tax charge is calculated on the basis of the tax laws enacted or substantively enacted by the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income, primarily Russia. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except to the extent that it relates to transactions that are recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences arising on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences arising on initial recognition of goodwill or subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

Value added tax. Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the statement of financial position on a gross basis and disclosed separately as an asset and liability. Where a provision has been made for impairment of receivables, an impairment loss is recorded for the gross amount of the debtor, including VAT.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 Basis of preparation and summary of significant accounting policies (continued)

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency is the national currency of Russia, Russian roubles ("RUB"); the Group's presentation currency is US Dollar ("USD").

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of Russia (the "Central Bank") at the respective end of the reporting period. Foreign exchange gains and losses resulting from settlement of transactions and from translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the Central Bank are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in other comprehensive income.

The results and financial position of each Group entity (the functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;

(ii) income and expenses are translated at average exchange rates (unless this average 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);

(iii) components of equity are translated at the historical rate; and

(iv) all resulting exchange differences are recognised in other comprehensive income.

When control over a foreign operation is lost, the previously recognised 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

At 31 December 2012 the principal exchange rates used for translating foreign currency balances were USD 1 = RUB 30.3727 (31 December 2011: USD 1 = RUB 32.1961), EUR 1 = RUB 40.2286 (31 December 2011: EUR 1 = RUB 41.6714). The principal average exchange rates used for translating income and expenses were USD 1 = RUB 31.0930, EUR 1 = 39.9524 RUB (2011: USD 1 = RUB 29.3874, EUR 1 = RUB 40.8859).

Financial guarantees. Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At the end of each reporting period, guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of the expenditure required to settle the obligation at the end of the reporting period.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company or its subsidiaries purchase the Company's equity instruments (treasury shares), the consideration paid, including any directly attributable incremental costs, net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are reissued, disposed of or cancelled. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

2 Basis of preparation and summary of significant accounting policies (continued)

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

Revenue recognition. 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. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each type of the Group's revenue as described below.

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

Interest income is recognised on a time-proportion basis using the effective interest method. When a loan or receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Short-term employee benefits. Wages, salaries, contributions to the Russian state pension, medical and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group and are included within labour costs in operating expenses. The Group recognised contributions of USD 203,077 thousand as part of labour costs in 2012 (2011: USD 148,851 thousand).

Pension and other post-employment benefits. Group companies operate both funded and unfunded post-employment benefits plans. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period date less the fair value of any plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that have maturities approximating those of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in other comprehensive income as they arise.

Past-service costs are recognised immediately in profit or loss, unless changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Some group companies provide post-retirement benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised immediately in other comprehensive income as they arise. These obligations are valued annually by independent qualified actuaries.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

2 Basis of preparation and summary of significant accounting policies (continued)

Non-current assets classified as held for sale. Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management has approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected to occur within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together in a single transaction, and the liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale property, plant and equipment or disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated. Reclassified non-current financial instruments and deferred taxes are not subject to write-down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

Discontinued operations. A discontinued operation is a component of the Group that either has been disposed of, or that is classified as held for sale, and: (a) represents a separate major line of business or geographical area of operations; (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or (c) is a subsidiary acquired exclusively with a view to resale. Earnings are disclosed separately from continuing operations with comparatives being re-presented to conform to presentation of the current year amounts.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of participating shares outstanding during the reporting year.

3 Critical accounting estimates and judgements

The Group makes estimates and assumptions that affect the amounts recognised in the financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

(a) Remaining useful life of property, plant and equipment and mineral rights

The estimation of the useful lives of items of property, plant and equipment and mineral rights is a matter of judgement based on experience with similar assets. The future economic benefits embodied in assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in a reduction of the economic benefits embodied in the assets. Management assesses remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered: (a) expected usage of the assets; (b) expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) technical or commercial obsolescence arising from changes in market conditions.

3 Critical accounting estimates and judgements (continued)

(a) Remaining useful life of property, plant and equipment and mineral rights (continued)

The Group extracts iron ore from land owned by government authorities. The Group obtains licences and pays exploration and production taxes to explore and produce iron ore from fields covered by the licences. The licences expire in 2016, but they may be extended at the Group's initiative provided the Group is in compliance with licence terms. The estimated remaining useful life of some property, plant and equipment and mineral rights is beyond the expiration dates of the related licences. Management believes that the Group is currently in compliance with licence terms and will be able to extend the licences. Any changes to this assumption could significantly affect prospective depreciation and amortisation charges and asset carrying values.

(b) Obligations related to the retirement of long-lived assets

Based on the current requirements under Russian law and various contractual agreements associated with the licences and the expected life of the reserves, the Group has estimated its discounted obligations related to the retirement of its long-lived assets as immaterial.

(c) Related party transactions

In the normal course of business the Group enters into transactions with its related parties (Note 31). IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for such judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis.

(d) Tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 32.

(e) Employee benefit obligations

The Group's estimates for employee benefit obligations are based on currently available information. Actual results may differ from the estimates, and the Group's estimates may be revised in the future, either negatively or positively. Employee benefit obligations are periodically adjusted based on updated actuarial assumptions. The principal assumptions used in valuation of employee benefit obligations are the discount rate and inflation rate (Note 19).

(f) Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the duration and extent to which the fair value of an investment is less than its cost; the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

(g) Impairment of goodwill

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 8.

(h) Fair value of available-for-sale financial assets

The fair value of available-for-sale financial assets that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. The Group has used discounted cash flow analysis for available-for-sale financial assets that are not traded in active markets. These calculations require the use of estimates as further detailed in Note 33.

3 Critical accounting estimates and judgements (continued)

(i) Impairment of exploration and evaluation expenditure

Exploration and evaluation assets are assessed for indicators of impairment at each reporting date in accordance with the Group's accounting policies (Note 2).

At 31 December 2012, the Group's exploration and evaluation assets mostly consisted of the license for Udokan copper deposit and related to one CGU – Baikal Mining Company, which principle activity is development of the deposit. During 2009-2012 the company performed required scope of work to proceed with international standards based Feasibility Study (prefeasibility study, exploratory work, JORC Resource and Reserve estimation, testing work, environmental studies, infrastructure and logistics surveys, and series of trade-off studies). In 2012, Baikal Mining Company commenced preparing the international-standard Feasibility Study with Fluor serving as a general contractor. The study is expected to be completed by December 2013.

In the absence of the Feasibility Study, a certain high degree of management estimates and judgment are required to assess whether the recoverable amount of the exploration and evaluation assets exceed their carrying value. This largely depends on the estimates about a range of geological, technical and economic factors, including the deposit development and processing technology; the level of capital expenditure needed to develop the deposit and build the processing plant and relevant infrastructure; and future copper prices and exchange rates.

Because the economic assumptions used to estimate the above factors change from period to period, and because additional geological and economic data is generated during the course of exploration work, the results of management estimates may also change from period to period.

During 2012, information about the level of capital and operating expenditure required to develop the project was further adjusted by the external experts engaged by the Group. Management considered this as an indicator of potential impairment and performed an assessment of exploration and evaluation assets for impairment.

The recoverable amount has been assessed by reference to fair value less costs to sell.

In arriving at fair value less costs to sell, floating post-tax discount rates of 10.5-14.3 per cent have been applied to the post-tax cash flows expressed in nominal terms depending on the debt to equity ratio. Fair value less costs to sell was determined by estimating cash flows for a period of 27 years.

The cash flow projections are based on the milestones specified in the license agreement (Note 32), capital investment projections and mine-plan, obtained as a result of the updated Prefeasibility study (includes results of all studies completed to date), and consensus copper and silver price forecasts, provided by investment banks and analytical agencies.

The key assumptions used to determine fair value less costs to sell to which the calculation is the most sensitive include:

- the level of capital expenditure which is affected by the uncertainty due to the early stage of the project;
- future copper prices; and
- discount rates representing the weighted average cost of capital.

The level of capital and operating expenditure included in the fair value assessment was calculated based on expenditure obtained during the pre-feasibility study and an update, prepared in 2012, to include results of all studies completed to date, as well as the results achieved in obtaining state support for construction of infrastructure related to the project. Price assumptions are based on long-term consensus forecasts, provided by investment banks and analytical agencies.

(in thousands of US dollars, unless otherwise stated)

3 Critical accounting estimates and judgements (continued)

(i) Impairment of exploration and evaluation expenditure (continued)

Based on the assessment of fair value less cost to sell, the recoverable amount of exploration and evaluation assets exceeds its carrying amount, disclosed in Note 8. The calculation is highly sensitive to changes in the key assumptions. The sensitivity of the fair value assessment to these parameters is as follows:

Change in assumption: future copper prices	(10%)	(5%)	(2.5%)	0%	2.5%	5%	10%
Recoverable amount	(353,198)	246,127	531,790	827,157	1,104,364	1,397,083	1,951,865
Change in assumption: discount rate	1.5%	1%	0.5%	0%	(0.5%)	(1%)	(1.5%)
Recoverable amount	191,790	370,915	588,638	827,157	1,073,035	1,348,445	1,658,993
Change in assumption: the level of capital expenditure	10%	5%	2.5%	0%	(2.5%)	(5%)	(10%)
Recoverable amount	440,107	616,789	727,976	827,157	920,987	1,031,683	1,227,204

4 Adoption of new or revised standards and interpretations

The following new standards and interpretations became effective for the Group from 1 January 2012:

"Disclosures – Transfers of Financial Assets" – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party, yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendment did not have a material impact on these consolidated financial statements.

Other revised standards and interpretations effective for the current period. The amendments to IFRS 1 "First-time adoption of IFRS", relating to severe hyperinflation and eliminating references to fixed dates for certain exceptions and exemptions, did not have any impact on these consolidated financial statements. The amendment to IAS 12 "Income taxes", which introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale, did not have any material impact on these consolidated financial statements.

5 New accounting pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2013 or later, and which the Group has not early adopted.

IFRS 9 "Financial Instruments Part 1: 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. 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 classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. 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. 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. While adoption of IFRS 9 is mandatory from 1 January 2015, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group's financial statements and the timing of its adoption by the Group.

5 New accounting pronouncements (continued)

The following other new pronouncements are not expected to have a material impact on the Group's financial statements when adopted:

- IFRS 10 "Consolidated Financial Statements" (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) which 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 11 "Joint Arrangements", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), which replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers".

- IFRS 12 "Disclosure of Interests in Other Entities", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) which requires new disclosures by entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

- IFRS 13 "Fair Value Measurement", (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), which aims to improve disclosures and achieve consistency by providing a revised definition of fair value.

- IAS 27 "Separate Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures", (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013), which were changed by IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements".

- Amendments to IAS 1 "Presentation of Financial Statements" (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), which aim to improve the disclosure of items presented in other comprehensive income.

- Amended IAS 19 "Employee Benefits" (issued in June 2011, effective for periods beginning on or after 1 January 2013), which makes changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits.

- "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), which requires disclosures that will enable users to better evaluate the 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), which clarifies the meaning of "currently has a legally enforceable right of set-off".

- Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013), which consists of improvements to five standards.

- Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2013), which clarify the transition guidance in IFRS 10 "Consolidated Financial Statements" and provide additional transition relief from reporting comparative information under IFRS 10, IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities".

- Amendments to IFRS 1 "First-time adoption of International Financial Reporting Standards – Government Loans" (issued in March 2012 and effective for annual periods beginning 1 January 2013), which give first-time adopters of IFRSs relief from full retrospective application of accounting for certain government loans on transition.

- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine", which considers when and how to account for the benefits arising from the stripping activity in mining industry.

- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014), which introduced a definition of an investment entity which will be required to carry its investee subsidiaries at fair value through profit or loss.

6 Segment information

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The functions of the CODM are performed by the Board of Directors of the Group. 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 Metalloinvest Trading AG, Ferrous Metal Company Limited and Metalloinvest Logistics DWC LLC).

Included in "Transportation segment" were transportation and logistics services rendered by OOO Metalloinvesttrans, disposed by the Group in May 2012. Starting from 2011 Transportation segment was presented as discontinued operations.

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.

The CODM reviews management accounting information which is based on the financial information prepared in accordance with Russian accounting standards (RAS) or IFRS and adjusted to meet internal reporting requirements. Such financial information differs in certain aspects from the information presented in accordance with IFRS.

Sales between segments are carried out at arm's length. Revenue from external parties reported to the Board of Directors of the Group is measured in a manner consistent with that in profit or loss.

The CODM evaluates the performance of each segment based on management accounting EBITDA, which is determined as operating profit before tax adjusted for depreciation and amortisation, foreign exchange gain or loss, interest income and expense and certain other non-cash and extraordinary items. Since EBITDA is not a standard IFRS measure, the Group's definition may differ from that of other companies.

Segment financial information reviewed by the CODM includes working capital as a measure of reportable segments' assets. Working capital consists of inventories and certain receivables and payables. Since working capital is not a standard IFRS measure, the Group's definition may differ from that of other companies.

(in thousands of US dollars, unless otherwise stated)

6 Segment information (continued)

Segment information for the year ended 31 December 2012 is as follows:

	Mining	Steel	Trading	Transportation*	All other segments	Eliminations	Total
2012							
External revenue	1,802,488	2,393,705	3,904,310	23,044	93,985	-	8,217,532
Inter-segment revenue	2,206,833	1,368,363	43,442	264,828	6,022	(3,889,488)	-
Total revenue	**4,009,321**	**3,762,068**	**3,947,752**	**287,872**	**100,007**	**(3,889,488)**	**8,217,532**
EBITDA	**2,213,786**	**252,483**	**48,264**	**58,610**	**(19,661)**	**-**	**2,553,482**
Depreciation and amortisation	138,286	139,358	136	8,477	20,946	-	307,203
Interest income	38,289	11,923	933	115	135,431	-	186,691
Inter-segment interest income	93,984	43,824	3,307	-	50,097	(191,212)	-
Interest expense	197,113	74,463	12,059	1,341	102,474	-	387,450
Inter-segment interest expense	47,563	28,836	-	-	114,813	(191,212)	-
Income tax charge	382,193	18,746	3,987	9,567	5,990	-	420,483
Total reportable segment assets	**713,974**	**(41,571)**	**69,537**	**-**	**42,496**	**-**	**784,436**
Capital expenditure	**240,808**	**151,249**	**430**	**1,754**	**80,520**	**-**	**474,761**

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

(in thousands of US dollars, unless otherwise stated)

6 Segment information (continued)

Segment information for the year ended 31 December 2011 is as follows:

	Mining	Steel	Trading	Transportation*	All other segments	Eliminations	Total
2011							
External revenue	1,540,958	2,943,059	5,276,631	77,392	157,941	-	9,995,981
Inter-segment revenue	3,341,842	1,650,589	79,429	503,060	5,092	(5,580,012)	-
Total revenue	**4,882,800**	**4,593,648**	**5,356,060**	**580,452**	**163,033**	**(5,580,012)**	**9,995,981**
EBITDA	**3,139,973**	**570,127**	**56,892**	**135,265**	**(29,316)**	**-**	**3,872,941**
Depreciation and amortisation	120,827	140,538	76	33,902	16,518	-	311,861
Interest income	12,096	3,102	977	270	13,590	-	30,035
Inter-segment interest income	95,611	53,325	-	7,255	14,627	(170,818)	-
Interest expense	142,894	102,246	13,341	10,254	22,701	-	291,436
Inter-segment interest expense	25,948	7,389	-	-	137,481	(170,818)	-
Income tax charge/(credit)	590,096	80,061	4,997	17,794	(5,699)	-	687,249
Total reportable segment assets	**594,562**	**165,350**	**67,694**	**(30,104)**	**(3,265)**	**-**	**794,237**
Capital expenditure	**205,490**	**128,119**	**228**	**1,682**	**132,583**	**-**	**468,102**

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

(in thousands of US dollars, unless otherwise stated)

6 Segment information (continued)

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

	2012		
	Continuing operations	**Discontinued operations**	**Total**
EBITDA for reportable segments	**2,514,533**	**-**	**2,514,533**
Other segments EBITDA	**(19,661)**	**-**	**(19,661)**
EBITDA of Transportation segment presented as discontinued operations	**-**	**58,610**	**58,610**
Total	**2,494,872**	**58,610**	**2,553,482**
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	41,829	1,509	43,338
Recognition of expenses in profit or loss recognised as non-current assets in accordance with RAS	(21,401)	-	(21,401)
Additional loss on disposal of property, plant and equipment	(6,782)	(5,757)	(12,539)
Unrealised profits adjustment	54,470	-	54,470
Reverse of provision for impairment of receivables	1,950	56	2,006
Employee benefit obligations adjustment	3,648	-	3,648
Reclassification of waiver fees and other charges from operating expenses to finance costs	9,197	-	9,197
Recognition of vacation reserve in profit or loss	(512)	(58)	(570)
Other adjustments	19,646	13,243	32,889
	2,596,917	**67,603**	**2,664,520**
Other reconciling items:			
Depreciation and amortisation	(422,187)	-	(422,187)
Finance income	257,811	115	257,926
Finance costs	(487,371)	-	(487,371)
Foreign exchange loss	(166,007)	(287)	(166,294)
Gain on disposal of discontinued operations	-	368,659	368,659
Net realised loss from foreign exchange forward contract	(85,793)	-	(85,793)
Other operating income	11,403	-	11,403
Share of net loss of associates	(8,324)	-	(8,324)
Income tax charge	(396,171)	(11,972)	(408,143)
Profit for the year	**1,300,278**	**424,118**	**1,724,396**

	2011		
	Continuing operations	**Discontinued operations**	**Total**
EBITDA for reportable segments	**3,766,992**	**-**	**3,766,992**
Other segments EBITDA	**(29,316)**	**-**	**(29,316)**
EBITDA of Transportation segment presented as discontinued operations	**-**	**135,265**	**135,265**
Total	**3,737,676**	**135,265**	**3,872,941**
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	49,583	4,513	54,096
Additional loss on disposal of property, plant and equipment	(12,308)	(16,502)	(28,810)
Unrealised profits adjustment	(28,804)	-	(28,804)
Additional provision for impairment of receivables	(1,160)	-	(1,160)
Employee benefit obligations adjustment	4,280	-	4,280
Reclassification of waiver fees and other charges from operating expenses to finance costs	1,687	-	1,687
Annual bonus 2010 reverse	35,634	-	35,634
Annual bonus 2011 accrual	(50,160)	-	(50,160)
Recognition of vacation reserve in profit or loss	(16,979)	-	(16,979)
Other adjustments	(7,740)	(2,443)	(10,183)
	3,711,709	**120,833**	**3,832,542**
Other reconciling items:			
Depreciation and amortisation	(429,646)	(17,544)	(447,190)
Finance income	30,375	270	30,645
Finance costs	(361,055)	(5,592)	(366,647)
Foreign exchange gain	7,578	530	8,108
Loss on initial recognition of available-for-sale financial assets	(262,491)	-	(262,491)
Impairment loss on available-for-sale financial asset	(706,204)	-	(706,204)
Net gain on the disposal of available-for-sale financial assets	37,985	-	37,985
Share of net loss of associates	(4,244)	-	(4,244)
Income tax charge	(679,520)	(10,785)	(690,305)
Profit for the year	**1,344,487**	**87,712**	**1,432,199**

(in thousands of US dollars, unless otherwise stated)

6 Segment information (continued)

Reportable segments' assets are reconciled to total assets as follows:

	31 December 2012	31 December 2011
Segment assets for reportable segments	**741,940**	**797,502**
Other segments assets	**42,496**	**(3,265)**
Assets of transportation segment presented as discontinued operations	**-**	**30,104**
Segment liabilities for reportable segments and other segments liabilities	680,766	709,891
Unrealised profits adjustment	(91,649)	(132,915)
Additional provision for impairment of receivables	(13,949)	(12,518)
Recognition of prepaid expenses in profit or loss for the year	(724)	(1,063)
Additional provision for impairment of inventory	(1,340)	(6,228)
Recognition of non-current assets recognised as current assets in accordance with RAS	(1,706)	(1,566)
Factored receivables	9,103	12,616
Other	21,208	21,075
Unallocated:		
Non-current assets	8,031,959	7,482,177
Cash	468,369	1,165,980
Interest receivable	16,777	4,785
Current loans advanced and other investments	346,250	27,430
Financial receivables	25,254	35,798
Assets of disposal group classified as assets held for sale	-	298,830
Assets held for sale	77,584	21,367
Other	-	14,595
Total consolidated assets	**10,352,338**	**10,464,595**

Substantially all of the Group's non-current non-financial assets are located in Russia. Non-current non-financial assets located in foreign countries are mainly represented by assets of Hamriyah Steel FZC (UAE) of USD 139,375 thousand (31 December 2011: USD 146,700 thousand).

The Group's revenues are analysed by products and services in Note 21.

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

	2012	2011
Russia	3,544,090	3,451,487
Rest of CIS	692,879	942,993
Total CIS	4,236,969	4,394,480
China	691,534	1,761,389
Rest of Asia	645,836	315,745
Total Asia	1,337,370	2,077,134
Middle East	954,162	1,410,684
Europe	1,438,960	1,899,626
Other countries	227,027	136,665
Total Continuing Operations	**8,194,488**	**9,918,589**
Total Discontinued Operations – Russia	23,044	77,392
Total Sales	**8,217,532**	**9,995,981**

(in thousands of US dollars, unless otherwise stated)

7 Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	Note	Land	Buildings	Plant and equipment	Transport	Other	Exploration and evaluation expenditure	Construction in progress	Total
Cost at 1 January 2011		20,814	1,609,968	2,495,666	600,080	48,061	18,476	301,774	5,094,839
Accumulated depreciation		-	(521,994)	(1,063,566)	(217,662)	(34,565)	-	-	(1,837,787)
Carrying amount at 1 January 2011		**20,814**	**1,087,974**	**1,432,100**	**382,418**	**13,496**	**18,476**	**301,774**	**3,257,052**
Acquisitions through business combinations		164	6,587	4,608	7,720	224	-	3,310	22,613
Additions		10,619	11,140	94,636	96,707	1,558	3,046	275,360	493,066
Transfers		-	64,167	74,182	18,274	35,031	(21,469)	(170,185)	-
Reclassification to non-current assets held for sale	30	-	(28)	(67)	(209,510)	-	-	(5,055)	(214,660)
Disposals		(4)	(2,406)	(5,334)	(18,003)	(11,958)	-	(26,550)	(64,255)
Depreciation charge		-	(79,361)	(231,021)	(46,360)	(6,031)	-	-	(362,773)
Translation to presentation currency		(2,050)	(56,171)	(66,880)	(19,687)	(2,355)	621	(23,249)	(169,771)
Carrying amount at 31 December 2011		**29,543**	**1,031,902**	**1,302,224**	**211,559**	**29,965**	**674**	**355,405**	**2,961,272**
Cost at 31 December 2011		29,543	1,590,014	2,507,020	391,625	66,116	674	355,405	4,940,397
Accumulated depreciation		-	(558,112)	(1,204,796)	(180,066)	(36,151)	-	-	(1,979,125)
Carrying amount at 31 December 2011		**29,543**	**1,031,902**	**1,302,224**	**211,559**	**29,965**	**674**	**355,405**	**2,961,272**
Acquisitions through business combinations	29	5,555	63,527	8,774	3,134	297	-	2,034	83,321
Additions		33,908	16,189	71,860	23,335	1,231	4,533	383,723	534,779
Transfers		-	55,958	137,878	14,705	5,653	(90)	(214,104)	-
Reclassification to non-current assets held for sale	30	-	-	-	(61,746)	-	-	-	(61,746)
Disposals		(7)	(5,025)	(4,083)	(2,330)	(21,680)	(4,937)	(20,691)	(58,753)
Depreciation charge		-	(80,921)	(229,650)	(35,164)	(4,968)	-	-	(350,703)
Translation to presentation currency		2,430	58,092	71,796	8,838	492	(180)	24,815	166,283
Carrying amount at 31 December 2012		**71,429**	**1,139,722**	**1,358,799**	**162,331**	**10,990**	**-**	**531,182**	**3,274,453**
Cost at 31 December 2012		71,429	1,809,534	2,843,983	377,538	53,033	-	531,182	5,686,699
Accumulated depreciation		-	(669,812)	(1,485,184)	(215,207)	(42,043)	-	-	(2,412,246)
Carrying amount at 31 December 2012		**71,429**	**1,139,722**	**1,358,799**	**162,331**	**10,990**	**-**	**531,182**	**3,274,453**

At 31 December 2011 bank borrowings were secured by items of property, plant and equipment with carrying amount of USD 49,883 thousand. At 31 December 2012 there are no items of property, plant and equipment pledged as collateral for bank borrowings.

(in thousands of US dollars, unless otherwise stated)

8 Intangible assets

	Goodwill	Customer relation-ships	Acquired software licences	Licensed technology	Exploration and evaluation expenditure	Total
Carrying amount at 1 January 2011	**384,389**	**15,655**	**8,201**	**3,377**	**588,720**	**1,000,342**
Cost at 1 January 2011	1,044,617	78,295	17,694	5,560	588,720	1,734,886
Accumulated amortisation and impairment	(660,228)	(62,640)	(9,493)	(2,183)	-	(734,544)
Acquisition through business combinations	194,185	-	-	-	-	**194,185**
Additions	-	-	5,629	-	32,175	**37,804**
Disposals	-	-	-	-	-	**-**
Amortisation charge	-	(16,236)	(4,388)	(585)	-	**(21,209)**
Translation to presentation currency	(38,094)	581	(496)	(129)	(34,244)	**(72,382)**
Carrying amount at 31 December 2011	**540,480**	**-**	**8,946**	**2,663**	**586,651**	**1,138,740**
Cost at 31 December 2011	1,165,512	-	21,943	5,263	586,651	1,779,369
Accumulated amortisation and impairment	(625,032)	-	(12,997)	(2,600)	-	(640,629)
Acquisition through business combinations (Note 29)	45,202	781	-	-	-	**45,983**
Additions	-	-	6,145	-	32,285	**38,430**
Disposals	-	-	-	-	(76,650)	**(76,650)**
Amortisation charge	-	-	(4,863)	(556)	-	**(5,419)**
Translation to presentation currency	31,377	(23)	535	146	30,929	**62,964**
Carrying amount at 31 December 2012	**617,059**	**758**	**10,763**	**2,253**	**573,215**	**1,204,048**
Cost at 31 December 2012	1,279,614	758	29,513	5,579	573,215	1,888,679
Accumulated amortisation and impairment	(662,555)	-	(18,750)	(3,326)	-	(684,631)

Exploration and evaluation expenditure

At 31 December 2012 and 2011, included in Exploration and evaluation expenditure is a licence for the Udokan copper deposit obtained by the Group in 2009 for a consideration of RUB 15,000 million or USD 516,479 thousand.

In 2012 capitalised exploration and evaluation expenditure classified as intangible assets (geological studies, sampling, activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource) for the Udokan and Sladkovsko-Zarechnoe deposits amounted to USD 32,285 thousand (2011: USD 32,175 thousand).

At 31 December 2011, included in Exploration and evaluation expenditure is a licence for the Sladkovsko-Zarechnoe oil and gas deposit acquired by the Group in 2008 for a consideration of USD 100,000 thousand. In 2012 the Group disposed of the licence for the Sladkovsko-Zarechnoe oil and gas deposit and all relating exploration and evaluation expenditure, items of property, plant and equipment and other assets to a third party for a consideration of USD 125,000 thousand. Total carrying value of the disposed assets at the date of disposal was USD 116,492 thousand. The Group recognised a gain on disposal of USD 4,149 thousand within “Other operating (expenses)/income − net”. Previously recognised currency translation loss related to the disposed assets in amount of USD 4,359 thousand was reclassified from other comprehensive income to profit or loss as part of the gain on the disposal.

(in thousands of US dollars, unless otherwise stated)

8 Intangible Assets (continued)

Goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs), which represent the lowest level within the Group at which the goodwill is monitored by management, as follows:

CGU	31 December 2010	Additions	Currency translation difference	31 December 2011	Additions	Currency translation difference	31 December 2012
MGOK	**384,389**	-	(20,550)	**363,839**	-	21,843	**385,682**
LebGOK-DSF	**-**	150,019	(15,262)	**134,757**	-	8,127	**142,884**
Dorstroymaterialy	**-**	44,166	(2,282)	**41,884**	-	2,514	**44,398**
Ruslime	**-**	-	-	**-**	25,694	(763)	**24,931**
Zheleznogorsky Brick Plant	**-**	-	-	**-**	13,269	(394)	**12,875**
TOREX	**-**	-	-	**-**	6,239	50	**6,289**
Total amount of goodwill	**384,389**	**194,185**	**(38,094)**	**540,480**	**45,202**	**31,377**	**617,059**

Goodwill was tested for impairment as at 31 December 2012. The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash-flow projections based on financial budgets approved by management for a five-year period. Cash flows beyond the five-year period are extrapolated using estimated growth rates.

The key assumptions used for value-in-use calculations at 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Growth rate	2.4%	2.4%
Pre-tax discount rate	14.8%-15.3%	15.5%

The estimated growth rates used are consistent with forecasts in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGU. Based on the results of these calculations the Group concluded that at 31 December 2012 no impairment charge was required. If the estimated growth rate and pre-tax discount rate applied to the discounted cash flows of the CGUs had been 1% lower and 1% higher, respectively, than management's estimates, goodwill would still have not been impaired.

9 Investments in associates

The table below summarises the movements in the carrying amount of the Group's investments in associates.

	2012	2011
Carrying amount at 1 January	**100,994**	**74,576**
Additions	7,307	27,562
Disposals	(8,046)	-
Share of net loss of associates	(8,324)	(4,244)
Reclassification due to acquisition of controlling interest	(25,426)	-
Reclassification due to additional acquisition of non-controlling interest	-	5,887
Translation to presentation currency	2,765	(2,787)
Carrying amount at 31 December	**69,270**	**100,994**

The Group's interests in its principal associates and their summarised financial information as at 31 December 2012, including total assets and liabilities, were as follows:

Name of associate	Country of incorporation	Assets	Liabilities	Revenue	Profit (loss)	% of interest held
Nautilus Minerals Inc	Canada	271,747	(19,222)	-	(40,982)	21%
URMK	Ukraine	31,353	(241)	-	1,726	33%

(in thousands of US dollars, unless otherwise stated)

9 Investments in associates (continued)

The Group's interests in its principal associates and their summarised financial information as at 31 December 2011, including total assets and liabilities, were as follows:

Name of associate	Country of incorporation	Assets	Liabilities	Revenue	Profit (loss)	% of interest held
OSMiBT	Russia	71,652	(13,660)	63,123	4,845	40%
Nautilus Minerals Inc	Canada	285,553	(24,471)	-	(33,804)	21%
URMK	Ukraine	29,667	(129)	-	1,344	33%
bank Round*	Russia	172,166	(151,325)	16,758	1,577	30%

* Prior to November 2012 named KB Ferrobank.

The market value of the Group's interest in Nautilus Minerals Inc. based on Toronto Stock Exchange quotation as at 31 December 2012 was USD 19,279 thousand (31 December 2011: USD 72,570 thousand).

The recent decline in the associate's share price does not reflect the potential of the business and represents the market reaction on the short-term market conditions. Management took into account a number of factors such as metal prices, projected costs to operate equipment, availability and costs of finance, exploration successes in other areas, the company's market capitalisation compared to its net asset value and other factors. At 31 December 2012, the Group obtained an objective evidence that the carrying value of its share in associate did not exceed its recoverable amount.

10 Available-for-sale financial assets

	2012	2011
At 1 January	**1,039,655**	**-**
Additions	185,740	1,963,333
Fair value gain/(loss)	245,463	(762,221)
Disposals	-	(161,457)
At 31 December	**1,470,858**	**1,039,655**

Available-for-sale financial assets include the following:

	31 December 2012	31 December 2011
Listed securities:		
MMC Norilsk Nickel ADR	1,405,309	1,039,655
Unlisted securities:		
OOO South Ural Mining & Processing Works	65,549	-
Total	**1,470,858**	**1,039,655**

MMC Norilsk Nickel ADR. During 2011 the Group acquired 76,255,247 American depository receipts (ADRs) representing approximately 4% interest in OJSC "MMC "Norilsk Nickel" which shares are publicly traded on the London Stock Exchange, for USD 2,225,824 thousand. The market value of the ADRs at the dates of acquisition amounted to USD 1,963,333 thousand. The purchase price of the ADRs exceeded market value at the dates of acquisition by USD 262,491 thousand. The Group recognised the excess as a loss on initial recognition of available-for-sale financial assets in profit or loss.

In 2011 the Group disposed of 8,348,343 ADRs for a consideration of USD 255,459 thousand. The market value of the ADRs at the date of disposal amounted to USD 161,457 thousand. A loss arising from a decrease in fair value of the disposed ADRs from the date of its acquisition of USD 56,017 thousand was removed from other comprehensive income to profit or loss. The Group recognised net gain on the disposal of the ADRs of USD 37,985 thousand in other operating income in profit or loss.

In 2011 the Group recognised a fair value loss of USD 762,221 thousand in other comprehensive income. Loss of USD 706,204 thousand was removed from other comprehensive income to profit or loss as impairment due to significant decline in fair value of AFS.

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

(in thousands of US dollars, unless otherwise stated)

10 Available-for-sale financial assets (continued)

In 2012 the Group recognised a fair value gain of USD 239,615 thousand in respect of the ADRs in other comprehensive income.

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 a 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.

OOO South Ural Mining & Processing Works is a limited liability company and is not publicly traded. The fair value of the investment is estimated by reference to the operating cash flows discounted at the post-tax RUB-nominated rate of 12.6% based on the market interest rate and the risk premium specific to the unlisted securities. In 2012 the Group recognised a fair value gain of USD 5,848 thousand in other comprehensive income.

As at 31 December 2012 the Group's share in OOO South Ural Mining & Processing Works is pledged to third parties as a collateral with respect to the investee's obligations.

11 Other non-current assets

	31 December 2012	31 December 2011
Long-term receivables	142,835	113,183
Total financial assets within other non-current assets	**142,835**	**113,183**
Advances to suppliers of property, plant and equipment	103,537	162,177
Less: provision for impairment of advances to suppliers	(10,038)	(21,328)
Advances to suppliers of property, plant and equipment, net	93,499	140,849
Other	1,859	3,105
Total other non-current assets	**238,193**	**257,137**

12 Loans advanced

	Note	Currency	Interest rate	31 December 2012	Interest rate	31 December 2011
Short-term						
Loans advanced to related parties	31	USD	3.2%-10.9%	300,740	-	-
Loans advanced to related parties	31	RUB	7.8%-10%	45,453	5.5%-8%	15,802
Loans advanced to third parties		RUB	10%	57	7%-9%	4,795
Other short-term investments		RUB	-	-	5%	6,833
Total short-term loans advanced and other investments				**346,250**		**27,430**
Long-term						
Loans advanced to related parties repayable as follows:						
1 to 2 years	31	RUB	7.8%-10%	128,690	7.8%-8%	178,948
1 to 2 years	31	USD	8%	20,484	5%-8%	207,000
Over 5 years	31	RUB	-	-	8.5%	7,144
Loans advanced to third parties		RUB	8%-8.5%	7,572	8%	939
Total long-term loans advanced				**156,746**		**394,031**
Total loans advanced				**502,996**		**421,461**

At 31 December 2012, a short-term loan advanced to other related party of USD 140,240 thousand (31 December 2011: nil) was secured by pledges of property, plant and equipment.

Interest accrued on long-term loans advanced of USD 83,721 thousand (31 December 2011: USD 73,894 thousand) is included in long-term receivables. Interest accrued on short-term loans advanced of USD 16,777 thousand (31 December 2011: USD 4,785 thousand) is included in other financial receivables.

The fair values of loans advanced approximate their carrying amounts.

(in thousands of US dollars, unless otherwise stated)

13 Inventories

	31 December 2012	31 December 2011
Raw materials	466,352	446,553
Work in progress	75,172	84,300
Finished products	190,617	199,337
Total	**732,141**	**730,190**

At 31 December 2012, inventories of USD 125,553 thousand (31 December 2011: USD 149,335 thousand) were pledged as security for borrowings.

In 2012 the Group recognised no inventory write-down to net realisable value (2011: USD 10,818 thousand) in cost of sales in the statement of comprehensive income.

14 Trade and other receivables

	31 December 2012	31 December 2011
Trade receivables	447,067	518,172
Less: provision for impairment of trade receivables	(7,281)	(8,023)
Trade receivables – net	439,786	510,149
Other financial receivables	57,049	62,503
Less: provision for impairment of other receivables	(5,330)	(4,474)
Other receivables – net	51,719	58,029
Total financial assets within trade and other receivables	**491,505**	**568,178**
Advances to suppliers	80,694	14,681
VAT recoverable	65,674	81,284
VAT receivable	41,644	60,575
Other taxes receivable	512	2,371
Other receivables	9,651	8,128
Total trade and other receivables	**689,680**	**735,217**

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

At 31 December 2012, trade receivables arising from export contracts of USD 31,705 thousand (31 December 2011: USD 105,803 thousand) were pledged as security for borrowings.

At 31 December 2012, trade and other receivables of USD 43,810 thousand (31 December 2011: USD 19,932 thousand) were past due but not impaired. These receivables relate to a number of independent customers and other debtors for whom there is no recent history of default. The ageing analysis of these receivables is as follows:

	31 December 2012	31 December 2011
Up to 3 months	40,738	15,117
3 to 12 months	3,072	4,815
Total	**43,810**	**19,932**

At 31 December 2012, trade receivables of USD 7,281 thousand (31 December 2011: USD 8,023 thousand) and other financial receivables of USD 5,330 thousand (31 December 2011: USD 4,474 thousand) were individually impaired and fully provided for. The individually impaired receivables mainly relate to counterparties, which are in unexpectedly difficult economic situations.

(in thousands of US dollars, unless otherwise stated)

14 Trade and other receivables (continued)

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

	2012	2011
Trade receivables		
At 1 January	**8,023**	**7,681**
Provision for impairment during the year	932	1,668
Transfer to non-current assets held for sale	-	(612)
Receivables written off during the year as uncollectible	(2,116)	(209)
Unused amounts reversed	(10)	(11)
Translation to presentation currency	452	(494)
At 31 December	**7,281**	**8,023**
Other financial receivables		
At 1 January	**4,474**	**4,741**
Provision for impairment during the year	907	1,245
Receivables written off during the year as uncollectible	(45)	(42)
Unused amounts reversed	(288)	(1,206)
Translation to presentation currency	282	(264)
At 31 December	**5,330**	**4,474**

The maximum exposure to credit risk at the end of the reporting period is the carrying value of the receivables mentioned above. Receivables that are neither past due nor impaired are considered to be of high credit quality. The Group does not hold any collateral as security. The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	31 December 2012	31 December 2011
RUB	496,619	497,994
USD	153,743	202,717
EUR	37,996	34,055
Other currencies	1,322	451
Total	**689,680**	**735,217**

15 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31 December 2012	31 December 2011
Cash on hand	436	330
RUB-denominated balances with banks	29,881	54,884
Foreign currency denominated balances with banks	81,696	51,177
Foreign currency denominated bank deposits	287,091	932,160
RUB-denominated bank deposits	69,265	127,429
Total	**468,369**	**1,165,980**

Foreign currency denominated bank deposits bear an annual interest rate of 0.05%-0.5% (31 December 2011: 0.2%-2.5%) and are denominated predominantly in US dollars. RUB-denominated bank deposits bear an annual interest rate of 0.01%-7.6% (31 December 2011: 0.1%-7.1%).

Restricted cash

At 31 December 2012 restricted cash included cash balance with banks of USD 730 thousand pledged for a letter of credit. At 31 December 2011 no cash was restricted.

(in thousands of US dollars, unless otherwise stated)

16 Short-term and long-term borrowings

	31 December 2012	31 December 2011
Long-term borrowings	4,619,757	3,788,839
Short-term borrowings	146,985	787,060
Unsecured corporate bonds	819,907	-
Guaranteed notes	693,340	692,493
Bank overdraft	190,743	329,924
Total	**6,470,732**	**5,598,316**

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	31 December 2012	31 December 2011
RUB	2,998,682	1,256,953
USD	3,338,132	4,201,036
EUR	133,918	140,327
Total	**6,470,732**	**5,598,316**

a) Bank borrowings

Bank borrowings bear floating interest rates ranging as follows:

Currency	Interest rate	31 December 2012	Interest rate	31 December 2011
USD	1.8%-4.9%	1,501,587	1.8%-5.6%	2,023,965
EUR	0.7%-2.5%	133,918	2.1%-5.0%	140,327
		1,635,505		**2,164,292**

Bank borrowings bear fixed interest rates ranging as follows:

Currency	Interest rate	31 December 2012	Interest rate	31 December 2011
USD	3.5%-4.8%	1,143,205	3.5%-4.8%	1,484,578
RUB	7.8%-9.2%	2,178,775	6%-7.8%	1,256,953
		3,321,980		**2,741,531**
Total		**4,957,485**		**4,905,823**

At 31 December 2012, the long-term borrowings of USD 2,434,205 thousand and short-term borrowings of USD 68,703 thousand were secured by revenue contracts and certain turnovers within the Group's entities. At 31 December 2011, the long-term borrowings of USD 3,201,631 thousand and short-term borrowings of USD 14,488 thousand were secured by property, plant and equipment (Note 7), proceeds from revenue contracts (Note 14) and certain turnovers within the Group's entities.

At 31 December 2012 bank overdrafts of USD 157,258 thousand (31 December 2011: USD 255,139 thousand) were secured by inventories and revenue contracts (Note 13, 14).

At 31 December 2012 interest accrued on borrowings with maturities less than twelve months after the end of the reporting period of USD 2,767 thousand (31 December 2011: USD 2,344 thousand) is presented in current accounts payable.

At 31 December 2012 the fair values of borrowings exceeded their carrying amounts by USD 41,124 thousand (31 December 2011: USD 91,875 thousand).

Long-term borrowings are repayable as follows:

	31 December 2012	31 December 2011
1 to 2 years	1,920,774	1,218,180
2 to 3 years	2,242,120	1,082,301
3 to 4 years	371,464	1,013,546
4 to 5 years	56,064	372,656
Over 5 years	29,335	102,156
Total	**4,619,757**	**3,788,839**

(in thousands of US dollars, unless otherwise stated)

16 Short-term and long-term borrowings (continued)

b) Guaranteed notes

In July 2011 the Group issued 6.5% guaranteed notes at a par value of USD 750,000 thousand. The notes mature five years from the issue date at their nominal value of USD 750,000 thousand. The full amount of the net proceeds from the notes issue was used for refinancing of existing bank borrowings.

In August-September 2011 the Group repurchased notes with nominal value of USD 52,500 thousand for total consideration of USD 49,750 thousand. Gain from extinguishment of financial liability of USD 3,012 thousand was recognised in profit or loss.

The guaranteed notes recognised in the statement of financial position are calculated as follows:

	31 December 2012	31 December 2011
Nominal value of guaranteed notes issued	750,000	750,000
Unamortised transaction cost	(4,160)	(5,007)
Nominal value of guaranteed notes repurchased	(52,500)	(52,500)
Total	**693,340**	**692,493**

The market value of the guaranteed notes based on the London Stock Exchange quotation as at 31 December 2012 was USD 731,872 thousand (31 December 2011: USD: 623,548 thousand).

At 31 December 2012 interest accrued on guaranteed notes of USD 22,073 thousand (31 December 2011: USD 22,503 thousand) is presented in current accounts payable.

c) Unsecured corporate bonds

In March 2012 the Company issued RUB 25,000,000 thousand 9.0% unsecured corporate bonds with maturity in 2022 and an early redemption option in 2015.

The unsecured corporate bonds recognised in the statement of financial position are calculated as follows:

	31 December 2012	31 December 2011
Nominal value of unsecured corporate bond issued	823,108	-
Unamortised transaction cost	(3,201)	-
Total	**819,907**	-

The market value of the unsecured corporate bonds based on Moscow Stock Exchange quotation as at 31 December 2012 was USD 825,478 thousand.

As at 31 December 2012 interest accrued on unsecured corporate bonds of USD 21,069 thousand is presented in current accounts payable.

17 Income taxes

Income tax charge comprises the following:

	2012	2011
Current income tax charge	446,820	671,185
Deferred tax (credit)/expense	(50,649)	8,335
Income tax charge	**396,171**	**679,520**

The income tax rate applicable to the majority of the Group’s 2012 and 2011 income is 20%.

(in thousands of US dollars, unless otherwise stated)

17 Income taxes (continued)

A reconciliation between the expected and the actual taxation charge is provided below.

	2012	2011
Profit before income tax	**1,696,449**	**2,024,007**
Theoretical tax charge at statutory rate of 20%	339,290	404,801
Tax effect of items which are not deductible or assessable for taxation purposes:		
Withholding tax on dividends paid	-	7,384
Unrecognised deferred tax asset	3,462	13,087
Loss on initial recognition of available-for-sale financial assets	-	52,498
Impairment loss on available-for-sale financial assets	-	141,241
Net gain on disposal of available-for-sale financial assets	-	(7,597)
Tax effect of allowances and income not subject to tax	(9,563)	-
Non deductible social costs	10,075	9,394
Non deductible remuneration for employees	4,208	4,184
Non deductible charitable donations	9,700	5,616
Non deductible other expenses	46,793	48,622
Effect of different tax rates in countries in which the Group operates	(7,794)	290
Income tax charge	**396,171**	**679,520**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

The tax effect of movements in these temporary differences is detailed below and is recorded at the rate of 20%.

	1 January 2012	Credited/ (charged) to profit or loss	Acquisitions (Note 29)	Disposals	Translation to presentation currency	31 December 2012
Tax effect of deductible temporary differences:						
Trade and other receivables	5,060	2,369	399	(44)	363	8,147
Accounts payable and other liabilities	5,876	9	-	(14)	352	6,223
Inventories	10,836	(5,647)	(160)	4	523	5,556
Short-term and long-term borrowings	-	1,360	-	-	32	1,392
Tax loss carry forwards	10,257	31,733	163	(660)	1,327	42,820
Other	4,756	3,344	167	(689)	328	7,906
Tax effect of taxable temporary differences:						
Property, plant and equipment	(182,047)	1,446	(11,792)	(14,618)	(10,731)	(217,742)
Intangible assets and mineral rights	(410,025)	17,695	(156)	501	(24,159)	(416,144)
Short-term and long-term borrowings	(14)	(1,076)	-	-	(25)	(1,115)
Other	(6,274)	(584)	(287)	25	91	(7,029)
Total net deferred tax liability	**(561,575)**	**50,649**	**(11,666)**	**(15,495)**	**(31,899)**	**(569,986)**

(in thousands of US dollars, unless otherwise stated)

17 Income taxes (continued)

	1 January 2011	Credited/ (charged) to profit or loss	Reclassi-fication to assets held for sale	Acqui-sitions	Translation to presentation currency	31 December 2011
Tax effect of deductible temporary differences:						
Trade and other receivables	2,638	2,808	-	-	(386)	5,060
Accounts payable and other liabilities	10,704	(4,663)	-	-	(165)	5,876
Inventories	4,964	6,724	-	-	(852)	10,836
Short-term and long-term borrowings	5,609	(5,817)	-	-	208	-
Tax loss carry forwards	35,226	(25,295)	-	-	326	10,257
Other	2,840	2,238	-	-	(322)	4,756
Tax effect of taxable temporary differences:						
Property, plant and equipment	(234,397)	2,399	39,635	(2,155)	12,471	(182,047)
Intangible assets and mineral rights	(452,562)	20,160	-	-	22,377	(410,025)
Short-term and long-term borrowings	-	(15)	-	-	1	(14)
Other	-	(6,874)	-	-	600	(6,274)
Total net deferred tax liability	**(624,978)**	**(8,335)**	**39,635**	**(2,155)**	**34,258**	**(561,575)**

At 31 December 2012, the current portion of the deferred tax liability amounted to USD 34,206 thousand (31 December 2011: USD 40,648 thousand), the current portion of the deferred tax asset amounted to USD 31,346 thousand (31 December 2011: USD 30,469 thousand).

The Group has not recognised a deferred tax liability in respect of temporary differences associated with undistributed earnings of subsidiaries. The Group controls the timing of the reversal of those temporary differences and does not expect their reversal in the foreseeable future. At 31 December 2012, undistributed earnings of subsidiaries totalled USD 6,184,819 thousand, including earnings of USD 5,901,596 thousand which are subject to tax rate on intergroup dividends of 0% (31 December 2011: USD 4,788,061 thousand and USD 4,601,580 thousand respectively).

At 31 December 2012, the Group has not recognised a deferred tax asset of USD 49,434 thousand (31 December 2011: USD 46,255 thousand) in respect of losses amounting to USD 247,170 thousand (31 December 2011: USD 231,275 thousand) that can be carried forward against future taxable income. Losses expire in 2017-2022.

18 Accounts payable

	31 December 2012	31 December 2011
Trade payables	288,957	272,892
Other financial payables	87,876	40,432
Total financial liabilities within trade and other payables	**376,833**	**313,324**
Advances from customers	56,530	34,244
Wages payable	82,411	90,625
Accrued liabilities and other payables	10,817	7,704
Total accounts payable	**526,591**	**445,897**

(in thousands of US dollars, unless otherwise stated)

18 Accounts payable (continued)

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	31 December 2012	31 December 2011
RUB	412,736	363,579
USD	90,942	59,026
EUR	19,331	16,006
Other currencies	3,582	7,286
Total	**526,591**	**445,897**

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

19 Employee benefit obligations

The Group's companies operate both funded and unfunded post-employment benefits plans. The principal assumptions used for actuarial valuations were as follows:

	31 December 2012	31 December 2011
Discount rate	7.0%	8.3%
Expected rate of return on assets	10.0%	10.0%
Expected rate of salary increase	7.5%	7.1%
Inflation rate	5.5%	5.6%
Future pension increases	5.5%	5.6%

The amounts recognised in the statement of financial position were determined as follows:

	31 December 2012	31 December 2011
Present value of funded obligations	37,907	32,284
Fair value of plan assets	(2,541)	(2,592)
	35,366	29,692
Present value of unfunded obligations	335,202	262,139
Unrecognised past service cost	(21,822)	(23,027)
Liability in the statement of financial position	**348,746**	**268,804**

	31 December 2012	31 December 2011
Present value of defined benefit obligations	373,109	294,423
Fair value of plan assets	(2,541)	(2,592)
Deficit in plan	**370,568**	**291,831**
Experience adjustments on plan liabilities	11,474	1,353
Experience adjustments on plan assets	(115)	62

The movement in the fair value of the plan asset over the year is as follows:

	2012	2011
Asset at beginning of the year	**2,592**	**2,697**
Contributions	4,822	4,595
Actuarial (loss)/gain	(115)	62
Expected return on plan assets	268	280
Payments	(5,305)	(4,894)
Acquisition of subsidiary	127	-
Translation to presentation currency	152	(148)
Asset at end of the year	**2,541**	**2,592**

(in thousands of US dollars, unless otherwise stated)

19 Employee benefit obligations (continued)

The movement in defined benefit obligations over the year is as follows:

	2012	2011
Obligation at beginning of the year	**294,423**	**315,723**
Service cost	11,404	11,280
Interest cost	24,954	25,925
Actuarial loss/(gain)	36,416	(22,940)
Benefits paid	(18,061)	(18,011)
Acquisitions of subsidiary	4,884	-
Curtailment	-	(1,121)
Translation to presentation currency	19,089	(16,433)
Obligation at end of the year	**373,109**	**294,423**

The amounts recognised in profit or loss are as follows:

	2012	2011
Service cost	11,404	11,280
Interest cost	24,954	25,925
Expected return on assets	(268)	(280)
Past service cost	2,527	2,694
Other	-	(226)
Net periodic benefit cost	**38,617**	**39,393**

The total charge was included in profit or loss as follows:

	2012	2011
Cost of sales	12,160	11,740
Distribution expenses	292	324
General and administrative expenses	1,479	1,684
Finance costs	24,954	29,925
Finance income	268	280

At 31 December 2012, the cumulative amount of actuarial losses recognised in other comprehensive income was USD 68,129 thousand (31 December 2011: USD 35,730 thousand).

The sensitivity of the overall employee benefit obligations to changes in principal assumptions:

Principal assumption	Change in assumption	Effect on the carrying amount	31 December 2012	31 December 2011
Discount rate	Increase by 0.75%	Decrease by	30,877	24,166
	Decrease by 0.75%	Increase by	36,015	27,857
Inflation rate	Increase by 0.75%	Increase by	31,862	25,252
	Decrease by 0.75%	Decrease by	27,512	22,047

20 Liability to the regional administration

In April 2005 OAO Ural Steel, a subsidiary of the Group, entered into a long-term agreement with the Orenburg region administration. In accordance with the agreement, the Group is obliged to pay EUR 134 million in financial support to the administration by December 2034. The liability was recorded at the net present value of the amounts to be paid. The discount rate used to calculate the net present value of liability was 11%.

Liability to the regional administration – payments:	31 December 2012	31 December 2011
Not later than 1 year	4,956	4,844
Later than 1 year and not later than 5 years	25,126	21,978
Later than 5 years	151,329	147,267
Future finance charges	(122,442)	(117,673)
Present value of liability	**58,969**	**56,416**

(in thousands of US dollars, unless otherwise stated)

20 Liability to the regional administration (continued)

The present value of the liability matures as follows:	31 December 2012	31 December 2011
Not later than 1 year	4,449	4,378
Later than 1 year and not later than 5 years	17,252	15,407
Later than 5 years	37,268	36,631
	58,969	**56,416**

At 31 December 2012, the fair value of liability to the regional administration exceeded its carrying amount by USD 21,117 thousand (31 December 2011: 17,415 thousand).

21 Sales

	2012	2011
Steel and rolled products	3,489,706	4,063,572
Iron ore pellets	1,750,202	2,295,197
Iron ore	1,390,784	1,747,826
Hot briquetted iron	864,304	995,912
Pig iron	408,209	581,253
Scrap metal	17,505	17,125
Other revenue	273,778	217,704
Total	**8,194,488**	**9,918,589**

22 Cost of sales

	2012	2011
Materials and components	1,965,807	2,341,629
Energy costs	860,934	845,304
Labour costs	723,807	688,670
Depreciation and amortisation	340,553	344,964
Land, property and other taxes	104,469	100,540
Amortisation of mineral rights	65,871	69,694
Repairs and maintenance	27,975	29,528
Other	59,599	65,116
Total	**4,149,015**	**4,485,445**

23 Distribution expenses

	2012	2011
Transportation expenses	1,269,411	1,558,156
Labour costs	27,315	25,166
Packing materials	12,561	11,202
Custom duties	5,559	13,547
Depreciation	3,554	2,774
Other expenses	30,695	30,717
Total	**1,349,095**	**1,641,562**

24 General and administrative expenses

	2012	2011
Labour costs	276,888	282,763
Rent	36,308	47,504
Legal and consultancy expenses	21,124	19,578
Security	20,655	20,682
Brand development costs	13,210	-
Depreciation	12,148	12,047
Repairs and maintenance	9,166	9,743
Bank charges	8,572	15,636
Materials and fuel	8,037	6,393
Business trips	7,306	10,142
(Release of provision)/provision for impairment of accounts receivable and prepayments	(2,002)	973
Other	62,966	56,604
Total	**474,378**	**482,065**

(in thousands of US dollars, unless otherwise stated)

25 Operating (expenses)/income – net

	2012	2011
Foreign exchange (loss)/gain on operating activities, net	(188,626)	70,029
Net realised loss from foreign exchange forward contract*	(85,793)	-
Charity expenses	(51,717)	(33,196)
Social costs	(19,072)	(21,247)
Loss on disposal of property, plant and equipment	(11,095)	(7,655)
Reimbursement received under insurance policies held	-	12,798
Net gain on available-for-sale financial asset	-	37,985
Other	3,175	(22,167)
Total	**(353,128)**	**36,547**

* In 2012 the Group entered into a foreign exchange forward contract that was settled before 31 December 2012. Net realised loss of USD 85,793 thousand was recognised within "Other operating (expenses)/income – net". At 31 December 2012 the Group has no outstanding obligations from unsettled transactions with foreign currencies forwards.

26 Finance income and costs

Finance income

	2012	2011
Interest income on discount promissory notes*	195,205	-
Interest income on loans advanced	51,011	17,949
Other finance income	11,595	12,426
Finance income	**257,811**	**30,375**

* In 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. The promissory notes matured in December 2012.

Finance costs

	2012	2011
Interest expense on borrowings	412,424	309,726
Effect of discounting of accounts receivable	35,306	-
Interest expense on defined benefit obligations	24,954	25,925
Loss from extinguishment of debt	-	8,951
Waiver fees and other charges	6,761	7,020
Unwinding of discounting	6,199	6,652
Other finance charges	1,727	2,781
Finance costs	**487,371**	**361,055**

27 Share capital and other reserves

The Company's share capital consists of one class of shares, ordinary shares, totalled 79,699,000 thousand shares with par value of RUB 0.05 or USD 0.0017 per share. All issued ordinary shares are fully paid. Included in the share capital is an adjustment for the effect of hyperinflation of USD 52,348 thousand.

	Par value, USD	Number of outstanding shares, thousand	Ordinary shares, USD thousand	Issued and fully paid share capital, USD thousand
At 31 December 2012	0.0017	60,571,240	187,640	187,640
At 31 December 2011	0.0017	79,699,000	187,640	187,640

The total authorised number of ordinary shares is 159,398,000 thousand shares with a par value of RUB 0.05 or USD 0.0017 per share (31 December 2011: RUB 0.05 or USD 0.0017 per share).

All ordinary shares rank equally with regard to the Company's residual assets. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at the Company's annual and general meetings.

(in thousands of US dollars, unless otherwise stated)

27 Share capital and other reserves (continued)

In December 2012 the wholly-owned subsidiary of the Group acquired 19,127,760 thousand of the Company's own shares from the Company's shareholders. Total amount paid to acquire the shares was USD 3,022,698 thousand. The shares are held as "treasury shares". These ordinary shares carry voting rights in the same proportion as other ordinary shares. Voting rights of ordinary shares of the Company held by its subsidiary are effectively controlled by management of the Group.

Dividends declared and paid during the year were as follows:

	2012	2011
Dividends payable at 1 January	**-**	**-**
Dividends declared during the year	281,476	267,001
Dividends paid during the year	(290,077)	(267,001)
Currency translation difference	8,601	-
Dividends payable at 31 December	**-**	**-**
Dividends per share declared during the year, in USD	**0.0035**	**0.0034**

All dividends were declared and paid in Russian roubles.

In accordance with Russian legislation, the Company distributes profits as dividends on the basis of financial statements prepared in accordance with Russian Accounting Rules. The Company's statutory accounting reports are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. The Company's net statutory profit for 2012, as reported in the annual statutory reporting forms was USD 469,007 thousand (2011: net statutory profit of USD 1,682,511 thousand) and the closing balance of the accumulated profit, including the current year net statutory profit, totalled USD 2,778,239 thousand (31 December 2011: USD 2,441,740 thousand). However, this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes that at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

Other reserves

	Available-for-sale financial assets	Currency translation differences	Total
Balance at 1 January 2011	**-**	**(91,332)**	**(91,332)**
Currency translation differences	-	(356,393)	**(356,393)**
Fair value loss on available-for-sale financial assets	(762,221)	-	**(762,221)**
Loss on available-for-sale financial assets transferred to profit or loss	762,221	-	**762,221**
Balance at 31 December 2011	**-**	**(447,725)**	**(447,725)**
Currency translation differences	-	280,405	**280,405**
Fair value gain on available-for-sale financial assets	245,463	-	**245,463**
Balance at 31 December 2012	**245,463**	**(167,320)**	**78,143**

28 Earnings per share

The Company has no dilutive potential ordinary shares. Therefore, the diluted earnings per share equals the basic earnings per share. Basic earnings per share are calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2012	2011
Profit for the year from continuing operations attributable to ordinary shareholders	1,294,284	1,334,132
Weighted average number of ordinary shares in issue (thousand)	79,489,381	79,699,000
Basic and diluted earnings per ordinary share from continuing operations (USD per share)	**0.0163**	**0.0167**
Profit for the year from discontinued operation attributable to ordinary shareholders	424,118	87,712
Weighted average number of ordinary shares in issue (thousand)	79,489,381	79,699,000
Basic and diluted earnings per ordinary share from discontinued operation (USD per share)	**0.0053**	**0.0011**

(in thousands of US dollars, unless otherwise stated)

29 Acquisitions

ZAO Zheleznogorsky Brick Plant

In April 2012 the Group acquired 100% interest in ZAO Zheleznogorsky Brick Plant, a brick producer, for a cash consideration of USD 47,215 thousand from a related party.

The details of the determined assets, liabilities and goodwill are as follows:

	Fair value of identified assets and liabilities
Cash and cash equivalents	11,473
Property, plant and equipment	22,599
Inventories	4,537
Trade and other receivables	1,416
Loans advanced	679
Trade and other payables	(1,347)
Employee benefit obligations	(1,275)
Deferred tax liability	(4,136)
Net assets acquired	**33,946**
Goodwill on acquisition	13,269
Total purchase consideration	**47,215**
Less: cash and cash equivalents of subsidiary acquired	11,473
Cash outflow on acquisition	**(35,742)**

The goodwill is primarily attributable to the profitability and unleveraged position of the acquired business.

The acquired business contributed revenues of USD 2,048 thousand and net gain of USD 556 thousand to the Group for the period from acquisition to 31 December 2012. If the acquisition had occurred on 1 January 2012, the Group's revenue and profit for the year ended 31 December 2012 would not have changed significantly.

ZAO Ruslime

In April 2012 the Group acquired 100% interest in ZAO Ruslime, a lime producer, for a cash consideration of USD 43,844 thousand from a related party.

The details of the determined assets, liabilities and goodwill are as follows:

	Fair value of identified assets and liabilities
Cash and cash equivalents	10,124
Property, plant and equipment	7,386
Intangible assets	781
Trade and other receivables	967
Inventories	770
Loans advanced	110
Other non-current assets	123
Trade and other payables	(776)
Deferred tax liability	(1,335)
Net assets acquired	**18,150**
Goodwill on acquisition	25,694
Total purchase consideration	**43,844**
Less: cash and cash equivalents of subsidiary acquired	10,124
Cash outflow on acquisition	**(33,720)**

The goodwill is primarily attributable to the profitability and unleveraged position of the acquired business.

The acquired business contributed revenues of USD 9,931 thousand and net gain of USD 2,075 thousand to the Group for the period from acquisition to 31 December 2012. If the acquisition had occurred on 1 January 2012, the Group's revenue and profit for the year ended 31 December 2012 would not have changed significantly.

OOO OSMiBT

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 a remaining share in the company for a cash consideration of USD 36,310 thousand from a related party. The investment in the acquiree held prior to the acquisition was remeasured to its fair value at the acquisition date and a loss of USD 922 thousand was recognised in "Share of net loss of associates".

(in thousands of US dollars, unless otherwise stated)

29 Acquisitions (continued)

OOO OSMiBT (continued)

The details of the determined assets, liabilities and goodwill are as follows:

	Fair value of identified assets and liabilities
Cash and cash equivalents	24,930
Property, plant and equipment	32,438
Inventories	9,236
Loans advanced	8,092
Trade and other receivables	6,253
Trade and other payables	(7,042)
Borrowings	(2,375)
Deferred tax liability	(3,958)
Employee benefit obligations	(3,745)
Net assets acquired	**63,829**
Excess of fair value of the net assets acquired over the purchase price	(2,093)
Cash consideration	36,310
Fair value of equity interest in OSMiBT held before the acquisition	25,426
Total purchase consideration	**61,736**
Less: cash and cash equivalents of subsidiary acquired	24,930
Cash outflow on acquisition	**(11,380)**

The acquired business contributed revenues of USD 53,005 thousand and net gain of USD 6,618 thousand to the Group for the period from acquisition to 31 December 2012. If the acquisition had occurred on 1 January 2012, the Group's revenue and profit for the year ended 31 December 2012 would not have changed significantly.

Other acquisitions

In December 2012 the Group acquired 100% interest in OOO TOREX, research and production innovation company, for a cash consideration of USD 6,267 thousand from a related party. The net assets acquired totalled USD 28 thousand. Goodwill of USD 6,239 thousand is primarily attributable to the qualified workforce, the significant synergies and combined cost savings expected to arise.

30 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 a 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**	

(in thousands of US dollars, unless otherwise stated)

30 Assets held for sale and discontinued operations (continued)

OOO Metalloinvesttrans (continued)

Analysis of the result of discontinued operations is as follows:

	2012	2011
Sales to the entities of the Group	264,828	503,060
Sales to external parties	23,044	77,392
Expenses	(222,517)	(493,261)
Revenues and expenses due from the Group's entities eliminated on consolidation	2,076	202,215
Distribution to participants of OOO Metalloinvesttrans	-	(190,909)
Profit before tax of discontinued operations	**67,431**	**98,497**
Income tax	(11,972)	(10,785)
Profit after tax of discontinued operations	**55,459**	**87,712**
Gain on disposal of OOO Metalloinvesttrans	368,659	**-**
Profit for the year from discontinued operations	**424,118**	**87,712**

In 2012 the Group recognised a gain on disposal of USD 368,659 thousand in profit for the period from discontinued operations:

	As at the date of disposal
Consideration for disposal of OOO Metalloinvesttrans	569,040
Carrying amount of disposed net assets	(236,117)
Currency translation difference related to the discontinued operation	35,736
Gain on disposal of OOO Metalloinvesttrans	**368,659**

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.

An analysis of the cash flows of discontinued operations is as follows:

	2012	2011
Operating cash flows	(4,239)	212,929
Investing cash flows	3,364	143,304
Financing cash flows	(19,384)	(321,081)
Total cash flows	**(20,259)**	**35,152**

Other non-current assets classified as assets held for sale

At 31 December 2012 items of property, plant and equipment with carrying value of USD 77,584 thousand (31 December 2011: USD 21,367 thousand) were classified as assets held for sale following the management's plan to sell the assets. Liabilities directly associated with these assets held for sale were USD 25,286 thousand (31 December 2011: nil). The Group expects to complete the sale in 2013.

At 31 December 2012 items of assets held for sale of USD 61,746 thousand (31 December 2011: nil) were pledged as security for borrowings directly associated with assets held for sale.

31 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 at 31 December 2012 include entities under common control (31 December 2011: significantly influenced by owners of the Company). The owners of the Company are disclosed in Note 1.

(in thousands of US dollars, unless otherwise stated)

31 Balances and transactions with related parties (continued)

The nature of the relationships with related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2012 and 2011 are detailed below:

(i) Balances and transactions with other related parties

Year-end balances:	31 December 2012	31 December 2011
Trade accounts receivable	4,576	17,482
Advances issued	969	73,507
Other receivables	80,360	72,427
Trade accounts payable	31,290	29,641
Other accounts payable	14,454	5,744

Transactions carried out during the year:	2012	2011
Sales of goods and services	52,664	51,016
Sales of property, plant and equipment	14,260	30,391
Purchases of raw materials and consumables	36,003	49,865
Purchases of property, plant and equipment	7,119	25,639
Acquisition of available-for-sale financial assets	-	2,200,025
Acquisition of subsidiaries	141,656	251,241
Acquisition of interest in associate	-	2,670
Disposal of associate	5,948	-
Purchases of services	41,972	34,820
Finance costs	35,306	-

Loans advanced to other related parties:	2012	2011
Beginning of the year	**313,828**	**188,994**
Loans advanced during the year	578,324	142,750
Repayments of loans advanced	(338,683)	(2,174)
Loans advanced of subsidiary acquired	5,819	-
Interest income accrued	35,576	15,255
Interest received	(16,732)	(1,633)
Translation to presentation currency and forex gain/(loss), net	17,233	(29,364)
End of the year	**595,365**	**313,828**

Loans received from other related parties:	2012	2011
Beginning of the year	**5,233**	**5,168**
Translation to presentation currency	(8)	65
End of the year	**5,225**	**5,233**

(ii) Balances and transactions with the owners of the Company

Transactions carried out during the year:	2012	2011
Acquisition of subsidiaries	6,267	-
Acquisition of own shares (Note 27)	3,022,698	-

Loans advanced to the owners of the Company:	2012	2011
Beginning of the year	**164,409**	**-**
Loans advanced during the year	499,490	163,000
Repayments of loans advanced	(670,688)	-
Interest income accrued	15,064	1,433
Interest received	(16,298)	-
Translation to presentation currency and forex gain/(loss), net	8,023	(24)
End of the year	**-**	**164,409**

(in thousands of US dollars, unless otherwise stated)

31 Balances and transactions with related parties (continued)

(iii) Balances and transactions with associates

Year-end balances:	31 December 2012	31 December 2011
Cash and cash equivalents	-	30,957
Trade accounts receivable	-	184

Loans advanced and other investments to associates:	2012	2011
Beginning of the year	**15,756**	**4,266**
Loans advanced during the year	-	5,104
Repayments of loans advanced	(1,631)	-
Loans advanced of subsidiaries acquired	2,950	7,486
Repayments of short-term deposits	(9,728)	-
Loans advanced to a party which ceased to be associate	(7,258)	-
Interest income accrued	345	753
Interest received	(578)	(505)
Translation to presentation currency and forex gain/(loss), net	144	(1,348)
End of the year	**-**	**15,756**

(iv) Contractual commitments to other related parties

As at 31 December 2012 the Group had contractual commitments to other related parties of USD 919 thousand (31 December 2011: USD 85,238 thousand) for the purchase of property, plant and equipment.

(v) 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 annual remuneration and a performance bonus contingent on operating results.

Total key management personnel compensation included in general and administrative expenses amounted to USD 49,439 thousand (2011: USD 62,562 thousand).

(vi) Guarantees issued

At 31 December 2012, the Group had outstanding guarantees issued in respect of obligations of other related parties of USD 206,218 thousand (31 December 2011: USD 198,171 thousand).

32 Contingencies, commitments and operating risks

(i) Contractual commitments

As at 31 December 2012 the Group had contractual commitments of USD 603,604 thousand (31 December 2011: USD 269,187 thousand) for the purchase of property, plant and equipment.

The Group has to comply with the following commitments in respect of a licence for the Udokan copper deposit (Note 8):

- agree upon a technical project for the copper deposit development with the state authorities by 25 December 2014;
- start the construction of production facilities by 25 December 2015;
- start the extraction of copper ore by 25 June 2017;
- complete the construction of mining and processing facilities and attain the estimated production capacity by 25 June 2019.

32 Contingencies, commitments and operating risks (continued)

(ii) Tax contingencies

Russian tax legislation which was enacted or substantively enacted at the end of the reporting period, is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities. Russian tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax incompliant counterparties. 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 introduced from 1999 and was amended with effect 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 transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length.

Management believes that its pricing policy used in 2012 and preceding years is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation.

Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, given the specifics of transfer pricing rules, impact of any challenge of the Group’s transfer prices cannot be reliably estimated, however, it may be significant to the financial conditions and/or the overall operations of the Group.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. This interpretation of relevant legislation may be challenged but the impact of any such challenge cannot be reliably estimated currently; however, it may be significant to the financial position and/or the overall operations of the entity.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the relevant authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

In addition to the above matters, management estimates that the Group has possible obligations from exposure to other than remote tax risks of USD 134,038 thousand (31 December 2011: USD 134,322 thousand). These exposures primarily relate to taxes (profits tax and VAT), penalties and late payment interest arising from intercompany charges and certain operation and expenses incurred by the Group entities. These exposures are estimates that result from uncertainties in interpretation of applicable legislation and related documentation requirements. Management will vigorously defend the entity's positions and interpretations that were applied in determining taxes recognised in these financial statements if these are challenged by the authorities.

(iii) Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations. The Group had outstanding issued guarantees for obligations of related parties in the amount of USD 206,218 thousand (31 December 2011: USD 198,171 thousand) and obligations of third parties of USD 959 thousand (31 December 2011: USD 1,079 thousand). The maximum exposure to credit risk arising from guarantees issued is limited to the amounts guaranteed.

At 31 December 2012, guarantees of USD 31,141 thousand (31 December 2011: USD 28,884 thousand) were issued for obligations of related and third parties with maturities less than twelve months after the end of the reporting period and guarantees of USD 176,036 thousand (31 December 2011: USD 170,366 thousand) were issued for obligations with maturities more than twelve months after the end of the reporting period.

The Group does not expect any cash outflow resulting from the guarantees provided.

(iv) Insurance policies

The Group holds insurance policies on its assets and operations, including insurance policies covering export shipments, as well as in respect of public liability and other insurable risks.

32 Contingencies, commitments and operating risks (continued)

(v) Environmental matters

The enforcement of environmental regulation in Russia 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 recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

(vi) Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

(vii) Operating environment

Russia displays certain characteristics of an emerging market. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation (Note 32(ii)).

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, and other risks could have significant negative effects on the Russian financial and corporate sectors. Management assessed possible impairment of the Group's goodwill by considering the current economic environment and outlook (Note 3). The future economic and regulatory situation may differ from management's current expectations. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

33 Financial risk management

Financial risk factors

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risks comprise market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits and then ensure that exposure to risks stays within these limits. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Financial risk management is carried out by the Group's finance department. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units.

The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures to minimise operational and legal risks.

Concentrations of risk

Concentrations of financial risk arise when financial instruments with identical characteristics are influenced in the same way by changes in economic and other factors. The identification of risk concentrations is subject to discretionary assessment. The general purpose of risk management in the Group is to reduce and control risk concentrations. With respect to credit risk, this is reflected in the requirement to maintain a credit portfolio with a sound sectoral and geographical balance and a syndication policy that guides the exposure to individual customers and industries. With respect to market risk, concentration risk is restricted by limits ensuring that exposure is divided among number of instruments, ensuring sound diversification to meet changes in share prices, exchange rates and interest rate levels.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies, (b) interest bearing assets and liabilities and (c) equity products, all of which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

(in thousands of US dollars, unless otherwise stated)

33 Financial risk management (continued)

Market risk (continued)

Sensitivities to market risks included below are based on a change in one factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rates and changes in foreign currency rates.

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the EUR. Foreign exchange risk arises from recognised assets and liabilities and investments in foreign operations.

The Group does not have formal arrangements to mitigate foreign exchange risks of its operations. However, management monitors the net monetary position of the Group's financial assets and liabilities denominated in foreign currencies on a regular basis.

The analysis below includes only monetary assets and liabilities. Investments in equities and non-monetary assets are not considered to give rise to any material currency risk.

At 31 December 2012, if the Russian rouble had weakened/strengthened by 6% (31 December 2011: 9%) against the US dollar with all other variables held constant, post-tax profit for the year would have been USD 29,838 thousand (31 December 2011: USD 42,958 thousand) lower/higher, mainly as a result of foreign exchange losses/gains on translation of US dollar-denominated borrowings, loans advanced to related parties and cash and cash equivalents.

At 31 December 2012 if the Russian rouble had weakened/strengthened by 4% (31 December 2011: 6%) against the EUR with all other variables held constant, post-tax profit for the year would have been USD 3,671 thousand (31 December 2011: USD 8,251 thousand) lower/higher, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated trade receivables, borrowings and liability to regional administration.

(ii) Price risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the consolidated statement of financial position as available-for-sale. There are no formal procedures established to manage the price risk. Transactions in equity and debt securities are authorised by the Board of Directors.

At 31 December 2012, if equity prices at that date had been 4% (31 December 2011: 20%) lower with all other variables held constant, profit for the year would have been USD 56,212 thousand (31 December 2011: 207,931 thousand) lower, as a result of impairment of MMC Norilsk Nickel ADR classified as available-for-sale.

(iii) Interest rate risk

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. Monitoring current market interest rates and analysing the Group's interest-bearing position is performed by the Group's finance department as a part of the interest rate risk management procedures. Monitoring is performed taking into consideration refinancing, renewal of existing positions and alternative financing.

The interest rate risk profile of the Group was as follows:

	31 December 2012	31 December 2011
Fixed rate instruments		
Financial assets	859,352	1,505,086
Financial liabilities	(4,894,196)	(3,490,440)
	(4,034,844)	**(1,985,354)**
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(1,635,505)	(2,163,446)
	(1,635,505)	**(2,163,446)**

(in thousands of US dollars, unless otherwise stated)

33 Financial risk management (continued)

Market risk (continued)

(iii) Interest rate risk (continued)

All other financial instruments are non-interest bearing.

Fair value sensitivity analysis for fixed rate instruments

The Group does not have significant fixed rate financial assets carried at fair value. Therefore, a change in interest rates at the end of the reporting period would not affect the Group's comprehensive income significantly.

Cash flow sensitivity analysis for variable rate instruments

Cash flow interest rate risk sensitivity analysis is primarily based on LIBOR and EURIBOR interest rate volatility and the following assumptions:

- Profit or loss impacts assume adjustments to interest expense for a 12-month period.
- The balance of interest bearing financial instruments at the end of the reporting period is representative of the balance for the year as a whole and hypothetical interest rate movements are deemed to apply for the entire reporting period.

At 31 December 2012, if interest rates on USD-denominated borrowings had been 100 basis points (2011: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been USD 12,013 thousand (2011: USD 16,192 thousand) lower/higher as a result of higher/lower interest expense on floating rate borrowings; other components of equity would not have changed.

At 31 December 2012, if interest rates on EUR-denominated borrowings had been 100 basis points (2011: 100 basis points) higher/lower with all other variables held constant, post-tax profit for the year would have been USD 1,071 thousand (2011: USD 1,123 thousand) lower/higher, as a result of higher/lower interest expense on floating rate borrowings; other components of equity would not have changed.

There would be no material effect on equity reserves other than those relating directly to movements in the profit or loss.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales of products on credit and other transactions with counterparties giving rise to financial assets which consist principally of trade receivables, cash and bank deposits, loans advanced and financial guarantees issued. The Group has no other significant concentrations of credit risk.

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

	31 December 2012	**31 December 2011**
Cash and cash equivalents*	468,369	1,201,026
Restricted cash	730	-
Trade and other receivables (Notes 11, 14)**	634,340	691,125
Loans advanced and other investments	502,996	421,461
Total on-balance sheet exposure	**1,606,435**	**2,313,612**
Financial guarantees – amounts of guaranteed loans (Note 32)	207,177	199,250
Total maximum exposure to credit risk	**1,813,612**	**2,512,862**

*At 31 December 2011, included in the Cash and cash equivalents are bank balances of USD 10,164 thousand and term deposits of USD 24,882 thousand, which are presented within assets held for sale (Note 30).

**At 31 December 2011, included in Trade and other receivables are USD 9,764 thousand, which are presented within assets held for sale (Note 30).

(in thousands of US dollars, unless otherwise stated)

33 Financial risk management (continued)

Credit risk (continued)

Cash and cash equivalents. Cash, cash equivalents and short-term deposits are placed in major multinational and Russian banks with independent credit ratings. The banks are assessed to ensure exposure to credit risk is limited to an acceptable level. No bank balances and term deposits are past due or impaired.

Analysis by credit quality of bank balances and term deposits is as follows:

	31 December 2012		31 December 2011	
	Bank balances payable on demand	**Term deposits**	**Bank balances payable on demand**	**Term deposits**
Rating				
Low credit risk (A-AAA)	73,957	146,608	44,475	124,490
Medium credit risk (B-BBB)*	33,745	184,192	54,634	941,008
High credit risk	132	-	-	-
Unrated**	4,179	25,556	17,446	18,973
Total	**112,013**	**356,356**	**116,555**	**1,084,471**

*At 31 December 2011, medium credit risk bank balances payable on demand of USD 10,164 thousand and term deposits of USD 24,882 thousand are included in assets held for sale (Note 30).

**At 31 December 2011, unrated bank balances payable on demand include cash and cash equivalents of USD 11,984 thousand and term deposits of USD 18,973 thousand in associated bank (Note 31 (iii)).

Trade and other receivables. The Group assesses the credit quality of customers taking into account their financial position, past experience and other factors. The credit quality of each new customer is analysed before the Group provides it with purchase and payment terms. The Group's commercial department reviews an ageing analysis of outstanding trade receivables and follows up on past due balances. The credit quality of the Group's significant customers is monitored on an ongoing basis. The majority of the Group's customers are large consumers of iron ore and steel products which have a similar credit risk profile for the Group. The Group does not manage its customers by class for credit risk management purposes.

The Group is exposed to concentrations of credit risk. At 31 December 2012, the Group had 6 counterparties (31 December 2011: 11 counterparties) with aggregated receivables balances of over USD 15,000 thousand. The total aggregate amount of these balances was USD 245,552 thousand (31 December 2011: USD 317,388 thousand) or 39% (31 December 2011: 47% of the gross amount of trade and other receivables.

Loans advanced. Included in loans advanced are loans to related parties of the Group of USD 495,367 thousand (31 December 2011: USD 408,894 thousand) (Note 12 and Note 31). None of the loans advanced is past due or impaired. Management does not expect any losses from non-performance by these entities.

Liquidity risk

Liquidity risk is defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's finance department is responsible for managing liquidity risk, including funding, settlements, and related processes and policies. The operational, capital, tax and other requirements and obligations of the Group are considered in the management of liquidity risk. Management utilises cash flow forecasts and other financial information to manage liquidity risk.

The Group seeks to maintain a stable funding base primarily consisting of amounts due to other banks. The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The liquidity position is monitored and regular liquidity stress testing under a variety of scenarios covering both normal and more severe market conditions is performed by the finance department.

The table below analyses the Group's financial liabilities by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows, including gross finance lease obligations, and gross loan commitments. Such undiscounted cash flows differ from the amount included in the statement of financial position because the balance sheet amount is based on discounted cash flows.

(in thousands of US dollars, unless otherwise stated)

33 Financial risk management (continued)

Liquidity risk (continued)

As at 31 December 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 year
Borrowings	735,791	5,542,032	1,181,683	30,119
Trade and other payables (Note 18)	376,833	-	-	-
Liability to the regional administration	4,956	11,992	13,134	151,329
Total	**1,117,580**	**5,554,024**	**1,194,817**	**181,448**

As at 31 December 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 year
Borrowings	1,356,331	2,658,204	2,246,792	108,538
Trade and other payables (Note 18)*	322,330	-	-	-
Liability to the regional administration	4,844	10,580	11,398	147,267
Total	**1,683,505**	**2,668,784**	**2,258,190**	**255,805**

* Included in Trade and other payables at 31 December 2011 are USD 9,006 thousand, which are presented within assets held for sale (Note 30).

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period. The liquidity risk associated with guarantees issued is disclosed in Note 32 (iii).

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group capital management includes compliance with externally imposed minimal capital requirements arising from the Group's borrowings. The Group determines capital as total equity as shown in the consolidated statement of financial position.

Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. Russia continues to display some characteristics of an emerging market, and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Available-for-sale financial assets are carried in the statement of financial position at their fair value.

(in thousands of US dollars, unless otherwise stated)

33 Financial risk management (continued)

Fair value of financial instruments (continued)

For financial instruments carried at fair value, the level in the fair value hierarchy into which the fair values are categorised are as follows:

	2012			2011		
	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)	Quoted price in an active market (Level 1)	Valuation technique with inputs observable in markets (Level 2)	Valuation technique with significant non-observable inputs (Level 3)
FINANCIAL ASSETS						
Available-for-sale financial assets						
- Equity securities	1,405,309	-	65,549	1,039,655	-	-
Total financial assets carried at fair value	**1,405,309**	**-**	**65,549**	**1,039,655**	**-**	**-**
Sensitivity of fair value at 31 December to reasonably possible changes in assumptions not based on observable market data	**-**	**-**	**12,567**	**-**	**-**	**-**

Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. Significance of a valuation input is assessed against the fair value measurement in its entirety.

The sensitivity to valuation assumptions disclosed in the table above represents by how much the fair value could increase or decrease had management used reasonably possible alternative valuation assumptions that are not based on observable market data, primarily the credit risk premium above the risk free discount rate in the discounted cash flow valuation technique applied by the Group.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on the credit risk of the counterparty.

Liabilities carried at amortised cost. Fair values of liabilities were determined using valuation techniques. The estimated fair value of fixed rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid.

34 Events after the reporting date

In February 2013 the Company issued USD 332,783 thousand 8.9% RUB-denominated unsecured corporate bonds with maturity in 2023 and an early redemption option in 2018. The Group used the entire proceeds to prepay borrowings from a Russian bank maturing in 2014 ahead of schedule.

In March 2013 the Group prepaid USD 250,000 thousand of its borrowings ahead of schedule from its operating cash flow.

In March 2013 the Group entered into a three-year supply agreement with OAO Severstal for a supply of 1 million tonnes of iron ore concentrate per annum with the pricing structure based on existing market indicators and price dynamics of the global iron ore market.