Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2013

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group") at 31 December 2013, and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with statutory legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2013 were approved for issuance on 18 April 2014 by:

P. V. Shiliayev	**M. E. Khazova**
General Director	Acting Chief Accountant

18 April 2014
Magnitogorsk, Russia

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10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

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Auditors' Report

To the Shareholders

OJSC Magnitogorsk Iron & Steel Works

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of comprehensive income, changes in equity and cash flows for 2013, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Audited entity: Open Joint Stock Company Magnitogorsk Iron and Steel Works

Registered by Administration of Magnitogorsk city, Chelyabinsk region on 17 October 1992, Registration No. 186 series GA № 002.

Entered in the Unified State Register of Legal Entities on 1 July 2002 by Department of Ministry of Taxes and Duties on Orjonikidze district of Magnitogorsk, Chelyabinsk region, Registration No. 1027402166835, Certificate series 74 No. 001284258.

93, Kirova street, Magnitogorsk, Chelyabinsk region, Russia, 455000

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2013, and its financial performance and its cash flows for the 2013 in accordance with International Financial Reporting Standards.

КПМГ
KPMG
ЗАКРЫТОЕ АКЦИОНЕРНОЕ ОБЩЕСТВО Г.Р. №011585
МОСКВА

Shvetsov A.V.

General Director

ZAO KPMG

18 April 2014

Moscow, Russian Federation

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013
(In millions of U.S. Dollars, unless otherwise stated)

	Notes	Years ended 31 December 2013	2012
REVENUE	8	8,190	9,328
COST OF SALES	10	(6,967)	(7,881)
GROSS PROFIT		**1,223**	**1,447**
General and administrative expenses	11	(524)	(568)
Selling and distribution expenses	12	(609)	(549)
Other operating income/(expenses), net	13	84	(57)
OPERATING PROFIT		**174**	**273**
Share of results and impairment of associates		1	20
Finance income		8	12
Finance costs	15	(181)	(223)
Foreign exchange (loss) /gain , net		(152)	35
Impairment losses and provision for site restoration	17,18,24,27	(2,456)	(17)
Change in net assets attributable to minority participants		-	(1)
Other income		5	23
Other expenses	14	(134)	(178)
LOSS BEFORE INCOME TAX		**(2,735)**	**(56)**
INCOME TAX	16	306	(31)
LOSS FOR THE YEAR		**(2,429)**	**(87)**
OTHER COMPREHENSIVE INCOME/(LOSSES)			
Items, that will be reclassified subsequently to profit or loss			
Increase in fair value of available-for-sale investments		22	57
Translation of foreign operations		163	(72)
Items, that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses)	28	1	(7)
Effect of translation to presentation currency		(728)	584
OTHER COMPREHENSIVE (LOSSES)/INCOME FOR THE YEAR, NET OF TAX		**(542)**	**562**
TOTAL COMPREHENSIVE (LOSSES)/INCOME FOR THE YEAR		**(2,971)**	**475**
Loss attributable to:			
Shareholders of the Parent Company		(2,400)	(84)
Non-controlling interests		(29)	(3)
		(2,429)	**(87)**
Total comprehensive (losses)/income attributable to:			
Shareholders of the Parent Company		(2,942)	478
Non-controlling interests		(29)	(3)
		(2,971)	**475**
BASIC AND DILUTED LOSSES PER SHARE (U.S. Dollars)		(0.218)	(0.008)
Weighted average number of ordinary shares outstanding (in thousands)		11,017,397	11,007,917

The notes on pages 9 to 57 are an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013
(IN MILLIONS OF U.S. DOLLARS)

		31 December	
	Notes	**2013**	**2012**
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	17	8,618	11,831
Goodwill	18	-	290
Other intangible assets	19	39	43
Investments in securities and other financial assets	22	830	870
Investments in associates		2	-
Deferred tax assets	16	171	152
Other non-current assets		12	7
Total non-current assets		9,672	13,193
CURRENT ASSETS:			
Inventories	20	1,478	1,674
Trade and other receivables	21	630	695
Investments in securities and other financial assets	22	17	62
Income tax receivable		9	90
Value added tax recoverable		173	200
Cash and cash equivalents	23	154	362
Assets classified as held for sale	24	15	16
Total current assets		2,476	3,099
TOTAL ASSETS		**12,148**	**16,292**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	25	386	386
Treasury shares	25	(30)	(175)
Share premium		1,020	1,108
Investments revaluation reserve	22	618	596
Translation reserve		(2,778)	(2,213)
Retained earnings		7,612	9,963
Equity attributable to shareholders of the Parent Company		6,828	9,665
Non-controlling interests		33	155
Total equity		6,861	9,820
NON-CURRENT LIABILITIES:			
Long-term borrowings	26	2,163	2,236
Retirement benefit obligations	28	27	32
Site restoration provision	27	181	51
Deferred tax liabilities	16	851	1,254
Total non-current liabilities		3,222	3,573
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	30	1,010	1,630
Current portion of obligations under finance leases		-	1
Current portion of retirement benefit obligations	28	4	4
Trade and other payables	29	1,037	1,260
Current portion of site restoration provision	27	11	-
Net assets attributable to minority participants		3	4
Total current liabilities		2,065	2,899
TOTAL EQUITY AND LIABILITIES		**12,148**	**16,292**

The notes on pages 9 to 57 are an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013
(In millions of U.S. Dollars)

	Notes	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
BALANCE AT 1 JANUARY 2012		**386**	**(176)**	**1,110**	**539**	**(2,725)**	**10,155**	**9,289**	**159**	**9,448**
Loss for the year		-	-	-	-	-	(84)	**(84)**	(3)	**(87)**
Other comprehensive income for the year, net of tax		-	-	-	57	512	(7)	**562**	-	**562**
Total comprehensive income for the year		-	-	-	57	512	(91)	**478**	(3)	**475**
Purchase of treasury shares		-	(2)	-	-	-	-	**(2)**	-	**(2)**
Issuance of ordinary shares from treasury shares		-	3	(2)	-	-	-	**1**	-	**1**
Dividends	25	-	-	-	-	-	(101)	**(101)**	(1)	**(102)**
BALANCE AT 31 DECEMBER 2012		**386**	**(175)**	**1,108**	**596**	**(2,213)**	**9,963**	**9,665**	**155**	**9,820**
Loss for the year		-	-	-	-	-	(2,400)	**(2,400)**	(29)	**(2,429)**
Other comprehensive gains/(losses) for the year, net of tax		-	-	-	22	(565)	1	**(542)**	-	**(542)**
Total comprehensive losses for the year		-	-	-	22	(565)	(2,399)	**(2,942)**	(29)	**(2,971)**
Purchase of treasury shares		-	(11)	-	-	-	-	**(11)**	-	**(11)**
Issuance of ordinary shares from treasury shares		-	156	(106)	-	-	-	**50**	-	**50**
Deferred tax relating to result of disposal of treasury shares	16	-	-	18	-	-	-	**18**	-	**18**
Decrease in non-controlling interests due to changes of Group's share in subsidiaries	6	-	-	-	-	-	48	**48**	(92)	**(44)**
Dividends		-	-	-	-	-	-	**-**	(1)	**(1)**
BALANCE AT 31 DECEMBER 2013		**386**	**(30)**	**1,020**	**618**	**(2,778)**	**7,612**	**6,828**	**33**	**6,861**

The notes on pages 9 to 57 are an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013
(In millions of U.S. Dollars)

		Years ended 31 December	
	Notes	**2013**	**2012**
OPERATING ACTIVITIES:			
Loss for the year		(2,429)	(87)
Adjustments to loss for the year:			
Income tax		(306)	31
Depreciation and amortisation	10,11	969	952
Finance costs		181	223
Loss on disposal of property, plant and equipment	13	79	118
Impairment losses and provision for site restoration	17,18,24,27	2,456	17
Change in allowance for doubtful accounts receivable	13	(6)	(4)
Loss on revaluation of trading securities	13,22	4	-
Change in allowance for obsolete and slow-moving items	20	2	(16)
Finance income		(8)	(12)
Income from available-for-sale investments		(14)	(13)
Foreign exchange loss, net		152	(35)
Gain on disposal of associates	13	(131)	-
Gain on sale of subsidiaries	7,13	-	(18)
Share of results and impairment of associates		(1)	(20)
Change in net assets attributable to minority participants		-	1
		948	1,137
Movements in working capital			
Decrease/(increase) in trade and other receivables		13	(12)
Decrease in value added tax recoverable		18	113
Decrease in inventories		103	205
Decrease in investments classified as trading securities		12	1
Decrease in trade and other payables		(47)	(15)
Cash generated from operations		1,047	1,429
Interest paid		(177)	(205)
Income tax received/(paid)		62	(44)
Net cash generated by operating activities		932	1,180
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(622)	(674)
Purchase of intangible assets		(8)	(7)
Proceeds from sale of property, plant and equipment		6	8
Redemption of promissory notes receivable from related party		127	-
Interest received		13	10
Loans provided		(20)	-
Loans provided to related party		-	(25)
Proceeds from sale of associates	13	131	-
Proceeds from sale of subsidiaries	7	2	37
Acquisition of associates		(1)	-
Proceeds from sale of securities and other financial assets		-	3
Changes in letters of credit, net		2	2
Dividends received from available-for-sale investments		14	13
Dividends received from associates		5	45
Net cash used in investing activities		(351)	(588)

The notes on pages 9 to 57 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

(In millions of U.S. Dollars)

	Notes	Years ended 31 December 2013	2012
FINANCING ACTIVITIES:			
Proceeds from borrowings		1,468	1,899
Repayments of borrowings		(2,102)	(2,548)
Purchase of treasury shares		(11)	(2)
Proceeds from issuance of ordinary shares from treasury shares		50	1
Principal repayments of obligations under finance leases		(2)	(6)
Acquisition of non-controlling interest	6	(44)	-
Dividends paid to:			
- equity holders of the Parent Company	25	(96)	-
- non-controlling interests		-	(1)
Net cash used in by financing activities		(737)	(657)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(156)	(65)
CASH AND CASH EQUIVALENTS, beginning of year		362	424
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		(52)	3
CASH AND CASH EQUIVALENTS, end of year	23	**154**	**362**

The notes on pages 9 to 57 are an integral part of these consolidated financial statements.

(In millions of U.S. Dollars, unless otherwise stated)

1. GENERAL INFORMATION

OJSC Magnitogorsk Iron & Steel Works ("the Parent Company") is an open joint stock company as defined by the Civil Code of the Russian Federation. The Parent Company was established as a state owned enterprise in 1932. It was incorporated as an open joint stock company on 17 October 1992 as part of and in accordance with the Russian Federation privatisation program.

The Parent Company, together with its subsidiaries ("the Group"), is a producer of ferrous metal products. The Group's products are sold in the Russian Federation and internationally. The subsidiaries of the Parent Company are mainly involved in the various sub-processes within the production cycle of ferrous metal products or in the distribution of those products.

The Parent Company's registered office is 93, Kirova street, Magnitogorsk, Chelyabinsk region, Russia, 455000.

As at 31 December 2013 the Parent Company's major shareholders were Mintha Holding Limited with a 46.3 % ownership interest and Fulnek Enterprises Limited with a 41.0% ownership interest (at 31 December 2012: Mintha Holding Limited with 37.1%, Fulnek Enterprises Limited with 41.0% and Mordoraco Holdings Limited with 7.7%).

The ultimate beneficiary of the Parent Company is Mr. Viktor F. Rashnikov, the Chairman of its Board of Directors.

At 31 December 2013 and 2012, the Group's principal subsidiaries were as follows:

		Effective % held at 31 December	
Subsidiary by country of incorporation	**Nature of business**	**2013**	**2012**
Russian Federation			
OJSC Metizno-Kalibrovochny Zavod "MMK-Metiz"	Production of metal hardware products	95.78	95.78
LLC IK RFC	Investing activities	100.00	100.00
CJSC Stroitelny Fond	Renting services	100.00	100.00
CJSC Stroitelny Komplex	Construction	100.00	100.00
CJSC Ogneupor	Production of refractory materials	100.00	100.00
CJSC Mekhanoremontny Komplex	Maintenance of metallurgical equipment	100.00	100.00
CJSC Mechanoremont	Renting services	100.00	100.00
OJSC MTSOZ	Production of cement and refractory materials	100.00	100.00
CJSC Profit	Collection and processing of metal scrap	100.00	100.00
LLC Torgovy Dom MMK	Trading activities	100.00	100.00
OJSC Belon (Note 6)	Holding company, trading activities	95.40	82.60
CJSC Shakhta Kostromovskaya (Note 6)	Coal mining	95.40	82.60
LLC Shakhta Chertinskaya-Yuzhnaya (Note 6)	Coal mining	95.40	82.60
LLC Shakhta Chertinskaya-Koksovaya (Note 6)	Coal mining	95.40	82.60
Cyprus			
Onarbay Enterprises Ltd	Holding company	100.00	100.00
Turkey			
MMK Metalurji	Production of ferrous metal products	100.00	100.00
Switzerland			
MMK Steel Trade AG	Trading activities	100.00	100.00
MMK Trading AG (Note 7)	Trading activities	-	99.60
Luxemburg			
MMK-Mining Assets Management S.A.	Holding company	100.00	100.00

(In millions of U.S. Dollars, unless otherwise stated)

The effective ownerships indicated in the table above are also the nominal holdings, except for CJSC Shakhta Kostromovskaya, LLC Shakhta Chertinskaya-Yuzhnaya, LLC Shakhta Chertinskaya-Koksovaya where 100% is held by OJSC Belon.

2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

New Standards and Interpretations in issue not yet adopted

At the date of approval of the Group's consolidated financial statements, the following new and revised Standards and Interpretations have been issued, but are not effective for the year ended 31 December 2013, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

	Effective for annual periods beginning on or after
IFRS 9 *Financial Instruments* – new standard	Not known – to be issued in phases
Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) - amendment	1 January 2014
IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* – amendment	1 January 2014
IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets* - amendment	1 January 2014
IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* - amendment	1 January 2014
IFRIC 21 *Levies*	1 January 2014

Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect for annual periods beginning after 1 January 2014. The Group has not yet analysed the likely impact of the improvements and adoption of new Standards and Interpretations on its financial position or performance.

3. BASIS OF PREPARATION

Statement of compliance

International Financial Reporting Standards ("IFRS") include Standards and Interpretations issued by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These consolidated financial statements of the Group have been prepared in accordance with IFRS.

The Group additionally prepares IFRS consolidated financial statements presented in Russian roubles and in Russian language in accordance with the Federal Law No. 208 – FZ "On consolidated financial reporting".

Basis of preparation

The consolidated financial statements of the Group are prepared on the historical cost basis except for the certain financial instruments which are reported in accordance with IAS 39 "Financial instruments: recognition and measurement" at fair value.

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

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

a. Disclosures—Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
b. IFRS 10 Consolidated Financial Statements (2011)
c. IFRS 11 Joint Arrangements
d. IFRS 12 Disclosure of Interests in Other Entities
e. IFRS 13 Fair Value Measurement
f. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
g. IAS 19 Employee Benefits (2011)

The nature and effects of the changes are explained below.

Offsetting of financial assets and financial liabilities

The change had no significant impact on the measurements of the Group's assets and liabilities.

Subsidiaries

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2013. As a consequence, the Group has not changed its control conclusion in respect of any of its investments.

Joint arrangements

The change had no significant impact on the measurements of the Group's assets and liabilities or disclosures.

Disclosure of interests in other entities

The change had no significant impact on the Group's disclosures about its interests in other entities.

Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements when such measurements are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7.

Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

Presentation of items of OCI

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present separately items that would be reclassified to profit or loss from those that would never be. Comparative information has been re-presented accordingly.

Post-employment defined benefit plans

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to actuarial gains and losses, which are now recognized in other comprehensive income. Comparative information has been restated accordingly resulting in decrease in general and administrative expenses, operating profit, loss before income tax and loss for the year by USD 7 mln and respective decrease of other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES

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

Certain comparative amounts have been reclassified either as a result of a change in the accounting policy regarding the presentation of items of OCI and actuarial gains and losses (see Note 3) or to conform with the current year's presentation.

Basis of consolidation

Subsidiaries

These consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Parent Company (its subsidiaries). The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a Group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Net assets attributable to minority participants

The Group controls certain Limited Liability Companies (“LLC”). Non-controlling participants (“minority participants”) in such LLC’s have a right to request (at any time) redemption of their interest in the respective LLC in cash. The obligations of respective LLC to redeem those non-controlling interests give rise to financial liabilities, payment of which is conditional upon the minority participants exercising their right to redemption. Management of the Group regularly assesses these potential liabilities by reference to the carrying value of net assets attributable to minority participants in the relevant LLC. The Group’s liability is determined as the greatest of the amount due calculated in accordance with IFRS and Russian Accounting Standards and is presented in these consolidated financial statements as net assets attributable to minority participants. Any change in net assets attributable to participants during the year is recognised in the consolidated statement of comprehensive income as a change in net assets attributable to minority participants.

Functional and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

The functional currency of the Group’s entities except for MMK Metalurji and MMK Steel Trade AG is the Russian Rouble (“RUB”). The functional currency of MMK Metalurji and MMK Steel Trade AG is the United States Dollar (“USD”).

These consolidated financial statements are presented in millions of USD. Using USD as a reporting currency is considered by management to be more relevant for users of the consolidated financial statements of the Group.

The translation into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated statement of financial position presented;
- all items included in the consolidated shareholders’ equity, other than net income, are translated at historical exchange rates;
- all income and expenses in each consolidated statement of comprehensive income are translated at exchange rates in effect when the transactions occur. For those transactions that occur evenly over the year an average exchange rate for the year is applied;
- resulting exchange differences are included in other comprehensive income as “Effect of translation to presentation currency”; and
- in the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at exchange rates in effect when the cash flows occur. For those cash flows that occur evenly over the year an average exchange rate for the year is applied. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as “Effect of translation to presentation currency”.

Exchange rates used in preparation of the consolidated financial statements were as follows:

	31 December	
	2013	**2012**
Russian Rouble/US Dollar		
Year-end rates	32.73	30.37
Average for the period	31.81	31.08

The RUB is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUB denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

Foreign currency transactions

Transactions in currencies other than the functional currencies of the Group's entities (foreign currencies) are recorded at the exchange rates prevailing at the dates of the transactions. At each statement of financial position date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the date of statement of financial position. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated statement of comprehensive income.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values, other than equity-related contingent consideration, are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 "Share-based payment"; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described above.

Revenue recognition

Revenue is recognised when earned and realisable, which generally occurs when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, pervasive evidence of an arrangement exists and the sales price is fixed or determinable.

Revenue is measured at fair value of consideration received net of applicable provisions for discounts, allowances, associated value-added taxes and export duties.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other finance costs are recognised as an expense in the year in which they are incurred.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit for the year as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of statement of financial position.

Deferred income tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the date of statement of financial position. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Investment tax credits

Investment tax credits are presented in profit or loss as a deduction from a current tax expense to the extent that an entity is entitled to claim the credit in the current reporting period. Any unused investment tax credit is recognised as a deferred tax asset and income if it meets the recognition criteria.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Manufacturing assets

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2007, the date of transition to IFRSs, was determined by reference to its fair value at that date.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. Repair and maintenance expenses are charged to the consolidated statement of comprehensive income as incurred.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets is recorded on the same basis as for other property assets, and commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment should be made.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

Mining assets

The Group’s property, plant and equipment include mining assets, which consist of mineral reserves, mine development expenditures, capitalised exploration and evaluation expenditures and mineral licenses.

Mineral reserves

Mineral reserves represent tangible assets acquired in business combinations and mineral licenses, to the extent such licenses were acquired with and are inseparable from the mineral reserves. Mineral reserves are estimates of the amount of product that can be economically and legally extracted. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs and others.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of coalbodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgments to interpret the data.

Mine development expenditures

Mine development costs are capitalised in construction-in-progress and transferred to mining assets when a new mine reaches commercial production quantities.

Capitalised mine development costs comprise expenditures directly related to:

- acquiring mining and exploration licenses;

- developing new mining operations;
- defining further mineralisation in existing mineral bodies; and
- expanding capacity of a mine.

Mine development costs include interest capitalised during the construction period when financed by borrowings.

Exploration and evaluation expenditures

Exploration and evaluation expenditures are recognised as an asset if the probability of success is high. Exploration and evaluation assets include acquisition of rights to explore; topographical, geographical, geochemical and geopeophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

An impairment review is performed, either individually or at the cash-generating unit level. Impairment loss is recognised in the consolidated statement of comprehensive income.

Capitalisation ceases when exploration and evaluation activity ceases in the related area and capitalised costs are reclassified to mining assets.

Mineral licenses separately acquired

Mineral licenses acquired separately from mineral reserves to develop mineral reserves and resources are stated at historical cost less accumulated amortisation.

Depreciation

Depreciation of manufacturing assets is computed under the straight-line method utilising useful lives of the assets which are:

Buildings	12-50 years
Machinery and equipment	2-30 years
Transportation equipment	5-20 years
Fixtures and fittings	3-16 years

Mineral licenses are amortised using the straight-line basis over the lesser of their economic useful lives or the life of respective mine.

Depreciation of other mining assets is determined using the unit of production method based on the extracted volumes of mineral reserves and estimated production capacity of the individual assets.

The estimated useful lives, residual values, and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the finance cost and the capital repayment, which reduces the related lease obligation to the lessor.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Intangible assets, excluding goodwill

Intangible assets are recorded at cost less accumulated amortisation and impairment losses. Intangible assets primarily represent production licenses and various purchased software costs. Amortisation is charged on a straight-line basis over their estimated useful lives which are:

Licenses	3-25 years
Purchased software	1-10 years
Other intangibles	1-10 years

Impairment of tangible and intangible assets, excluding goodwill

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average basis and includes all costs in bringing the inventory to its present location and condition.

Cost includes direct material, labour and allocable material and manufacturing overheads. Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labour and an allocation of fixed and variable production overheads. Raw materials are valued at purchase cost inclusive of freight and other shipping costs.

Net realisable value represents the estimated selling price for inventories less estimated costs to completion and selling costs. Where appropriate, an allowance for obsolete and slow-moving inventory is recognised. The impairment charged to reduce the carrying amount of inventories to their net realisable value and an allowance for obsolete and slow-moving inventory are included in consolidated statement of comprehensive income as cost of sales.

Deferred drifting costs

The direct costs and attributable overheads of the preparation of underground coal reserves (drifting) for production using advanced mining machinery are included in inventory and recognised as cost of sales on the unit of production basis of each coal drift.

Value-added taxes

Value-added taxes ("VAT") related to sales are payable to the tax authorities upon issuance of invoices to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. Unclaimed VAT related to purchase transactions that is validly reclaimable as of the date of statement of financial position is recorded as value added tax recoverable in the consolidated financial statements.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability.

Financial assets

Financial assets recognised on the Group's consolidated statement of financial position include available-for-sale, held-to-maturity, and trading investments, loans receivable, trade and other receivables, and cash and cash equivalents. Financial assets are initially measured at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset, except for financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

<u>Investments</u>

Investments, other than investments in subsidiaries and associates, are initially measured at fair value, including directly attributable transaction costs, except for financial assets at fair value through profit or loss.

Investments are classified into the following categories:

- held-to-maturity;
- at fair value through profit or loss; and
- available-for-sale.

The classification depends on the nature and purpose of the investments and is determined at the time of initial recognition.

Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intention and ability to hold to maturity, other than loans and receivables, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost using the effective interest rate method less any allowance for impairment.

Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in finance income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the date of statement of financial position.

Investments at fair value through profit or loss include investments held for trading and investments that are part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

All other investments, other than loans and receivables, are classified as available-for-sale.

Investments at fair value through profit or loss and investments available-for-sale are subsequently measured at fair value by reference to their quoted market price at the date of statement of financial position, without any deduction for transaction costs that may be incurred on sale or other disposal. Gain or loss arising from a change in the fair value of investments at fair value through profit and loss is recognised in the consolidated statement of comprehensive income. Gain or loss arising from a change in fair value of investments available-for-sale is recognised directly in other comprehensive income, until such investments are derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

When a decline in fair value of an available-for-sale investment has been recognised in other comprehensive income and there is objective evidence that investment is impaired, the cumulative loss that had been recognised in other comprehensive income is removed from other comprehensive income and recognised in profit or loss even though the investment has not been derecognised.

Investments in equity instruments that do not have a quoted market price in an active market are recorded at management's best estimate of fair value. Those securities, for which the fair value cannot be reliably measured, are recorded at cost.

Loans receivable

Loans receivable are measured at amortised cost using the effective interest rate method. Interest income is recognised by applying the effective interest rate.

Trade and other receivables

Trade and other receivables are initially recorded at fair value and subsequently reduced by appropriate allowances for estimated irrecoverable amounts. Receivables with fixed maturities due in more than a year are measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance for impairment. When a trade receivable is considered uncollectible, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against the allowance. Changes in the carrying amount of the allowance are recognised in the consolidated statement of comprehensive income.

With the exception of available-for-sale equity instruments, 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 previously recognised impairment loss is reversed in profit or loss in the consolidated statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When a decline in fair value of an available-for-sale investment has been recognised in other comprehensive income and there is objective evidence that investment is impaired, the cumulative loss that had been recognised in other comprehensive income is removed from other comprehensive income and recognised in profit or loss in the consolidated statement of comprehensive income even though the investment has not been derecognised. Impairment losses for equity instruments previously recognised in profit or loss in the consolidated statement of comprehensive income are not reversed. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Non-derivative financial liabilities

The Group recognises financial liabilities in its consolidated statement of financial position when it becomes a party to a contractual obligation. Financial liabilities are initially measured at its fair value plus transaction costs that are directly attributable to the financial liability, except for financial liabilities classified as at fair value through profit or loss, which are initially measured at fair value.

After initial recognition financial liabilities are carried at amortised cost. The amortised cost of a financial liability is the amount at which the financial liability was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

Bank loans and other non-bank borrowings

All loans and borrowings are initially recorded at fair value, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost using the effective interest method. Finance charges, including premiums payable on settlement, are accounted for on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

Derivative financial instruments

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

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

Financial guarantee contracts

Financial guarantee contracts are measured initially as a liability at their fair values and are subsequently measured at the higher of the amount of the current obligation under the contract and the amount initially recognised less cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the period is recognised as an expense in the consolidated statement of comprehensive income.

Defined contribution plans

The Group's Russian subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund (a defined contribution plan financed on a pay-as-you-go basis). The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to consolidated statement of comprehensive income in the period to which they relate.

In the Russian Federation all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through an insurance contributions calculated by the application of a regressive rate from 26% to 0% of the annual gross remuneration of each employee. This rate depends on the annual gross remuneration of each employee.

The Group's obligations for contributions to other defined contribution plans are recognised as expense as incurred.

Defined benefit plans

The Group accounts for the cost of defined benefit plans using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated statement of comprehensive income, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. The Group's obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan by discounting the amounts of future benefits that employees have already earned through their service in the current and prior periods. The discount rate applied represents the yield on government bonds that have maturity dates approximating the terms of the Group's obligations. Actuarial gains and losses are fully recognised in other comprehensive income in the period they occur.

Restricted cash

Restricted cash represents legally restricted collateral deposited with various banks as margin for irrevocable letters of credit and is included in other long-term assets of the consolidated statement of financial position.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Site restoration provision

In accordance with applicable legal requirements, a provision for the site restoration in respect of open pit and shaft mining and related tax effect is recognised when the extraction takes place.

Dividends

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Segment information

Segment reporting is presented on the basis of management's perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports to the Group's chief operating decision maker ("CODM"). The Group has identified the General Director of the Parent Company as its CODM and the internal reports used by the top management team to oversee operations and make decisions on allocating the resources serve as the basis of information presented. These internal reports are prepared on the same basis as these consolidated financial statements.

Based on the current management structure, the Group has identified three reportable segments: steel (Russia), steel (Turkey) and coal mining.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. As a result of the volatility in the global and Russian financial markets, management's estimates may change and result in a significant impact on the Group. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgments, including those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

The most significant areas requiring the use of management estimates and assumptions relate to:

- trade and other receivables;
- inventory valuation;
- useful economic lives and residual values of property, plant and equipment;
- site restoration provision;
- impairment of assets; and
- taxation (current and deferred).

Trade and other receivables

Accounts receivable are stated at their net realisable value after deducting an allowance for doubtful accounts. The allowance for doubtful accounts is the Group’s best estimate of probable credit losses in the Group’s existing accounts receivable balances. In estimating the allowance, management considers a number of factors including current overall economic conditions, industry-specific economic conditions and historical and anticipated customer performance.

Uncertainties regarding changes in the financial condition of customers, either adverse or positive, could impact the amount and timing of any additional allowances for doubtful accounts that may be required.

Inventory valuation

At each date of the consolidated statement of financial position, the Group evaluates its inventory balance for excess quantities and obsolescence and determines an estimate for an allowance to reduce inventory for obsolete and slow-moving raw materials and spare parts. Any changes in the estimates may impact the amount of the allowances for inventory that may be required.

Useful economic life and residual value of property, plant and equipment

The Group’s property, plant and equipment, other than mining assets, are depreciated using the straight-line method over their estimated useful lives which are based on management’s business plans and operational estimates, related to those assets.

The factors that could affect the estimation of useful lives and residual values include the following:

- changes in asset utilisation rates;
- changes in maintenance technology;
- changes in regulations and legislation; and
- unforeseen operational issues.

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

Management periodically reviews the appropriateness of assets’ useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefits to the Group.

Depreciation of mining assets

The cost of mining structures is depreciated using the units of production method based on the estimated production volume for which the structure was designed. The management exercises their judgment in estimating the useful lives of the depreciable assets and the production volume of the mine. The estimated production volumes are updated on a regular basis and have taken into account recent production and technical information about each mine. These changes are considered a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation rates. Estimates of the production volume are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information.

Impairment of assets

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group estimates the recoverable amount of the asset. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

Taxation

The Group is subject to income tax and other taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation and of other countries, where the Group’s entities operate. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax inspection issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

In addition, the Group records deferred tax assets at each date of the consolidated statement of financial position based on the amount that management believes will be utilised in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in the write-off of deferred tax assets in future periods for assets that are currently recorded in the consolidated statement of financial position. In estimating levels of future profitability, the Group has considered historical results of operations in recent years and would, if necessary, consider the implementation of prudent and feasible tax planning strategies to generate future profitability. If future profitability is less than the amount that has been assumed in determining the deferred tax asset, then an increase in valuation allowance will be required, with a corresponding charge against income. On the other hand, if future profitability exceeds the level that has been assumed in calculating the deferred tax asset, the valuation allowance could be reduced, with a corresponding credit to income.

6. ACQUISITION OF NON-CONTROLLING INTEREST

During the year ended 31 December 2013 the Group acquired an additional 12.8% interest in OJSC Belon for USD 44 million (RUB 1,403 million), increasing its ownership from 82.6% to 95.4%. The carrying amount of Belon’s net assets excluding goodwill in the consolidated financial statements on the date of acquisition was USD 489 million. The Group recognised a decrease in non-controlling interests of USD 92 million and an increase in retained earnings of USD 48 million.

(In millions of U.S. Dollars, unless otherwise stated)

7. SALE OF SUBSIDIARIES

In August 2012 the Group has sold its stake in certain subsidiaries holding a license for the development of iron-ore field in Chelyabinsk region, for a consideration of USD 37 million.

Assets and liabilities disposed of were:

	Carrying amount of assets and liabilities disposed of
ASSETS	
Property, plant and equipment	36
Inventories	4
Trade and other receivables	11
	51
LIABILITIES	
Trade and other payables	11
Deferred tax liabilities	3
	14
Net assets disposed of	**37**
Net assets attributable to minority participants	(18)
Consideration received	37
Net assets attributable to shareholders, disposed of	(19)
Gain on disposal	**18**

The above gain on disposal in the amount of USD 18 million has been recorded in “Other operating income/(expenses), net” in the consolidated statement of comprehensive income (Note 13).

In October 2013 the Group has sold its stake in MMK Trading AG for USD 10.1 million (CHF 9 million), the result of disposal of the company is insignificant. USD 0.6 million (CHF 0.5 million) were paid in 2013, the payment of outstanding amount of USD 9.5 million (CHF 8.5 million) is subject to adjustments on the basis of the interim audited financial statement of MMK Trading AG as at 31 October 2013 which is expected to be signed in 2014.

8. REVENUE

By product	**2013**	**2012**
Hot rolled steel	3,229	4,292
Galvanised steel	979	805
Cold rolled steel	879	913
Long steel products	814	920
Galvanised steel with polymeric coating	707	698
Wire, sling, bracing	196	197
Hardware products	177	184
Tin plated steel	149	189
Coking production	144	166
Band	133	163
Formed section	114	190
Tubes	61	71
Coal	44	86
Scrap	32	18
Slabs	7	6
Others	525	430
Total	**8,190**	**9,328**

(In millions of U.S. Dollars, unless otherwise stated)

By customer destination	**2013**	**2012**
Russian Federation and the CIS	82%	75%
Middle East	11%	14%
Europe	5%	5%
Africa	1%	1%
North America	-	1%
Asia	1%	4%
Total	**100%**	**100%**

9. SEGMENT INFORMATION

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker ("CODM") in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

Based on the current management structure and internal reporting the Group has identified the following segments:

- *Steel segment (Russia)*, which includes Parent Company and its subsidiaries involved in production of steel, wire and hardware products. All significant assets, production and management and administrative facilities of this segment are located in the city of Magnitogorsk, the Russian Federation;
- *Steel segment (Turkey)*, which includes MMK Metalurji involved in production of steel. The two sites of this segment are located in Iskenderun and Istanbul (Turkey).
- *Coal mining segment*, which includes OJSC Belon and its subsidiaries ("Belon Group") involved in mining and refining of coal. All significant assets, production and management and administrative facilities of this segment are located in the city of Belovo, the Russian Federation.

The profitability of the three operating segments is primarily measured by CODM based on Segment EBITDA. Segment EBITDA is determined as segment's operating profit or loss adjusted to exclude depreciation and amortisation expense and loss on disposal of property, plant and equipment, and to include the share of result of associates, including the impairment of investments in associates. Since this term is not a standard measure in IFRS the Group's definition of EBITDA may differ from that of other companies.

Inter-segment pricing is determined on a consistent basis using market benchmarks.

The following table presents measures of segment results for the year ended 31 December 2013:

	Steel (Russia)		**Steel (Turkey)**		**Coal mining**		**Eliminations and other transactions**		**Total**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Revenue										
Sales to external customers	7,577	8,556	567	684	46	88	-	-	8,190	9,328
Inter-segment sales	167	97	69	94	295	381	(531)	(572)	-	-
Total revenue	**7,744**	**8,653**	**636**	**778**	**341**	**469**	**(531)**	**(572)**	**8,190**	**9,328**

(In millions of U.S. Dollars, unless otherwise stated)

	Steel (Russia)		Steel (Turkey)		Coal mining		Eliminations and other transactions		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Segment EBITDA	**1,019**	**1,350**	**25**	**(75)**	**48**	**86**	**131**	**2**	**1,223**	**1,363**
Depreciation and amortisation	(796)	(770)	(111)	(116)	(62)	(66)	-	-	(969)	(952)
Loss on disposal of property, plant and equipment	(70)	(114)	-	1	(9)	(5)	-	-	(79)	(118)
Share of results of associates	(1)	(20)	-	-	-	-	-	-	(1)	(20)
Operating profit per IFRS financial statements	**152**	**439**	**(86)**	**(190)**	**(23)**	**15**	**131**	**2**	**174**	**273**

A reconciliation from operating profit per IFRS financial statements to loss before taxation is included in the consolidated statement of comprehensive income.

At 31 December 2013 and 2012, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 December 2013				
	Steel (Russia)	**Steel (Turkey)**	**Coal mining**	**Eliminations**	**Total**
Total assets	12,810	1,332	593	(2,587)	12,148
Total liabilities	4,398	860	321	(292)	5,287

	31 December 2012				
	Steel (Russia)	**Steel (Turkey)**	**Coal mining**	**Eliminations**	**Total**
Total assets	15,343	1,935	931	(1,917)	16,292
Total liabilities	5,316	1,632	323	(799)	6,472

10. COST OF SALES

	2013	**2012**
Cost of production		
Raw materials used	4,811	5,604
Depreciation of property, plant and equipment	947	927
Payroll and social taxes	920	906
Other expenses	206	348
	6,884	7,785
Decrease in work in progress, finished goods and goods-in-transit	83	96
Total	**6,967**	**7,881**

11. GENERAL AND ADMINISTRATIVE EXPENSES

	2013	**2012**
Payroll and social taxes	262	282
Taxes other than income tax	122	126
Professional services	55	69
Depreciation and amortisation	21	24

(In millions of U.S. Dollars, unless otherwise stated)

	2013	2012
Insurance	19	20
Materials	9	10
Research and development costs	5	4
Other	31	33
Total	**524**	**568**

12. SELLING AND DISTRIBUTION EXPENSES

	2013	2012
Transportation expenses	514	463
Payroll and social taxes	16	14
Advertising expenses	6	9
Materials	17	15
Depreciation	1	1
Other	55	47
Total	**609**	**549**

13. OTHER OPERATING (INCOME)/EXPENSES, NET

	2013	2012
Loss on disposal of property, plant and equipment, net	79	118
Reversal of provision for doubtful debtors	(6)	(4)
Gain on disposal of associates (a)	(131)	-
Net gain on sale of trading securities	(3)	(2)
Net loss on trading securities revaluation	4	-
Dividends received from available-for-sale investments	(14)	(13)
Gain on sale of subsidiaries (Note 7)	-	(18)
Net gains on sale of other assets	(12)	(19)
Other operating gains, net	(1)	(5)
Total	**(84)**	**57**

(a) On 12 February 2013 the Group disposed of its investment in LLC MMK Trans. Final consideration was agreed in July 2013 based on certain ratios derived from the approved financial statements of LLC MMK Trans for the year ended 31 December 2012 prepared in accordance with IFRS and amounted to USD 131 million. As a part of this deal a five-year shipping contract between the parties to transport at least 70% of cargoes of the Group was signed.

14. OTHER EXPENSES

For the years ended 31 December 2013 and 2012, other expenses included USD 78 million and USD 79 million, respectively, related to mandatory and voluntary social programs and maintenance of social assets.

15. FINANCE COSTS

	2013	2012
Interest expense on borrowings and finance lease	181	218
Interest expense on provisions	6	6
Net gains on interest rate swaps	(6)	(1)
Total	**181**	**223**

(In millions of U.S. Dollars, unless otherwise stated)

16. INCOME TAX

The Group's provision for income taxes attributable to different tax jurisdictions for the years ended 31 December 2013 and 2012 was:

	2013	**2012**
Current provision for income tax	12	74
Adjustments recognised in current year relating to prior year current tax	3	(32)
Deferred income tax (income)/expense, net	(321)	(11)
Total income tax expense	(306)	31

Adjustments recognised in 2013 and 2012 relating to prior year current tax relate to deductibility estimates which subsequently changed following submission of the Parent Company's income tax returns for that year. An offsetting deferred tax charge was also recorded as a result of these adjustments.

The corporate income tax rates in other countries where the Group has a taxable presence vary from 10% to 20%.

The provision for income taxes is different from that which would be obtained by applying the Russian Federation statutory income tax rate to profit before income tax. The items causing this difference are as follows:

	2013	**2012**
Loss before income tax	(2,735)	(56)
Income tax provision computed at the Parent Company's statutory rate of 20%	(547)	(11)
Adjustments due to:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	-	1
Expenses not deductible and income not taxable for tax purposes	42	26
Adjustments of prior years deferred income tax expense	3	2
Change in unrecognized deferred tax assets	174	16
Effect of not taxable gain on disposal of associates	(26)	-
Impairment of goodwill	53	-
Other	(5)	(3)
Income tax expense	**(306)**	**31**

The movement in the Group's deferred tax position during the current and prior reporting period was as follows:

	31 December	
	2013	**2012**
Net deferred tax liability at the beginning of the year	**1,102**	**1,047**
Sale of subsidiaries	3	(3)
Issuance of ordinary shares from treasury shares (recorded in equity)	(18)	-
Deferred tax (income)/expense	(321)	(11)
Effect of translation to presentation currency	(86)	69
Net deferred tax liability at the end of the year	**680**	**1,102**

Deferred income tax assets and liabilities comprise differences arising between the tax and accounting bases of the following assets and liabilities:

	31 December	
	2013	**2012**

	31 December 2013	31 December 2012
Accounts receivable	4	7
Unused tax losses	86	139
Investment tax credits	54	64
Accounts payable	49	40
Property, plant and equipment	84	6
Investments	4	7
Inventories	8	9
Assets classified as held for sale	2	2
Set off of deferred taxation	(120)	(122)
Gross deferred income tax assets	171	152
Property, plant and equipment	(865)	(1,273)
Investments	(4)	(11)
Inventories	(39)	(47)
Accounts receivable	(46)	(30)
Loans	(7)	(15)
Accounts payable	(10)	-
Set off of deferred taxation	120	122
Gross deferred income tax liabilities	(851)	(1,254)
Net deferred income tax liabilities	**(680)**	**(1,102)**

Recognised tax losses expire in the following years:

Year of expiry	**31 December 2013**	**31 December 2012**
From 6 to 10 years	74	40
From 2 to 5 years	12	99
Up to 1 year	-	-
	86	**139**

At 31 December 2013 and 2012, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was USD 734 million and USD 909 million, respectively. No liabilities have been recognised in these consolidated financial statements in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductible, management of the Group believes it is more likely than not that Group will realise the benefits of the deductible differences.

Deferred tax assets of USD 174 million have not been recognised in 2013 (of which USD 72 million related to tax losses) because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. Tax losses expire in the following years:

Year of expiry	**2013**
From 6 to 10 years	26
From 2 to 5 years	46

(In millions of U.S. Dollars, unless otherwise stated)

Up to 1 year	-
	72

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Transportation equipment	Fixtures and fittings	Mining assets	Construction-in-progress	Total
Cost							
At 1 January 2012	**4,186**	**8,782**	**272**	**206**	**305**	**1,453**	**15,204**
Additions	5	193	10	4	-	390	602
Transfers	321	584	11	35	-	(951)	-
Disposals	(19)	(185)	(7)	(1)	-	(63)	(275)
Sale of subsidiaries (Note 7)	(40)	(23)	(4)	(1)	-	(10)	(78)
Effect of translation to presentation currency	220	484	16	10	18	74	822
At 31 December 2012	**4,673**	**9,835**	**298**	**253**	**323**	**893**	**16,275**
Additions	15	279	6	7	5	332	644
Transfers	164	197	9	11	(4)	(377)	-
Disposals	(12)	(214)	(10)	(2)	-	(12)	(250)
Reclassification to assets held for sale	(16)	(3)	(1)	-	(46)	(2)	(68)
Effect of translation to presentation currency	(295)	(648)	(19)	(19)	(22)	(62)	(1,065)
At 31 December 2013	**4,529**	**9,446**	**283**	**250**	**256**	**772**	**15,536**
Depreciation							
At 1 January 2012	**(765)**	**(2,419)**	**(119)**	**(71)**	**(38)**	**-**	**(3,412)**
Charge for the year	(149)	(741)	(28)	(18)	(20)	-	(956)
Impairment loss	-	-	-	-	(15)	(2)	(17)
Disposals	3	106	4	1	-	-	114
Sale of subsidiaries (Note 7)	23	16	2	1	-	-	42
Effect of translation to presentation currency	(48)	(152)	(7)	(5)	(3)	-	(215)
At 31 December 2012	**(936)**	**(3,190)**	**(148)**	**(92)**	**(76)**	**(2)**	**(4,444)**
Charge for the year	(152)	(754)	(26)	(27)	(17)	-	(976)
Impairment loss	(737)	(1,032)	(20)	(16)	(102)	(88)	(1,995)
Disposals	5	145	7	1	-	-	158
Reclassification to assets held for sale	1	2	1	-	10	-	14
Effect of translation to presentation currency	68	231	10	7	7	2	325
At 31 December 2013	**(1,751)**	**(4,598)**	**(176)**	**(127)**	**(178)**	**(88)**	**(6,918)**
Carrying amount							
At 31 December 2012	**3,737**	**6,645**	**150**	**161**	**247**	**891**	**11,831**
At 31 December 2013	**2,778**	**4,848**	**107**	**123**	**78**	**684**	**8,618**

For the years ended 31 December 2013 and 2012, the interest on borrowings of USD 4 million and USD 10 million, respectively, was capitalised to property, plant and equipment.

(In millions of U.S. Dollars, unless otherwise stated)

At 31 December 2013 and 2012, property, plant and equipment with a carrying amount of USD 761 million and USD 1,391 million, respectively, were pledged as security for certain long-term and short-term borrowings (Notes 26 and 30).

Capital commitments are disclosed in Note 34.

At 31 December 2013 and 2012, leased assets with a net carrying amount of USD 2 million and USD 13 million, respectively, were included in property, plant and equipment as follows:

	Gross carrying value	Accumulated depreciation	Net carrying value
Machinery and equipment	2	(1)	1
Construction-in-progress	1	-	1
Balance at 31 December 2013	**3**	**(1)**	**2**
Machinery and equipment	18	(7)	11
Construction-in-progress	2	-	2
Balance at 31 December 2012	**20**	**(7)**	**13**

Management identified specific assets that are no longer in use and therefore are not considered to be recoverable amounting to USD 148 million and USD 17 million at 31 December 2013 and 2012, respectively. Additionally impairment loss of USD 42 million was recognized on write-down of the assets classified as held for sale to fair value less cost to sell (Note 24).

At 31 December 2013, management analysed changes in the economic environment and developments in the metals industry and the Group's operations since 31 December 2011 and considered it necessary to carry out impairment tests for all significant cash-generating units of the Group. For the purpose of impairment testing, MMK groups its assets into three cash generating units, which are equivalent to the operating segments: Steel (Russia), Steel (Turkey) and Coal.

In performing the impairment test, the following specific assumptions were used for each cash generating unit:

Steel segment (Russia)

- cash flow projections were based on financial forecasts approved by management covering a five year period;
- forecast sales volume of steel increases by 8% in 2014, by 3% in 2015, by 1% in 2016 and remains stable at the level of sales in 2016;
- forecast steel sales prices decrease by 2% in 2014, and increase by 2% on average thereafter;
- forecast operating costs increase by 5% in 2014, by 5% in 2015 and by 2% on average thereafter;

The basic assumptions on post-forecast period:

- the growth rate in the post-forecast period is 2%;
- EBITDA margin equals to the average EBITDA margin for the period of 12 years (actual dynamic for the period of 7 years plus 5-year forecast period);
- a post-tax discount rate was estimated in USD terms based on the weighted average cost of capital basis and was 10.6%.

The estimates of future discounted cash flows and the results of the impairment test are particularly sensitive in the following areas:

- a 1% decrease in annual growth rate in the post-forecast period would lead to additional impairment losses of USD 497 million;
- a 1% increase in the discount rate would lead to additional impairment losses of USD 803 million;
- a 1% decrease in margin in the post-forecast period would lead to additional impairment loss of USD 552 million;
- a 10% decrease in future planned volume of sales (in monetary terms) would lead to additional impairment losses of USD 1,222 million.

Coal segment

- cash flow projections were based on financial forecasts approved by management covering a five year period. A terminal value was derived following the forecast period assuming a 2% annual growth rate;
- forecast sales volume of coal concentrate decreases by 3% on average in 2014-2015 and will increase by 21% on average in 2016-2018 as a result of longwall mining;
- forecast coal sales prices decrease by 2% in 2014 and increase by 4% on average thereafter;
- forecast operating costs increase by 9% in 2014 and will increase by 10% on average thereafter;
- a post-tax discount rate was estimated in USD terms based on the weighted average cost of capital basis and was 10.6%.

The estimates of future discounted cash flows and the results of the impairment test are particularly sensitive in the following areas:

- a 1% decrease in annual growth rate in the post-forecast period would lead to impairment losses of USD 72 million;
- a 1% increase in the discount rate would lead to additional impairment losses of USD 87 million;
- a 10% decrease in volume of sales (in monetary terms) would lead to additional impairment losses of USD 133 million.

Steel segment (Turkey)

- cash flow projections were based on financial forecasts approved by management covering a five year period;
- forecast sales volume of steel increases by 5% in 2014. In 2015 the hot-rolled mill is planned to commence operations leading to an expected sales volume increase of 2.3 times. In 2016 the forecast sales volume of steel is expected to increase by 14% and remain stable at the level of sales in the 2016 year and thereafter;
- steel sales prices are forecast to decrease by 1% in 2014, by 17% in 2015 and will change insignificantly in the future;
- forecast operating costs are expected to increase by 3% in 2014, by 75% in 2015, by 13% in 2016 and will change by 2% on average thereafter;

The basic assumptions on post-forecast period:

- the growth rate in the post-forecast period is 2%;
- capital investments are lower than amortization level by 20% in terminal period;

(In millions of U.S. Dollars, unless otherwise stated)

- a post-tax discount rate was estimated in USD terms based on the weighted average cost of capital basis and was 10.5%.

The estimates of future discounted cash flows and the results of the impairment test are particularly sensitive in the following areas:

- a 1% decrease in annual growth rate in the post-forecast period would lead to additional impairment losses of USD 51 million;
- a 1% increase in the discount rate in the post-forecast period would lead to additional impairment losses of USD 82 million;
- delay in commencement of operations of hot-rolling mill for one year would lead to additional impairment losses of USD 81 million;
- a 10% decrease in volume of sales (in monetary terns) would lead to additional impairment losses of USD 135 million.

Impairment losses recognized for each CGU are presented in the table below:

	Impairment of property, plant and equipment	**Impairment of goodwill**
Steel (Russia)	1,103	39
Steel (Turkey)	507	1
Coal mining	237	230
Total	**1,847**	**270**

18. GOODWILL

The change in the carrying value of goodwill for the years ended 31 December 2013 and 2012 was as follows:

	2013	**2012**
Balance at the beginning of the year	**290**	**274**
Impairment of goodwill (Note 17)	(270)	-
Effect of translation to presentation currency	(20)	16
Balance at the end of the year	**-**	**290**

The carrying amount of goodwill was allocated to cash-generating units as follows:

	31 December 2013	**31 December 2012**
Coal mining	-	247
Steel (Russia)	-	42
Steel (Turkey)	-	1
Total	**-**	**290**

The recoverable amounts of cash-generating units were determined based on value in use calculations. Specific assumptions used in the calculation and sensitivity of future discounted cash flows are disclosed in Note 17.

(In millions of U.S. Dollars, unless otherwise stated)

19. OTHER INTANGIBLE ASSETS

	Licenses	Purchased software	Other intangibles	Total
Cost				
At 1 January 2012	**35**	**21**	**20**	**76**
Additions	1	12	13	26
Disposals	-	(1)	-	(1)
Effect of translation to presentation currency	2	1	1	4
At 31 December 2012	**38**	**33**	**34**	**105**
Additions	1	5	3	9
Disposals	(2)	(1)	(2)	(5)
Effect of translation to presentation currency	(1)	(4)	(2)	(7)
At 31 December 2013	**36**	**33**	**33**	**102**
Amortisation				
At 1 January 2012	**(17)**	**(15)**	**(15)**	**(47)**
Charge for the year	(3)	(5)	(6)	(14)
Disposals	-	1	-	1
Effect of translation to presentation currency	(1)	-	(1)	(2)
At 31 December 2012	**(21)**	**(19)**	**(22)**	**(62)**
Charge for the year	(3)	(5)	(2)	(10)
Disposals	2	1	-	3
Effect of translation to presentation currency	2	1	3	6
At 31 December 2013	**(20)**	**(22)**	**(21)**	**(63)**
Carrying amount				
At 31 December 2012	**17**	**14**	**12**	**43**
At 31 December 2013	**16**	**11**	**12**	**39**

The estimated amortisation expense for each of the next five years and thereafter is as follows:

Year ended 31 December,	
2014	8
2015	5
2016	3
2017	3
Thereafter	20
Total	**39**

Actual amortisation expense to be reported in future periods could differ from these estimates as a result of new acquisitions, changes in useful lives, changes in technology and other relevant factors.

No impairment of other intangible assets was recognised in the years ended 31 December 2013 and 2012.

(In millions of U.S. Dollars, unless otherwise stated)

20. INVENTORIES

	31 December	
	2013	**2012**
Raw materials	809	908
Finished goods and goods for resale	364	488
Work-in-progress	206	203
Deferred drifting costs	124	100
Goods in transit	-	1
Total	**1,503**	**1,700**
Less: Allowance for obsolete and slow-moving items	(25)	(26)
Total inventories, net	**1,478**	**1,674**

The movement in the allowance for obsolete and slow-moving items was as follows:

	2013	**2012**
Balance at the beginning of the year	**26**	**40**
Change in allowance	2	(16)
Effect of translation to presentation currency	(3)	2
Balance at the end of the year	**25**	**26**

21. TRADE AND OTHER RECEIVABLES

	31 December	
	2013	**2012**
Trade receivables	549	652
Allowance for doubtful receivables	(42)	(92)
Trade receivables, net	507	560
Advances paid	39	50
Prepaid expenses	12	9
Other receivables	72	76
Total trade and other receivables, net	**630**	**695**

Guarantee letters received in relation to trade receivables that are neither past due nor impaired amounted to USD 124 million (31 December 2012: USD 113 million).

The ageing of receivables past due but not impaired was as follows:

	31 December	
	2013	**2012**
Less than 30 days	22	30
30-60 days	2	11
60-90 days	1	2
90-120 days	1	1
Over 120 days	9	7
Total	**35**	**51**

(In millions of U.S. Dollars, unless otherwise stated)

The management believes that receivables past due will be recovered in full. The movement in the allowance for doubtful trade receivables was as follows:

	31 December	
	2013	**2012**
Balance at the beginning of the year	**92**	**160**
(Decrease)/increase in allowance	(6)	(23)
Provision utilised	(4)	(49)
Effect from sale of subsidiaries	(38)	-
Effect of translation to presentation currency	(2)	4
Balance at the end of the year	**42**	**92**

22. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December	
	2013	**2012**
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	801	749
Unlisted securities	9	9
Held-to-maturity investments, at amortized cost		
Promissory notes receivable, bearing interest of 2.8%-5.5% per annum	-	112
Loans and receivables, at amortised cost		
Long-term loans	20	-
Total non-current	**830**	**870**
Current		
Held-to-maturity investments, at amortised cost		
Promissory notes receivable, bearing interest of 2.8% per annum	1	14
Financial assets, at fair value through profit or loss		
Trading equity securities	7	44
Trading debt securities	5	-
Share in mutual investment fund	4	4
Total current	**17**	**62**

Non-current listed equity securities classified as available-for-sale represent investments in equity securities of a foreign entity, where the Group has less than a 20% equity interest and no significant influence. At 31 December 2013 and 2012, the investments revaluation reserve resulting from unrealised holding gains and losses on these securities was USD 618 million and USD 596 million, respectively, net of related income tax effect of USD nil million, respectively.

Trading equity securities are liquid publicly traded shares of Russian companies. They are reflected at period-end market value based on trade prices obtained from investment brokers.

Trading debt securities and trading promissory notes are liquid publicly traded bonds and notes of Russian companies and banks. They are reflected at period-end market value based on trade prices obtained from investment brokers.

The net loss on revaluation of trading securities for the years ended 31 December 2013 and 2012 was USD 4 million and USD nil million, respectively. These results are included in other operating income/expenses in the consolidated statement of comprehensive income.

23. CASH AND CASH EQUIVALENTS

	31 December	
	2013	**2012**
Cash in banks, RUB	15	61
Cash in banks, EUR	5	15
Cash in banks, USD	36	37
Cash in banks, CHF	-	1
Cash in banks, TRY	-	1
Bank deposits, RUB bearing interest rate of 7.75% (31 December 2012: 8.22%)	15	231
Bank deposits, USD bearing interest rate of 0.25%-2.03% (31 December 2012: 0.25%-2%)	38	15
Bank deposits, TRY bearing interest rate of 0.25%-3.05%	4	-
Bank deposits, EUR bearing interest rate of 0.5% (31 December 2012:0.6%)	41	1
Total	**154**	**362**

24. ASSETS HELD FOR SALE

A part of non-current assets within the Coal mining segment is presented as a disposal group held for sale following the commitment of the Group's management to a plan to sell part of the non-core assets. Efforts to sell the disposal group have commenced and a sale is expected within a year. During 2013 the Group reclassified part of non-current assets within Coal mining segment to assets held for sale resulting in impairment loss on remeasurement of USD 42 million. Gain on disposal of the assets held for sale was immaterial. At 31 December 2013 and 2012 the disposal group comprised of construction-in-progress of USD 15 million and USD 16 million, respectively.

25. SHARE CAPITAL

Common stock

	31 December	
	2013	**2012**
Issued and fully paid common shares with a par value of RUB 1 each (in thousands)	11,174,330	11,174,330

Issued and net outstanding shares comprised the following:

Number of ordinary shares in thousands	**Issued**	**Treasury shares**	**Net outstanding**
Balance at 1 January 2012	11,174,330	(168,252)	11,006,078
Acquisition of treasury shares	-	(3,730)	(3,730)
Re-issuance of treasury shares	-	3,688	3,688
Balance at 31 December 2012	**11,174,330**	**(168,294)**	**11,006,036**
Acquisition of treasury shares	-	(44,225)	(44,225)
Re-issuance of treasury shares	-	201,821	201,821
Balance at 31 December 2013	**11,174,330**	**(10,698)**	**11,163,632**

(In millions of U.S. Dollars, unless otherwise stated)

Treasury stock

At 31 December 2013 and 2012, the Group held 10,698 thousand and 168,294 thousand, respectively, issued common shares of the Parent Company as treasury stock.

All treasury stock is recorded at cost.

Investments revaluation reserve

The investments revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the reporting date and is dealt with in accordance with the accounting policies set out in Note 4.

Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations and translation to presentation currency. The reserve is dealt with in accordance with the accounting policies set out in Note 4.

Shareholders' voting rights

The shareholders of fully paid common stock are entitled to one vote per share at the annual general shareholders' meeting of the Parent Company.

Dividends

On 29 December 2012, the Parent Company declared a final dividend of RUB 0.28 (USD 0.01) per ordinary share in respect of the nine months ended 30 September 2012 representing a total dividend of USD 103 million, of which USD 96 million was paid out in 2013. Of this total, USD 2 million was attributable to the Group's subsidiary.

During the year ended 31 December 2013 the Group did not declare dividends, except for USD 1 million attributable to the Group's subsidiary.

26. LONG-TERM BORROWINGS

	Type of Interest rate	Annual interest rate, actual at 31 December 2013	2012	31 December 2013	31 December 2012
Unsecured listed bonds, RUB	Fixed	9%	8%	287	621
Secured loans, USD	Floating	5%	6%	257	309
Secured loans, EUR	Fixed	6%	6%	275	317
Unsecured loans, USD	Floating	3%	2%	796	463
Unsecured loans, USD	Fixed	5%	5%	50	174
Unsecured loans, RUB	Fixed	8%	-	212	-
Unsecured loans, EUR	Fixed	4%	4%	1	4
Unsecured loans, EUR	Floating	2%	2%	285	348
				2,163	**2,236**

(In millions of U.S. Dollars, unless otherwise stated)

Bonds

In February 2012, the Parent Company of the Group issued RUB 5,000 million of bonds on the Moscow Interbank Stock Exchange (USD 167 million at the date of issuance), bearing a semi-annual coupon rate of 8.19 % per annum, repayable in February 2015. A 1.5 year offer (an option to require an early redemption of the bonds) is provided for the issue. This bonds issue is included in “Short-term borrowings and long-term portion of short-term borrowings” in the consolidated statement of financial position (Note 30).

In December 2012, the Parent Company of the Group issued RUB 5,000 million of bonds on the Moscow Interbank Stock Exchange (USD 162 million at the date of issuance), bearing a semi-annual coupon rate of 8.70 % per annum, repayable in December 2022.

In July 2013, the Parent Company of the Group issued RUB 5,000 million of bonds on the Moscow Interbank Stock Exchange (USD 155 million at the date of issuance), bearing a semi-annual coupon rate of 8.50 % per annum, repayable in July 2023. A 3 year offer is provided for the issue.

On 4 April 2013, MMK redeemed in full unsecured listed bonds with the principal amount of RUB 8,000 million (USD 255 million at the date of redemption of the bonds).

On 15 August 2013, MMK redeemed in full unsecured listed bonds with the principal amount of RUB 5,000 million (USD 151 million at the date of redemption of the bonds).

Loans

The company has various borrowing arrangements in RUB, USD and EUR denominations with various lenders. Those borrowings consist of unsecured and secured loans and credit facilities. At 31 December 2013 and 2012, the total unused element of all credit facilities was USD 1,819 million and USD 1,313 million, respectively.

The bank loans are subject to certain restrictive covenants, including, but not limited to:

- the ratio of consolidated debt to consolidated EBITDA should not exceed 3.5:1;
- the ratio of consolidated EBITDA to consolidated debt service should not be less than 1.3:1; and
- the ratio of consolidated debt to consolidated equity should not exceed 1:1.

At 31 December 2013 and 2012, the Group was in compliance with its debt covenants.

At 31 December 2013 and 2012, long-term loans were secured by the Group’s property, plant and equipment with a net carrying amount of USD 761 million and USD 1,377 million, respectively, and shares in a subsidiary with a carrying amount of net assets of USD 472 million and USD 303 million, respectively.

Debt repayment schedule

Year ended 31 December,	
2014 (presented as current portion of long-term borrowings, Note 30)	918
2015	868
2016	719
2017	355
2018 and thereafter	221
Total	**3,081**

(In millions of U.S. Dollars, unless otherwise stated)

27. SITE RESTORATION PROVISION

	31 December	
	2013	2012
Balance at the beginning of the year	**51**	**44**
Unwinding of discount rate	4	4
Change in estimates	5	-
Accrual of provision (a)	149	-
Disposal of subsidiaries	(13)	-
Effect of translation to presentation currency	(4)	3
Balance at the end of the year	**192**	**51**
Included in the consolidated statement of financial position as:		
Current portion of site restoration provision	11	-
Long-term portion of site restoration provision	181	51
Total	**192**	**51**

In the end of 2013, management of the Group approved long-term “Ecological program of the Group” covering period until 2022. An integral part of this program is a recultivation of land and open pits situated in Magnitogorsk. As a consequence the Group has recognized site restoration provision for Steel (Russia) segment in amount of USD 149 million. The expected costs of recultivation after consideration of discounting were included in Impairment losses and provision for site restoration line of consolidated statement of comprehensive income.

The expected costs of revegetation and closing mine shaft after consideration of discounting for provision recognized prior to 2013 were included in the cost of related classifications in property, plant and equipment.

In making the assumptions for the calculation of the expected costs management has consulted with its in-house engineers who have considered Government requirements in respect of similar sites that require similar site restoration activities. Because of the long-term nature of the liability, the greatest uncertainty in estimating the provision is the costs that will be incurred. In particular, the Group has assumed that the sites will be restored using technology and materials that are available currently.

28. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to USD 200 million and USD 181 million for the years ended 31 December 2013 and 2012, respectively.

Defined benefit plan

The Group has a defined benefit plan (the “Plan”) for employees who retired prior to 1 April 2001. Effective 1 April 2001, employees retiring after that date are not permitted to participate in this Plan. In addition some group companies have a defined benefit plan for employees who retired after 1 April 2001.

(In millions of U.S. Dollars, unless otherwise stated)

Pensions from these defined benefit plans are administered by the charity fund BOF Metallurg.

These plans do not hold any assets set aside for the benefit of retirees under these plans.

Entitled employees receive lifetime pension payments, which vary from RUB 400 (USD 12.58) to RUB 825 (USD 25.94) per month depending on the employee's years of service and qualifications.

For the years ended 31 December 2013 and 2012, the Group made monthly payments to the Plan of RUB 654 (USD 20.55) and 611 (USD 19.67), respectively, per fund member, which were then distributed to the individual members.

At 31 December 2013 and 2012, the principal actuarial assumptions used in determining the present value of benefit obligations and net periodic pension expenses were as follows:

	31 December	
	2013	**2012**
Discount rate	7.6%	6.6%
Future pension benefit increases	6.3%	6.5%
Average life expectancy of members from date of retirement	8.4	9.1

The components of the net periodic benefit costs for the years ended 31 December 2013 and 2012 were as follows:

	2013	**2012**
Interest cost	2	2
Actuarial (gains)/losses	(1)	7
Total	**1**	**9**

Actuarial (gains)/losses were recognised as part of other comprehensive income in the consolidated statement of comprehensive income.

Movements in the present value of benefit obligations are presented in the following table:

	2013	**2012**
Present value of benefit obligations at beginning of the year	**36**	**30**
Interest cost	2	2
Actuarial (gains)/losses	(1)	7
Benefit payments during the year	(4)	(4)
Effect of translation to presentation currency	(2)	1
Defined benefit obligations at end of the year	**31**	**36**
Included in the consolidated statement of financial position as:		
Current portion of retirement benefit obligations	4	4
Long-term portion of retirement benefit obligations	27	32
Total	**31**	**36**

(In millions of U.S. Dollars, unless otherwise stated)

The future benefit payments to retirees under the defined benefit plan are expected to be as follows:

Year ended 31 December,	
2014	4
2015	3
2016	3
2017	3
2018-2022	10
Thereafter	8
Total	**31**

29. TRADE AND OTHER PAYABLES

	31 December	
	2013	**2012**
Trade accounts payable	614	616
Advances from customers	185	302
Dividends payable	2	103
Other taxes payable	78	91
Salaries payable	102	117
Interest rate swaps (a)	7	13
Other current liabilities	49	18
Total	**1,037**	**1,260**

(a) The amount comprises the fair value of interest rate swaps utilized by one of the Group subsidiaries amounting to USD 182 million (31 December 2012: USD 182 million). The Company utilizes interest rate swap agreements to hedge changes in LIBOR rates on borrowings. The Company did not designate derivatives (interest rate swaps) as hedging instruments and therefore hedge accounting is not used. Gain on interest rate swaps of USD 6 million (gain of USD 1 million for the year ended 31 December 2012) has been recognized in finance costs in the consolidated statement of comprehensive income.

The maturity profile of the Group's trade and other payables was as follows:

	31 December	
	2012	**2012**
Due in:		
1 month or less	765	886
1-3 months	31	26
3 months to 1 year	49	33
Total	**845**	**945**

At 31 December 2013 and 2012, overdue accounts payable amounted to USD 127 million and USD 152 million respectively.

(In millions of U.S. Dollars, unless otherwise stated)

30. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	Type of Interest rate	Annual interest rate, actual at 31 December 2013	Annual interest rate, actual at 31 December 2012	31 December 2013	31 December 2012
Short-term borrowings:					
Secured loans, USD	Floating	2%	2%	23	62
Secured loans, EUR	Floating	1%	-	14	-
Unsecured loans, USD	Floating	2%	2%	55	50
Unsecured loans, RUB	Fixed	-	7%	-	109
				92	221
Current portion of long-term borrowings:					
Unsecured listed bonds, RUB	Fixed	8%	8%	495	487
Secured loans, USD	Floating	5%	5%	130	141
Unsecured loans, EUR	Floating	2%	2%	89	87
Secured loans, EUR	Fixed	6%	6%	74	74
Unsecured loans, USD	Floating	1%	2%	89	192
Unsecured loans, RUB	Fixed	8%	7%	18	329
Unsecured loans, USD	Fixed	5%	5%	20	96
Unsecured loans, EUR	Fixed	4%	4%	3	3
				918	1,409
Total				**1,010**	**1,630**

The weighted average interest rates of short-term borrowings at 31 December 2013 and 2012 were as follows:

	31 December 2013	31 December 2012
RUB-denominated	8%	8%
USD-denominated	3%	3%
EUR-denominated	3%	3%

At 31 December 2013 and 2012, short-term borrowings were secured by property, plant and equipment with a net carrying amount of USD nil million and USD 14 million, respectively, and at 31 December 2013 by inventories and/or trade receivables of USD 36 million.

Short-term borrowings and the current portion of long-term borrowings are repayable as follows:

	31 December 2013	31 December 2012
Due in:		
1 month	126	141
1-3 months	293	264
3 months to 1 year	591	1,225
Total	**1,010**	**1,630**

(In millions of U.S. Dollars, unless otherwise stated)

31. RELATED PARTIES

Transactions and balances outstanding with related parties

Transactions between the Parent Company and its subsidiaries, which are related parties of the Parent Company, have been eliminated on consolidation and are not disclosed in this note.

The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing agreements to and from the Group entities. Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

Details of transactions with and balances between the Group and related parties at 31 December 2013 and 2012 and for the years ended 31 December 2013 and 2012 are disclosed below.

a) Transactions with associates of the Group

	2013	2012
Purchases	188	224
Dividend income from associate	-	51

	31 December	
Balances outstanding	2013	2012
Accounts receivable	-	8
Accounts payable	4	16

b) Transactions with entities under common control

	2013	2012
Finance income	3	4
Redemption of promissory notes receivable	127	-
Interest received	8	-

	31 December	
Balances outstanding	2013	2012
Promissory notes receivable	-	126
Interest repayment	-	5

(In millions of U.S. Dollars, unless otherwise stated)

c) Transactions with other related parties

	2013	**2012**
Revenue	23	1
Purchases	28	190
Bank charges	3	3
Bank loans and overdrafts obtained	-	2
Bank loans and overdrafts repaid	-	2

	31 December	
Balances outstanding	**2013**	**2012**
Cash and cash equivalents	34	28
Accounts payable	-	5
Accounts receivable	14	-
Advances received	3	-

The amounts outstanding are unsecured and will be settled in cash.

Remuneration of the Group's key management personnel

Key management personnel of the Group receive only short-term employment benefits. For the years ended 31 December 2013 and 2012, key management personnel received as compensation USD 30 million and USD 31 million, respectively.

32. RISK MANAGEMENT ACTIVITIES

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk exposures, market movements in interest rates, equity investment prices and fluctuations in foreign exchange rates. A description of the Group's risks and associated management policies in relation to these risks are detailed below.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

(In millions of U.S. Dollars, unless otherwise stated)

Presented below is the maturity profile of the Group's borrowings (the maturity profiles for other liabilities are presented in Notes 26 and 30) based on contractual undiscounted payments, including interest:

2013	Weighted average effective interest rate %	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in the second to fifth years	Due thereafter
Fixed rate bank loans and borrowings							
Principal	7%	**1,448**	31	153	358	843	63
Interest		**210**	27	11	56	114	2
		1,658	**58**	**164**	**414**	**957**	**65**
Floating rate borrowings							
Principal	3%	**1,755**	57	125	180	1,340	53
Interest		**133**	11	10	30	80	2
		1,888	**68**	**135**	**210**	**1,420**	**55**
Total		**3,546**	**126**	**299**	**624**	**2,377**	**120**

2012	Weighted average effective interest rate %	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in the second to fifth years	Due thereafter
Fixed rate borrowings							
Principal	7%	**2,234**	30	118	871	1,094	121
Interest		**261**	23	21	82	127	8
		2,495	**53**	**139**	**953**	**1,221**	**129**
Floating rate borrowings							
Principal	3%	**1,665**	75	143	285	1,016	146
Interest		**123**	13	7	21	74	8
		1,788	**88**	**150**	**306**	**1,090**	**154**
Total		**4,283**	**141**	**289**	**1,259**	**2,311**	**283**

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents and deposits with banks as well as credit exposures to customers, including outstanding uncollateralised trade and other receivables.

Prior to acceptance of a new customer, the Group assesses the customer's credit quality and defines credit limits. Credit limits attributable to customers are regularly reviewed, at a minimum annually.

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets recorded in the financial statements, which is net of any amounts offset and any impairment losses, and the amount of financial guarantees for loans obtained by certain related and third parties of the Group.

(In millions of U.S. Dollars, unless otherwise stated)

At 31 December 2013 and 2012, the Group's maximum exposure to credit risk for trade receivables including trade receivables from related parties by type of customers was as follows:

	31 December	
	2013	**2012**
Automobile producers	34	41
Traders	52	108
Tube plants	131	163
Other industries	290	248
Total	**507**	**560**

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. Currently, the Group does not use hedging instruments to manage exchange rate exposures.

At 31 December 2013 and 2012, the carrying amounts of the Group's monetary assets and liabilities denominated in foreign currencies other than its functional currency, the Russian Rouble, were as follows:

	31 December 2013		31 December 2012	
	EUR	**USD**	**EUR**	**USD**
Assets				
Cash and cash equivalents	46	26	16	9
Loans given	-	20	-	558
Promissory notes receivable	-	-	55	70
Trade receivables	71	44	55	171
Total assets	**117**	**90**	**126**	**809**
Liabilities				
Trade payables	(66)	(24)	(71)	(102)
Borrowings	(741)	(1,010)	(833)	(974)
Total liabilities	**(807)**	**(1,034)**	**(904)**	**(1,076)**
Total net position	**(690)**	**(944)**	**(778)**	**(267)**

The table below details the Group's sensitivity to an appreciation of the RUB against USD and EUR by 10%, which management believes is an appropriate measure in the current market conditions and which would impact its operations.

	EUR impact		USD impact	
	2013	**2012**	**2013**	**2012**
Loss	(69)	(78)	(94)	(27)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments.

The table below details the Group's annualised sensitivity to change of floating rates (LIBOR, EURIBOR, Mosprime) by 1%, which management believes is an appropriate measure in the current market conditions and which would impact its operations. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the date of statement of financial position was outstanding for the whole annual period.

(In millions of U.S. Dollars, unless otherwise stated)

	31 December 2013	31 December 2012
Profit or loss	17	17

Equity and debt investment price risk

The Group is also exposed to investment price risk arising from holding equity and debt investments. Certain portion of the Group's investments is held for strategic, rather than trading, purposes. The sensitivity analysis below has been determined based on the exposure to equity and debt price risks at the reporting date.

If equity and debt prices had been 5% higher/lower:

- the investment revaluation reserve within equity would increase/decrease by USD 40 million (2012: increase/decrease by USD 37 million), as a result of changes in fair value of listed securities available-for-sale; and
- profit for the year would increase/decrease by USD 1 million (2012: increase/decrease by USD 2 million), as a result of changes in fair value of listed debt and equity securities classified as fair value through profit or loss.

33. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of debt and equity.

The capital structure of the Group consists of debt (Notes 26 and 30), share capital (Note 25) and retained earnings.

The management of the Group reviews the Group's capital structure on an annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on their recommendations, the Group balances its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

There were no significant changes in the Group's approach to capital management during the year ended 31 December 2013 in comparison to the prior period.

34. COMMITMENTS AND CONTINGENCIES

Commitments for expenditure

In the course of carrying out its operations and other activities the Group enters into various agreements which require the Group to invest in or provide financing to specific projects or undertakings.

In the opinion of the Group's management, these commitments are entered into under standard terms, which are representative of each project's feasibility and should not result in unreasonable losses to the Group.

At 31 December 2013, the Group executed purchase agreements of approximately USD 69 million to acquire property, plant and equipment in 2013 (at 31 December 2012 – USD 71 million).

(In millions of U.S. Dollars, unless otherwise stated)

At 31 December 2013, the Group executed purchase agreements of approximately USD 9,805 million to acquire in future periods through 2014 – 2022 coking coal, zinc, iron ore and natural gas (at 31 December 2012 – USD 10,428 million).

Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

In the past, the Group transferred social assets to local municipal authorities. The Group's management expects that the Group will continue to partly fund these social operations for the foreseeable future. These costs are recognised in the consolidated statement of comprehensive income as incurred (Note 14).

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group pays land tax based on the total area and the location of the land occupied. The amount of land tax for the years ended 31 December 2013 and 2012 was approximately USD 12 million and USD 12 million, respectively.

The Group leases land through operating lease agreements, which expire in various years through 2061. Future minimum lease payments due under non-cancellable operating lease agreements at 31 December 2012 were as follows:

	2013	2012
Due in one year	15	17
Due in the second year	10	11
Due thereafter	274	302
	299	**330**

Letters of guarantee

At 31 December 2013 and 2012, the letters of guarantee obtained from banks and given to suppliers and various government authorities amounted to USD 82 million and USD 41 million respectively.

At 31 December 2013, the letters of credit given amounted to USD 21 million (31 December 2012: USD 18 million).

Russian business environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in Russia and the Russian economy in general.

The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

Taxation contingencies in the Russian Federation

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

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

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

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

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

35. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realise in a current market exchange. The use of different assumptions and estimation methodologies may have a material impact on the estimated fair values.

Where it was available, management of the Group determined fair value of unlisted shares using a valuation technique that was supported by publicly available market information. In the absence of such information available-for-sale investments were presented at cost, net of impairment.

At 31 December 2013 and 2012, the estimated fair values of financial assets, including cash and cash equivalents, investments in securities, trade and other receivables, loans given and promissory notes, short-term borrowings, trade and other payables approximated their carrying values due to the short-term nature of these instruments.

The following table presents the carrying value of financial instruments measured at fair value at the end of reporting period across the three levels of the fair value hierarchy defined in IFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value management. The levels are defined as follows:

(In millions of U.S. Dollars, unless otherwise stated)

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

	Level 1	**Level 2**	**Level 3**	**Total**
31 December 2013				
Available for sale investments, listed equity securities	801	-	-	801
Available for sale investments, unlisted equity securities	-	-	9	9
Trading equity securities	7	-	-	7
Trading debt securities	5	-	-	5
Share in mutual investment fund	4	-	-	4
Total assets	**817**	**-**	**9**	**826**
Interest rate swaps	-	-	7	7
Total liabilities	**-**	**-**	**7**	**7**
31 December 2012				
Available for sale investments, listed equity securities	749	-	-	749
Available for sale investments, unlisted equity securities	-	-	9	9
Trading equity securities	44	-	-	44
Share in mutual investment fund	4	-	-	4
Total assets	**797**	**-**	**9**	**806**
Interest rate swaps	-	-	13	13
Total liabilities	**-**	**-**	**13**	**13**

The movement in the balance of Level 3 fair value measurements is as follows:

Derivative financial instruments:	**USD million**
At 1 January 2013	13
Changes in fair value estimation recognized during the year	(6)
Balance at 31 December 2013	**7**

At 31 December 2013, USD 764 million of listed bonds, placed in 2009, 2011 and 2012, had a fair value of 100.25% or USD 766 million. This fair value was determined based on Moscow Interbank Stock Exchange quotations and categorised as Level 1.

At 31 December 2012, USD 1,085 million of listed bonds, placed in 2009, 2011 and 2012, had a fair value of 99.49% or USD 1,079 million. This fair value was determined based on Moscow Interbank Stock Exchange quotations and categorised as Level 1.

At 31 December 2013 and 2012, fair value of unsecured long-term debt, denominated in USD, was USD 846 million and USD 637 million, respectively. This fair value was determined based on market rates available to the Group at respective date and categorised as Level 2.

36. EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

On 27 February 2014, MMK redeemed in full unsecured listed bonds with the principal amount of RUB 5,000 million (USD 140 million at the date of redemption of the bonds).

37. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2013 were approved by the Group's management and authorised for issue on 18 April 2014.