Metinvest B.V.

Abbreviated IFRS Consolidated Financial Statements

31 December 2011

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Independent auditor's report

To: the General Meeting of Shareholders of Metinvest B.V.

Introduction

We have audited whether the accompanying abbreviated financial statements 2011 of Metinvest B.V., The Hague have been derived consistently from the audited financial statements of Metinvest B.V. for the year 2011. In our auditor's report dated 14 May 2012 we expressed an unqualified opinion on these financial statements. Management is responsible for the preparation of the abbreviated financial statements in accordance with the accounting policies as applied in the 2011 financial statements of Metinvest B.V. Our responsibility is to express an opinion on these abbreviated financial statements.

Scope

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we plan and perform the audit to obtain reasonable assurance that the abbreviated financial statements have been derived consistently from the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these abbreviated financial statements have been derived consistently, in all material respects from the financial statements.

Emphasis of Matter

For a better understanding of the company's financial position and results and the scope of our audit, we emphasize that the abbreviated financial statements 2011 should be read in conjunction with the unabridged financial statements, from which the abbreviated financial statements 2011 were derived and our unqualified auditor's report thereon dated 14 May 2012. Our opinion is not qualified in respect of this matter.

Amsterdam, 14 May 2012
PricewaterhouseCoopers Accountants N.V.

Original signed by:
A.J. Brouwer RA

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Metinvest B.V.
Abbreviated Consolidated Balance Sheet
All amounts in millions of US dollars

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Goodwill	8	961	974
Other intangible assets	9	989	1,072
Property, plant and equipment	10	7,299	6,995
Investments in associates	11	276	109
Deferred tax asset	28	280	196
Other non-current assets	13	234	112
Total non-current assets		**10,039**	**9,458**
Current assets			
Inventories	14	2,137	1,624
Trade and other receivables	15	3,039	2,933
Cash and cash equivalents	16	792	449
Total current assets		**5,968**	**5,006**
Non-current assets held for sale	12	-	91
TOTAL ASSETS		**16,007**	**14,555**
EQUITY			
Share capital	17	-	-
Share premium	17	5,461	5,461
Other reserves	18	(3,818)	(3,527)
Retained earnings		6,673	5,140
Equity attributable to the owners of the Company		**8,316**	**7,074**
Non-controlling interest		**1,201**	**984**
TOTAL EQUITY		**9,517**	**8,058**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	19	2,614	1,464
Seller's notes	20	220	276
Retirement benefit obligations	21	537	579
Deferred tax liability	28	146	335
Other non-current liabilities	22	79	132
Total non-current liabilities		**3,596**	**2,786**
Current liabilities			
Loans and borrowings	19	1,057	1,332
Seller's notes	20	90	92
Trade and other payables	23	1,747	2,287
Total current liabilities		**2,894**	**3,711**
TOTAL LIABILITIES		**6,490**	**6,497**
TOTAL LIABILITIES AND EQUITY		**16,007**	**14,555**

Signed and authorized for release on behalf of Metinvest B.V. on 14 May 2012:

Originally signed by Igor Syry – Director B

Originally signed by Jaap Broers – Director A

Abbreviated Consolidated Income Statement

All amounts in millions of US dollars

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Revenue	7	14,189	9,358
Cost of sales	24	(9,873)	(6,372)
Gross profit		**4,316**	**2,986**
Distribution costs	24	(1,049)	(820)
General and administrative expenses	24	(395)	(285)
Impairment of goodwill	8	-	(675)
Other operating (expenses)/income, net	25	(171)	(263)
Operating profit		**2,701**	**943**
Finance income	26	78	45
Finance costs	27	(265)	(246)
Loss on derecognition of available-for-sale investments		-	(40)
Share of result of associates	11	(10)	5
Profit before income tax		**2,504**	**707**
Income tax expense	28	(650)	(270)
Profit for the year		**1,854**	**437**
Profit is attributable to:			
Owners of the Company		1,359	210
Non-controlling interests		495	227
Profit for the year		**1,854**	**437**

Abbreviated Consolidated Statement of Comprehensive Income

All amounts in millions of US dollars

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Profit for the year		1,854	437
Other comprehensive income			
Revaluation of available-for-sale investments		-	(54)
Revaluation of property plant and equipment	10	(2)	153
Reversal of deferred tax on revaluation due to changes in tax base on PPE (Note 3)	28	-	502
Currency translation differences		(60)	(55)
Share in other comprehensive income of associates	11	(33)	(26)
Realisation of reserve on revaluation of available-for-sale investments		-	40
Income tax relating to components of other comprehensive income	28	-	(29)
Total other comprehensive income		**(95)**	**531**
Total comprehensive income for the period		**1,759**	**968**
Total comprehensive income attributable to:			
Owners of the Company		1,270	653
Non-controlling interest		489	315
		1,759	**968**

	Note	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities			
Profit before income tax		**2,504**	**707**
Adjustments for:			
Depreciation of property, plant and equipment ("PPE") and amortisation of intangible assets	24	832	694
Loss on derecognition of available-for-sale investments		-	40
Impairment and devaluation of PPE	10	15	52
(Gain)/loss on disposal of property, plant and equipment		5	(5)
Goodwill impairment	8	-	675
Finance income	26	(78)	(45)
Finance costs	27	265	246
Unrealised foreign exchange differences		-	20
Net increase in retirement benefit obligation	21	(42)	46
Impairment of accounts receivable	25	39	11
Share of result of associates	11	10	(5)
Write-offs of inventory	14	36	32
Other non-cash operating (incomes)/losses		27	1
Operating cash flows before working capital changes		**3,613**	**2,469**
Decrease /(increase) in inventories		(557)	(490)
Decrease/(increase) in trade and other accounts receivable		77	(256)
Increase/(decrease) in trade and other accounts payable		(65)	(28)
Decrease in other non-current assets		15	8
Decrease in other non-current liabilities		(4)	(7)
Cash generated from operations		**3,079**	**1,696**
Income taxes paid		(915)	(538)
Interest paid		(220)	(123)
Net cash from operating activities		**1,944**	**1,035**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,071)	(582)
Proceeds from sale of property, plant and equipment		16	31
Acquisition of subsidiaries, net of cash acquired	6	-	(86)
Acquisition of available-for-sale investment in Ilyich I&SW	6	-	(64)
Payments for subsidiaries acquired in prior periods		(26)	-
Acquisition of interest in Zaporozhstal Group		(238)	-
Loans issued to related parties		(198)	(87)
Proceeds from repayments of loans issued		48	42
Interest received		13	6
Dividends received		2	-
Net cash used in investing activities		**(1,454)**	**(740)**
Cash flows from financing activities			
Proceeds from loans and borrowings		2,140	1,351
Repayment of loans and borrowings		(1,419)	(624)
Repayment of seller's notes		(89)	(151)
Net trade financing proceeds / (repayments)		157	148
Dividends paid		(937)	(685)
Acquisition of NCI in Ilyich Group	6	-	(45)
Net cash generated from/(used in) financing activities		**(148)**	**(6)**
Effect of exchange rate changes on cash and cash equivalents		1	1
Net increase/(decrease) in cash and cash equivalents		**343**	**290**
Cash and cash equivalents at the beginning of the year		**449**	**159**
Cash and cash equivalents at the end of the year	16	**792**	**449**

Metinvest B.V.
Abbreviated Consolidated Statement of Changes in Equity
All amounts in millions of US Dollars

In million of US Dollars	Attributable to owners of the Company					Non-controlling interest (NCI)	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2010	**-**	**4,172**	**(4,119)**	**5,592**	**5,645**	**1,327**	**6,972**
Share in other comprehensive income of associates	-	-	(22)	-	**(22)**	(4)	**(26)**
Revaluation of property, plant and equipment	-	-	150	-	**150**	3	**153**
Income tax relating to components of other comprehensive income	-	-	(29)	-	**(29)**	-	**(29)**
Changes in deferred tax due to changes in tax base of PP&E	-	-	408	-	**408**	94	**502**
Revaluation of available-for-sale investments	-	-	(54)	-	**(54)**	-	**(54)**
Realisation of reserve on revaluation of available-for-sale investments	-	-	40	-	**40**	-	**40**
Currency translation differences	-	-	(50)	-	**(50)**	(5)	**(55)**
Other comprehensive income for the period	**-**	**-**	**443**	-	**443**	**88**	**531**
Profit for the period				210	**210**	227	**437**
Total comprehensive income for the period	-	-	**443**	**210**	**653**	**315**	**968**
Realised revaluation reserve	-	-	(153)	153	**-**	-	**-**
Disposal of subsidiaries to SCM Cyprus	-	-	243	-	**243**	183	**426**
Acquisition of NCI in MetalUkr Holding from SCM Cyprus (Note 6)	-	-	59	-	**59**	(569)	**(510)**
Dividends declared by the Parent (Note 17)	-	-	-	(756)	**(756)**	-	**(756)**
Dividends declared by non wholly owned subsidiaries	-	-	-	-	**-**	(427)	**(427)**
Shares issued to sellers of Ilyich Group (Note 6)	-	1,289	-	-	**1,289**	-	**1,289**
Changes in NCI due to Ilyich Group acquisition (Note 6)	-	-	-	-	**-**	146	**146**
Acquisition of NCI in MMZ (Note 6)	-	-	-	(150)	**(150)**	145	**(5)**
Acquisition of NCI in Ilyich Group (Note 6)	-	-	-	91	**91**	(136)	**(45)**
Balance at 31 December 2010		**5,461**	**(3,527)**	**5,140**	**7,074**	**984**	**8,058**
Share in other comprehensive income of associates	-	-	(31)	-	**(31)**	(2)	**(33)**
Revaluation of property, plant and equipment	-	-	(2)	-	**(2)**	-	**(2)**
Income tax relating to components of other comprehensive income	-	-	-	-	**-**	-	**-**
Currency translation differences	-	-	(56)	-	**(56)**	(4)	**(60)**
Other comprehensive income for the period	**-**	**-**	**(89)**	**-**	**(89)**	**(6)**	**(95)**
Profit for the period	-	-	-	1,359	**1,359**	495	**1,854**
Total comprehensive income for the period	**-**	**-**	**(89)**	**1,359**	**1,270**	**489**	**1,759**
Realised revaluation reserve	-	-	(202)	202	**-**	-	**-**
Unwinding of discount on dividends	-	-	-	(28)	**(28)**	(3)	**(31)**
Dividends declared by non wholly owned subsidiaries	-	-	-	-	**-**	(269)	**(269)**
Balance at 31 December 2011	**-**	**5,461**	**(3,818)**	**6,673**	**8,316**	**1,201**	**9,517**

1 Metinvest B.V. and its operations

Metinvest B.V. (the "Company" or "Metinvest"), is a private limited liability company registered in the Netherlands. The Company is beneficially owned by Mr. Rinat Akhmetov, through various entities commonly referred to as System Capital Management ("SCM").

The Company and its subsidiaries (together referred to as the "Group" or "Metinvest Group") are an integrated steel producer, owning assets in each link of the production chain – from iron ore mining, coking coal mining and coke production, through to semi-finished and finished steel production; as well as pipe rolling and plate/coil production. The steel products, iron ore and coke are sold on both the Ukrainian and export markets.

Until November 2007, the Company was indirectly 100% controlled by SCM (System Capital Management) Limited ("SCM Cyprus").

In November 2007 the Company acquired from parties known as Smart Group ("SMART" or "Smart Group") 82% of JSC Inguletskiy Mining and Processing Works in exchange for the transfer to SMART of 25% of the of the Company. In the Shareholders' Agreement of 1 July 2007 SCM Cyprus and SMART negotiated and agreed that SMART would contribute their equity interest in JSC Makeyevka Steel Plant ("MMZ") and JSC Promet Steel. In exchange SMART would acquire veto rights over the management of the Company (the "Shareholders' Agreement"). Due to the complexity of the transaction, Promet Steel was acquired in 2009 and MMZ in October 2010. Both MMZ and Promet Steel have been consolidated from 1 January 2009. Following this transaction, Metinvest B.V. was owned 75% by SCM Cyprus and 25% by SMART. As part of the Shareholder Agreement, SCM Cyprus has agreed to sell/contribute remaining equity interests in certain subsidiaries owned by SCM as at 31 December 2007 and certain other equity investments to Metinvest B.V. As at 31 December 2011, SCM's carrying value of such assets totalled USD 754 million (31 December 2010: USD 569 million). As of the date of preparation of these financial statements, the Shareholders are undecided on the exact mechanism, and at which value of these assets will be brought into Metinvest B.V.

As discussed in Note 6, as part of the acquisition of Ilyich Group, the Company issued 5% of its share capital to the sellers of Ilyich Group.

As of 31 December 2011, Metinvest B.V. is owned 71.25% by SCM Cyprus and 23.75% by companies of the Smart Group, and 5% by a company linked to previous owners of Ilyich Group.

The principal subsidiaries of Metinvest B.V. are presented below:

Name	Effective interest as at 31 December 2011	Effective interest as at 31 December 2010	Segment	Country of incorporation
Metinvest Holding LLC	100.0%	100.0%	Corporate	Ukraine
MetalUkr Holding Limited	100.0%	100.0%	Corporate	Cyprus
PJSC Azovstal Iron and Steel Works	95.9%	95.9%	Steel	Ukraine
PJSC Yenakiieve Iron and Steel Works	90.6%	90.6%	Steel	Ukraine
JV Metalen LLC	100.0%	100.0%	Steel	Ukraine
PJSC Khartsyzsk Pipe Plant	97.6%	97.6%	Steel	Ukraine
Ferriera Valsider S.p.A.	70.0%	70.0%	Steel	Italy
Metinvest Trametal S.p.A.	100.0%	100.0%	Steel	Italy
Spartan UK Limited	100.0%	100.0%	Steel	UK
Metinvest International SA	100.0%	100.0%	Steel	Switzerland
Metinvest Eurasia LLC	99.0%	99.0%	Steel	Russia
Metinvest Service Metal Centres LLC	100.0%	100.0%	Steel	Ukraine
Metinvest Ukraine LLC	100.0%	100.0%	Steel	Ukraine
JSC Promet Steel	95.3%	95.3%	Steel	Bulgaria
PJSC Makiivka Iron and Steel Works	90.2%	90.2%	Steel	Ukraine
PJSC Ilyich Iron and Steel Works	99.1%	99.1%	Steel	Ukraine
PSC Ilyich Steel	100.0%	100.0%	Steel	Ukraine
PJSC Northern Iron Ore Enrichment Works	63.3%	63.3%	Iron ore	Ukraine
PJSC Central Iron Ore Enrichment Works	76.0%	76.0%	Iron ore	Ukraine
PJSC Ingulets Iron Ore Enrichment Works	82.5%	82.5%	Iron ore	Ukraine
OSC Komsomolske Flux Plant	99.7%	99.7%	Iron ore	Ukraine
United Coal Company LLC	100.0%	100.0%	Coke and coal	USA
PJSC Avdiivka Coke Plant	91.7%	91.7%	Coke and coal	Ukraine
PJSC Krasnodon Coal Company	91.6%	91.6%	Coke and coal	Ukraine

1 Metinvest B.V. and its operations (continued)

As at 31 December 2011, the Group employed approximately 108 thousand people (31 December 2010: 117 thousand).

The Company's registered address is Alexanderstraat 23, 2514 JM, The Hague. The company is registered with the commercial trade register under the number 24321697. The principal places of production facilities of the Group are in Ukraine, Italy, UK and USA.

The consolidated financial statements of Metinvest B.V. for the year ended 31 December 2011 were authorised for issue in accordance with a resolution of the Board of Directors on 14 May 2012.

For better understanding of Metinvest's financial position and the results of operations, these abbreviated financial statements should be read in conjunction with the Metinvest's audited financial statements as of and for the year ended 31 December 2011, which include all disclosures required by Dutch legislation.

The complete set of financial statements togerther with the auditor's report is available on request at Alexanderstraat 23, 2514 JM, The Hague.

2 Operating environment of the Group

The Group is one of the largest mining and steel companies globally and is the largest steel producer in Ukraine. Its major subsidiaries are located in Ukraine, the European Union and the USA.

Ukraine, whose economy is considered to be developing and characterised by relatively high economic and political risks, continues to implement economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Ukrainian economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by government, together with tax, legal, regulatory, and political developments. The developing economies are vulnerable to market downturns and economic slowdowns elsewhere in the world.

Metinvest's financial performance is largely dependent on the global price of and demand for steel and steel products, iron ore and coal. The prices of steel products are influenced by many factors, including global economic conditions, demand, worldwide production capacity, capacity utilisation rates, raw material costs, foreign exchange rates and improvements in steel making processes. In recent years steel prices have experienced significant fluctuations and, until May 2010, had been gradually increasing since the second half of 2009 after a rapid decrease in the third quarter of 2008. Since May 2010, steel prices experienced a period of decrease, but started to rise again towards the end 2010.

As the world economy began to recover from the global recession in 2009 and 2010, prices for steel products fluctuated to a greater degree than prices for raw materials, due to the lower level of consolidation and lower capacity utilisation as compared to raw material markets.

Until March 2010 worldwide prices for iron ore were set based on a benchmark price determined in part based on the outcome of annual negotiations between the world's largest steel manufacturers and the world's largest iron ore mining companies. In March 2010, this benchmark system was replaced with a new system involving quarterly contracts with pricing linked to the spot market. The new system uses quarterly rather than annual contracts and the price of iron ore is set against an average determined by the spot market instead of being based on negotiations. The new pricing system has a significant effect on the volatility of prices for iron ore.

In the fourth quarter 2011, generally positive trends in development of steel and iron ore markets changed resulting in decrease in prices for steel products and iron ore.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

3 Basis of preparation and significant accounting policies

Basis of preparation and statement of compliance. These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union. The consolidated financial statements have been prepared under the historical cost convention unless stated otherwise. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5).

These consolidated financial statements are presented in millions of US dollars and all values are rounded off to the nearest million except where otherwise indicated.

Critical accounting estimates and judgements in applying accounting policies. The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the IFRS consolidated financial statements are disclosed in Note 4.

Principles of consolidation. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise have power to govern the financial and operating policies so as to obtain economic benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. Where a business combination is achieved in stages, the previously held interest in an acquired business is included into the cost of business combination at fair value as of the acquisition date.

Costs directly related to acquisition of subsidiaries are recognised in the consolidated income statement in the period when incurred and the services are received.

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

Non-controlling interest ("NCI") is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company.

Non-controlling interest forms a separate component of equity, except for non-controlling interest in subsidiaries registered in the form of limited liability companies.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted under the predecessor values method. Under this method the financial statements of the entity are presented as if the businesses had been consolidated from the beginning of the earliest period presented (or the date that the entities were first under common control, if later). The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's book values. The difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to equity. This is recorded as a separate reserve. No additional goodwill is created by such purchases.

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

3 Basis of preparation and significant accounting policies (continued)

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

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

Any excess of the fair value of the Group’s share in the acquired associate’s net assets (”negative goodwill”) is recognised immediately in the consolidated income statement.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Group that makes strategic decisions.

Foreign currency translation. The currency of each of consolidated entity is the currency of the primary economic environment in which the entity operates. The functional currency for the majority of the consolidated entities is either Ukrainian hryvnia (“UAH”) or US dollar (“USD”).

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at year-end official exchange rates are recognised in the consolidated income statement.

Monetary assets and liabilities are translated into functional currency at the official exchange rate at the respective balance sheet dates. Translation at year end does not apply to non-monetary items including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

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

Translation from functional to presentation currency. The Group has selected the US dollar (“USD”) as the presentation currency. The USD has been selected as the presentation currency for the Group as: (a) management of the Group manages business risks and exposures, and measures the performance of its businesses in the USD; (b) the USD is widely used as a presentation currency of companies engaged primarily in metallurgy; and (c) the USD is the most convenient presentation currency for non-Ukrainian users of these IFRS consolidated financial statements.

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

(i) assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity. All the components of consolidated equity at each balance sheet date are translated at the closing rate, except for retained earnings, which is stated at historical rates. The balancing figure goes to cumulative currency translation reserve in other reserves in equity.

3 Basis of preparation and significant accounting policies (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and at each balance sheet date are translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the currency translation differences deferred in equity are reclassified to the consolidated income statement.

The principal rate of exchange used for translating foreign currency balances is as follows:

	31 December 2011	31 December 2010
USD/UAH	7.990	7.962
EUR/UAH	10.298	10.573

Exchange restrictions in Ukraine are limited to compulsory receipt of foreign accounts receivable within 180 days of sales. Foreign currency can be easily converted at a rate close to the National Bank of Ukraine rate. At present, the UAH is not a freely convertible currency outside of Ukraine.

Property, plant and equipment. Property, plant and equipment is stated using the revaluation model. Fair values are based on valuations by external independent valuers. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Subsequent additions to property plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. As at 31 December 2011 and 31 December 2010, property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment, if required.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the other reserves in equity. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Decreases that offset previous increases in the carrying amount of the same asset decrease the previously recognised revaluation reserve through other comprehensive income; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the consolidated income statement as an expense when incurred.

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated income statement.

Depreciation is charged to the consolidated income statement on a straight-line basis to allocate costs or revalued amounts of individual assets to their residual value over the estimated remaining useful lives. Depreciation commences at the moment when assets is put into use. The estimated remaining useful lives are as follows:

	Remaining useful lives in years
Buildings and structures	from 2 to 60
Plant and machinery	from 2 to 35
Furniture, fittings and equipment	from 2 to 10

Estimates of remaining useful lives are made on a regular basis for all buildings, plant and machinery, with annual reassessments. Changes in estimates are accounted for prospectively.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the assets were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents prepayments for property, plant and equipment, and the cost of property, plant and equipment, construction of which has not yet been completed. No depreciation is charged on such assets until they are put into use.

The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

3 Basis of preparation and significant accounting policies (continued)

Asset retirement obligations. According to the Code on Mineral Resources, Land Code of Ukraine, Mining Law, Law on Protection of Land and other legislative documents, the Group is responsible for site restoration and soil rehabilitation upon abandoning its mines. Estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of an item of property, plant and equipment when the item is acquired. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate are recognised in the income statement or other reserves in equity to the extent of any revaluation balance existence in respect of the related asset. Provisions in respect of abandonment and site restoration are evaluated and re-estimated annually, and are included in these consolidated financial statements at each balance sheet date at their expected net present value, using discount rates which reflect the economic environment in which the Group operates and are specific to a liability.

Goodwill. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. It is carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business to which the goodwill arose.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, licences, coal reserves and long-term sales contracts. Acquired computer software and other licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Other intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell. Licences and coal reserves are amortised using the units-of-production method over all estimated proven and probable reserve assigned to the mines. Proven and probable reserves exclude non-recoverable coal and ore reserves and estimated processing losses. Amortization rates are updated when revisions to coal reserve estimates are made. Coal reserve estimates are reviewed when events and circumstances indicate a reserve change is needed. Long-term sales contracts are amortised using a units-of-production method, based on fulfilment of the contract.

Impairment of non-financial assets. Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash generating unit). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Classification of financial assets. The Group classifies financial assets into the following measurement categories: loans and receivables and available-for-sale financial instruments.

Loans and receivables are financial receivables created by the Group by providing money, goods or services directly to a debtor, other than those receivables which are created with the intention to be sold immediately or in the short term or which are quoted in an active market. Loans and receivables comprise primarily loans, trade and other accounts receivable including purchased loans and promissory notes. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

All other financial assets are included in the available-for-sale category.

Initial recognition of financial instruments. The Group's principal financial instruments comprise available-for-sale investments, loans and borrowings, cash and cash equivalents and short-term deposits. The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations.

The Group's financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price, except for the transactions with related parties which are based on contract value. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost and recognised in equity for assets classified as available-for-sale.

3 Basis of preparation and significant accounting policies (continued)

Subsequent measurement of financial instruments. Subsequent to initial recognition, the Group's financial liabilities and loans and receivables are measured at amortised cost. Amortised cost is calculated using the effective interest rate method and, for financial assets, it is determined net of any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised in other comprehensive income and accumulated in equity. In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the balance sheet date.

When available-for-sale assets are sold or otherwise disposed of, the cumulative gain or loss recognised in equity is included in the determination of net profit. When a decline in fair value of available-for-sale assets has been recognised in other comprehensive income and there is objective evidence that the assets are impaired, the loss recognised in equity is removed and included in the determination of net profit, even though the assets have not been derecognised.

Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in the consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the consolidated entity's right to receive payment is established and inflow of economic benefits is probable.

Impairment losses are recognised in the consolidated income statement when incurred as a result of one or more events that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an instrument below its cost is an indicator that it is impaired. The cumulative impairment loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement, is removed from equity and recognised in the consolidated income statement. Impairment losses on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through current period's consolidated income statement.

Derecognition of financial assets. Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The income tax charge is recognised in the consolidated income statement except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

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

3 Basis of preparation and significant accounting policies (continued)

Deferred income tax is provided on post acquisition retained earnings and other post-acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

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

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered to be indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement against other operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement against other operating expenses.

Renegotiated trade and other receivables are measured at amortised cost based on the new pattern of renegotiated cash flows. A gain or loss is recognised in the consolidated income statement on the date of renegotiation, which is subsequently amortised using the effective interest method. If the terms of a receivable are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are charged to the income statement when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the income statement.

Promissory notes. A portion of sales and purchases is settled by promissory notes or bills of exchange, which are negotiable debt instruments.

Sales and purchases settled by promissory notes are recognised based on the management's estimate of the fair value to be received or given up in such settlements. The fair value is determined with reference to observable market information.

Long-term promissory notes are issued by the Group as payment instruments, which carry a fixed date of repayment and which the supplier can sell in the over-the-counter secondary market. Promissory notes issued by the Group are carried at amortised cost using the effective interest method.

The Group also accepts promissory notes from the customers (both issued by customers and third parties) as settlement of accounts receivable. Promissory notes issued by customers or issued by third parties are carried at amortised cost using the effective interest method. A provision for impairment of promissory notes is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets. Cash and cash equivalents are carried at amortised cost using effective interest rate method.

Share capital. Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

3 Basis of preparation and significant accounting policies (continued)

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue. If settlement of a dividend liability exceeds twelve months from the balance sheet date it is included within long-term liabilities and measured at the present value of the future cash flows required to settle the liability using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The effect of initial discounting and subsequent accretion of the discount is recognised directly in equity.

Loans and borrowings. Loans and borrowings are recognised initially at fair value, net of transaction costs incurred and subsequently carried at amortised cost using the effective interest method.

Liabilities under moratorium. Liabilities under moratorium are carried at amortised cost using the effective interest method.

Government grants. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the consolidated income statement on a straight line basis over the expected lives of the related assets. Government grants relating to an expense item are recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments. Subsequently, instruments with a fixed maturity are re-measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Prepayments received. Prepayments are carried at amounts originally received, net of VAT.

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

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

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

Contingent assets and liabilities. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Employee benefits. Defined Contributions Plan. The Group makes statutory contributions to the Social Insurance Fund, Pension Fund and Insurance against Unemployment Fund of Ukraine in respect of its employees. The contributions are calculated as a percentage of current gross salary, and are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the consolidated income statement.

Employee benefits. Defined Benefit Plan. Certain entities within the Group participate in a mandatory State defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date, less adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

3 Basis of preparation and significant accounting policies (continued)

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods, by-products and merchandise

The Group manufactures and sells a range of steel products to large, medium and small size customers. By-products and merchandise are sold to the same range of customers. Revenues from sales of goods, by-products and merchandise are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. The Group uses standardised INCOTERMS such as cost-and-freight (CFR), free-carrier (FCA), cost-insurance-freight (CIF), free-on-board (FOB) and ex-works (EXW) which define the point of risks and rewards transfer. Revenue is recorded on an accrual basis as earned.

Sales are recorded based on the price indicated in the specifications to the sales contracts. The sales price is established separately for each specification.

The Group also engages in sale and purchase transactions the objective of which is to manage cash flows. Such transactions are not revenue generating to the Group and accordingly such sales and purchases are presented on a net basis with any gain or loss presented in other operating income/(expenses). Accounts receivable and payable from such transactions are presented gross.

(b) Interest income

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

(c) Sale of services

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

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

(e) Commission income

The Group acts as an agent for sales transactions on behalf of the third parties. The commission income received by the Group as a fee for facilitating such transactions is recognised at the point of transfer of risks and rewards of ownership of the goods to the customers of the third parties. Such income is reported as part of other operating income.

Value added tax. VAT in Ukraine where the majority of the Group operations are concentrated is levied at two rates: 20% on domestic sales and imports of goods, works and services and 0% on export of goods. Export of services is exempt from VAT. A taxpayer's VAT liability equals the total amount of VAT collected within a reporting period, and for domestic operations arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer; for export operations arises on the date of customs clearance of exported goods. A VAT credit is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. For domestic and export operations rights to VAT credit arise when a VAT invoice is received, which is issued on the earlier of the date of payment to the supplier or the date goods are received. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. VAT assets recoverable in cash from the State are included into Group's assets. All other VAT assets and liabilities are netted only within the individual companies of the Group.

3 Basis of preparation and significant accounting policies (continued)

Recognition of expenses. Expenses are accounted for on an accrual basis. Cost of goods sold comprises the purchase price, transportation costs, commissions relating to supply agreements and other related expenses.

Finance income and costs. Finance income and costs comprise interest expense on borrowings, losses on early repayment of loans, interest income on funds invested, income on origination of financial instruments and foreign exchange gains and losses.

All interest and other costs incurred in connection with borrowings are expensed using the effective interest rate method if not capitalised. Interest income is recognised as it accrues, taking into account the effective yield on the asset.

Measurement period adjustments. Certain adjustments have been made to prior year balances in the consolidated statement of financial position and notes to consolidated financial statements to reflect the changes in provisional fair value of assets and liabilities of Ilyich Group acquired in 2010 (Note 6).

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform to changes in the presentation in the current year.

Change of classification of impairment of trade and other receivables. In 2011 management has changed the classification of impairment of trade and other receivables. This change resulted in decrease of general and administrative expenses in 2010 by USD 11 million and the respective increase in other operating expenses.

4 Critical accounting estimates and judgements in applying accounting policies

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

Impairment of property, plant and equipment and goodwill. The Group and its subsidiaries are required to perform impairment tests for their cash-generating units when there is indication that a cash-generating units may be impaired. One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. For many of the Group's identified cash-generating units a significant proportion of their output is input to another cash-generating unit. Therefore judgement is needed in determining a cash-generating unit.

Annually the Group assesses whether goodwill is impaired. This requires estimation of the value in use / fair value less costs to sell of the cash-generating units or groups of cash-generating units to which goodwill is allocated. Allocation of goodwill to groups of cash generating units requires significant judgement related to expected synergies. Estimating value in use / fair value less costs to sell requires the Group to make an estimate of expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The recoverable amounts of goodwill and cash-generating units were estimated based on the fair value less costs to sell. Additional information is disclosed in Note 8.

Impairment of trade and other accounts receivable. Management estimates the likelihood of the collection of trade and other accounts receivable based on an analysis of individual accounts. IAS 39 requires the estimate of an impairment loss which is computed as the difference between the carrying value of a receivable and the present value of the future cash flows discounted at the receivables effective interest rate. Factors taken into consideration when estimating the future cash flow include an ageing analysis of trade and other accounts receivable in comparison with the credit terms allowed to customers, and the financial position of and collection history with the customer. In the current environment there is significant judgement in estimating the expected payment date, the discount rate and whether penalty interest will be collected. Should actual collections be less than management's estimates, the Group would be required to record an additional impairment expense.

Disposal of subsidiaries and associates. As discussed in Note 1, the Group restructuring as part of the Shareholder Agreement between SCM Cyprus and SMART is still ongoing. During the year ended 31 December 2010, the Group sold a number of its subsidiaries and associates to SCM Cyprus resulting in a gain of USD 426 million, which has been recognised directly in equity. Significant judgement is applied in assessment of economic substance of these transactions, the fair value of these interests and resulting recognition of gain or loss either in equity or income statement.

Ilyich Iron and Steel Works and Ilyich-Steel ("Ilyich Group"). As discussed in detail in Note 6, during 2010 the Group acquired a 99% effective interest in Ilyich I&SW. In June 2011 Metinvest B.V. issued new 474 class B shares of Metinvest B.V. which constitute 5% of its share capital to the Sellers of Ilyich Group. This additional share issuance constitutes the subsequent and final arrangement between the parties. In accordance with IFRS 3, this share issue was given retrospective treatment in the accompanying consolidated financial statements and accordingly recorded as if such shares had been issued in 2010.

Since Metinvest B.V. is not a publicly traded entity, the share issue has been recorded at the fair value of the acquired business of Ilyich Group totalling USD 1,289 million (2010: based on preliminary estimate of USD 1,432 million) within share premium in the statement of changes in equity.

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the long term strategy prepared by management. The strategy is based on management expectations that are believed to be reasonable under the circumstances and are disclosed in Note 8.

Post-employment and other employee benefit obligations. Management assesses post-employment and other employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions, the likelihood of employees transferring from State funded pension employment to Group funded pension employment could all have a significant impact on the pension obligation.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

4 Critical accounting estimates and judgements in applying accounting policies (continued)

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on the current market conditions. Additional information is disclosed in Note 21.

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (Note 30).

Related party transactions. In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market terms, where there is no active market for such transactions. Financial instruments are recorded at origination at fair value using the effective interest method. The Group's accounting policy is to record gains and losses on related party transactions, other than business combination or equity investments, in the income statement. The basis for judgement is pricing for similar types of transactions with unrelated parties and an effective interest rate analysis.

Fair valuation of property, plant and equipment. Management believes that as of 31 December 2011, the fair value of property, plant and equipment does not differ significantly from its carrying value based on low level of inflation in Ukraine and low volatility of USD/UAH exchange rate in 2011. Consequently no valuation of property, plant and equipment was performed as of 31 December 2011.

Remaining useful lives of property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the technical requirements. Management will increase the depreciation charge where useful lives are less than previously estimated lives.

Functional currency. Judgement was applied in determining the functional currency of Metinvest B.V., which is a holding company for operations of the Group in Ukraine, Italy, United States of America and other countries. The functional currency of Metinvest B.V. was determined on the basis that (i) in management's opinion Metinvest B.V. is not an extension of and is not integral to the Ukrainian operations; (ii) the primary economic exposures are to a number of countries; and (iii) Metinvest B.V. retains cash and obtains financing in US Dollars. Management therefore determined the US Dollar as the functional currency of Metinvest B.V. Should a different functional currency be determined, additional translation gains/losses would arise on loans and other payables with no significant effect on total equity reported. Amount of loans and other payables of Metinvest B.V totalled USD 3,306 million as at 31 December 2011 (31 December 2010: USD 3,508 million).

5 Adoption of new or revised standards and interpretations

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial periods beginning on or after 1 January 2011:

- Amendment to IAS 24, Related Party Disclosures. IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.
- Improvements to International Financial Reporting Standards (issued in May 2010 and effective from 1 January 2011).

These new standards, amendments to standards or interpretations did not have any significant effect on the Group's consolidated financial information.

The following new standards and amendments to standards which are relevant to the Group's consolidated financial statements have been issued, but are not effective for the financial periods beginning on or after 1 January 2011 and have not been early adopted by the Group:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, further amended in October 2010 and effective for annual periods beginning on or after 1 January 2015).
- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amended IAS 28, Investments in Associates and Joint Ventures (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012).
- Amended IAS 19, Employee Benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013).

The Group is currently assessing the impact of the amended standard on its financial statements.

6 Business combinations

Acquisitions during 2010

Acquisitions during 2010 – Ilyich Group

During 2010, Metinvest acquired a 99% effective interest in the share capital of Ilyich I&SW (through a direct holding of 74.6% of the share capital of Ilyich I&SW and an indirect holding through its 100% shareholding of Ilyich-Steel, which held a 24.49% interest in Ilyich I&SW). The acquisition was implemented through the following steps:

• On 18 June 2010, Metinvest and Ilyich I&SW and Ilyich-Steel entered into an investment agreement which required Metinvest to fund Ilyich I&SW's investment program up to USD 2 billion over the next five years, subject to further agreement on the precise nature and timing of such investments;

• In July and August 2010, Metinvest participated in the share capital increases of each of Ilyich I&SW and Ilyich-Steel and paid USD 376 million for the acquisition of 74.6% and 75.14% of in the share capital of these entities, respectively. The transfer of these shares to Metinvest was completed in November 2010 following the receipt of clearance for the transaction from relevant competition authorities worldwide. 17 November 2010 was treated as the date of acquisition, since on that day Metinvest obtained the power to govern the financial and operating policies of the acquirees through share ownership and respective governing bodies.

Separately from the above transaction, in July 2010, Metinvest acquired a 5.1% interest in Ilyich I&SW from SCM Cyprus for cash consideration of USD 64 million. At 31 December 2009, Metinvest held a 3% interest in Ilyich I&SW valued at USD 18 million.

Further in December 2010, through a series of transactions Metinvest became an absolute shareholder of Ilyich Steel. The difference between USD 147 million decrease in non-controlling interest and USD 45 million paid was recorded in consolidated retained earnings.

As part of the acquisition of Ilyich I&SW, Metinvest also acquired control over OSC Komsomolske Flux Plant, a large Ukrainian producer of limestone, and PJSC Kindrativka Refractory Plant, a Ukrainian producer of refractory materials. Both entities are controlled through Ilyich Steel, which holds 99.7% and 97.2% of shares in these companies, respectively.

As a result of further post closing negotiations, in June 2011 Metinvest B.V. resolved to issue new 474 class B shares of Metinvest B.V. which constitute 5% of its issued share capital to the Sellers of Ilyich Group. This additional share issuance constitutes the subsequent and final arrangement between the parties. In accordance with IFRS 3, this share issue was given retrospective treatment in the accompanying financial statements and accordingly recorded as if such shares had been issued in 2010. Since Metinvest B.V. is not a publicly traded entity, the share issue was recorded at the fair value of the acquired business of Ilyich Group (which approximates the fair value of separately identifiable net assets of acquired subsidiaries) preliminary estimated at USD 1,432 million, subsequently revised to USD 1,289 million within share premium in the statement of changes in equity.

The Group has finalized the purchase price allocation in 2011 and comparative balances in these financial statements have been amended accordingly. Details of assets and liabilities acquired are as follows:

6 Business combinations (continued)

	Preliminary value of net assets	Effect of change in purchase price allocation	Final amount of net assets
Property, plant and equipment	1,462	(58)	**1,404**
Investments in existing associates of the Group	6	-	**6**
Investments in existing subsidiaries of the Group	6	-	**6**
Other non-current assets	99	-	**99**
Inventories	259	-	**259**
Trade and other receivables	570	-	**570**
Accounts receivable from the Group	244	-	**244**
Accounts receivable from other parties	283	-	**283**
Intercompany balances of acquired businesses	43	-	**43**
Cash and cash equivalents	153	-	**153**
Non-current assets held for sale – investments in agricultural enterprises and other non-core businesses	145	(55)	**90**
Retirement benefit obligations	(151)	(37)	**(188)**
Deferred tax liability	(151)	15	**(136)**
Trade and other payables	(312)	(19)	**(331)**
Accounts payable to the Group	(92)	-	**(92)**
Accounts payable to other parties	(177)	(19)	**(196)**
Intercompany balances of acquired businesses	(43)	-	**(43)**
Prepayment from the Group for additional share issues	(376)	-	**(376)**
Fair value of net assets of acquired subsidiaries	**1,710**	**(154)**	**1,556**
Non-controlling interest's proportionate share of net assets	**121**	**(11)**	**110**
Fair value of acquired interest in net assets of subsidiaries	**1,589**	**(143)**	**1,446**
Purchase consideration – non-controlling interest's share of cash paid for additional share issues			**43**
Fair value of shares issued by Metinvest B.V.	**1,432**	**(143)**	**1,289**
Cash paid			**86**
Fair value of equity interest in Ilyich I&SW previously held			**28**
Total consideration			**1,446**

Revenue and net profit of the acquired businesses included in the consolidated income statement from date of acquisition totalled USD 339 million and USD 8 million, respectively.

If the acquisition had been completed on 1 January 2010, the revenues of the Group would be approximately USD 1.7 billion higher and net profit of the Group would not have change significantly.

Acquisitions during 2010 – acquisition of interest in subsidiaries from SCM Cyprus or related parties

In March 2010, the Group acquired from SCM Cyprus the remaining 34.4% equity interest in MetalUkr Holding Limited for consideration of USD 510 million.

As a result of this acquisition the Group increased its effective share in JSC Severniy Mining and Processing Works by 21.8% and JSC Central Mining and Processing Works by 26.1%. The difference between the carrying value of the non-controlling interest acquired of USD 569 million and purchase consideration of USD 510 million was recorded in merger reserve in equity. Acquired share in other reserves was recorded within the respective categories of owners' equity.

The Group has agreed with SCM Cyprus to offset payment for this acquisition with the payment of USD 681 million for subsidiaries and associates sold to SCM Cyprus in February 2010. Residual receivable from SCM Cyprus in the amount of USD 171 million is included into trade and other receivables.

In October 2010 the Group acquired 90.2% interest in MMZ for total consideration of USD 5 million, resulting in the transfer of accumulated comprehensive losses of MMZ of USD 145 million from NCI to Group retained earnings.

7 Segment information

The Group is organised on the basis of three main business segments:

- Steel – comprising the production and sale of semi-finished and finished steel products;
- Coke and Coal – comprising the mining and sale of metallurgical and steam coal, production and sale of coke;
- Iron Ore – comprising the production, enrichment and sale of iron ore and iron ore products.

The Group is a vertically integrated steel and mining business. A significant portion of the Group's iron ore and coke and coal production is used in its steel production operations.

Management of the Group assesses the performance of the operating segments based on a measure of the adjusted earnings before interest, tax, depreciation and amortisation and impairment ("EBITDA"). Management adjusts EBITDA for certain non core expenses.

In August 2011 the Group approved a new operating model, comprising two segments: steel and mining accordingly. As of 31 December 2011 the Group was still in the process of changing its internal organisation and structure and format of management reporting accordingly. No change was made to reportable segments for 2011.

	Steel	**Coke and Coal**	**Iron Ore**	**Corporate overheads**	**Eliminations**	**Total**
2011						
Sales – external	10,318	1,061	2,810	-	-	**14,189**
Sales to other segments	84	2,031	2,232	-	(4,347)	-
Total of the reportable segments' revenue	10,402	3,092	5,042		(4,347)	**14,189**
Adjusted EBITDA	**(129)**	**507**	**3,295**	**(105)**	**(3)**	**3,565**
Reconciling items:						
Depreciation and amortisation						(832)
Sponsorship and other charity payments						(18)
Impairment and devaluation of PPE						(15)
Share of result of associates						(10)
Finance income						78
Finance costs						(265)
Other						1
Profit before income tax						**2,504**

	Steel	**Coke and Coal**	**Iron Ore**	**Corporate overheads**	**Total**
Capital expenditure	423	277	457	8	**1,165**
Significant non-cash items included into adjusted EBITDA:					
- impairment of trade and other receivables	39	-	-	-	**39**
- net change in retirement benefit obligations	(33)	2	(11)	-	**(42)**

Capital expenditure and net change in retirement benefit obligations exclude assets and liabilities acquired through business combinations.

Analysis of revenue by category:

	Steel	**Coke and Coal**	**Iron Ore**	**Corporate overheads**	**Total**
2011					
Sales of own products	10,273	810	2,726	-	**13,809**
Sales of purchased goods	45	251	84	-	**380**
Total	**10,318**	**1,061**	**2,810**	**-**	**14,189**

7 Segment information (continued)

	Steel	Coke and Coal	Iron Ore	Corporate overheads	Eliminations	Total
2010						
Sales – external	5,708	1,149	2,501	-	-	**9,358**
Sales to other segments	68	1,052	963	-	(2,083)	-
Total of the reportable segments' revenue	5,776	2,201	3,464		(2,083)	**9,358**
Adjusted EBITDA	**112**	**447**	**2,097**	**(50)**	**(54)**	**2,552**
Reconciling items:						
Depreciation and amortisation						(694)
Sponsorship and other charity payments						(162)
Impairment and devaluation of PPE						(52)
Impairment of goodwill						(675)
Loss on derecognition of available-for-sale investments						(40)
Share of result of associates						5
Finance income						45
Finance costs						(246)
Other						(26)
Profit before income tax						**707**

	Steel	Coke and Coal	Iron Ore	Corporate overheads	Total
Capital expenditure	190	134	254	4	**582**
Significant non-cash items included into adjusted EBITDA:					
- impairment of trade and other receivables	21	1	(11)	-	**11**
- net change in retirement benefit obligations	20	20	6	-	**46**

Capital expenditure and net change in retirement benefit obligations exclude assets and liabilities acquired through business combinations.

Analysis of revenue by category:

	Steel	Coke and Coal	Iron Ore	Corporate overheads	Total
2010					
Sales of own products	5,345	911	2,437	-	**8,693**
Sales of purchased goods	363	238	64	-	**665**
Total	**5,708**	**1,149**	**2,501**	**-**	9,358

7 Segment information (continued)

Geographical segments. The Group's three business segments operate in six main geographical areas. Revenue by location of customers is presented below:

2011	**Steel**	**Coke and coal**	**Iron Ore**	**Total**
Ukraine	2,066	557	1,502	**4,125**
Rest of Europe	3,558	43	471	**4,072**
South Eastern Asia	1,369	11	832	**2,212**
CIS	1,900	30	5	**1,935**
Middle East and Northern Africa	1,196	17	-	**1,213**
North America	66	360	-	**426**
Other countries	163	43	-	**206**
Total	**10,318**	**1,061**	**2,810**	**14,189**

2010	**Steel**	**Coke and coal**	**Iron Ore**	**Total**
Ukraine	1,282	681	1,490	**3,453**
Rest of Europe	1,898	17	348	**2,263**
South Eastern Asia	855	3	625	**1,483**
CIS	880	34	-	**914**
Middle East and Northern Africa	729	37	38	**804**
North America	10	358	-	**368**
Other countries	54	19	-	**73**
Total	**5,708**	**1,149**	**2,501**	**9,358**

8 Goodwill

The movements of goodwill were as follows:

	2011	2010
Book amount as at 1 January, net	**974**	**1,855**
Disposal of Avlita and other subsidiaries	-	(120)
Impairment loss on goodwill allocated to Steel segment	-	(675)
Currency translation differences	(13)	(86)
Book amount as at 31 December, net	**961**	**974**

Management allocates and monitors goodwill at the following groups of cash generating units:

	2011	2010
Steel	613	626
Iron ore	166	166
Coke and coal	182	182
Total	**961**	**974**

The recoverable amount has been determined based on fair value less cost to sell estimations. Management estimates that current market conditions, under which iron ore and coal suppliers earn significant margins while steelmakers nearly breakeven, will change in several years, which will result in partial reallocation of margins from producers of raw materials to steel producers starting approximately from 2016. To ensure that impairment testing model fully reflects the anticipated changes in cash flows, for goodwill impairment test the Group used cash flow projections for 10 years which are based on strategy approved by senior management.

The following table summarizes key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill:

	2011	2010
Steel		
Post-tax discount rate	11.4%	11.2%
Revenue growth rate	-7% – 9%	-7% – 25%
Growth rate in perpetual period	3%	3%
Gross margins	-3% – 24%	5% – 20%
EBITDA margins	-6% – 21%	1% – 17%
Iron ore		
Post-tax discount rate	11.4%	11.2%
Revenue growth rate	-33% – 15%	-19% – 58%
Growth rate in perpetual period	3%	3%
Gross margins	36% – 66%	45% – 74%
EBITDA margins	10% – 52%	20% – 62%
Coke and coal		
Post-tax discount rate	11.4%	11.2%
Revenue growth rate	-5% – 2%	-6% – 17%
Growth rate in perpetual period	3%	3%
Gross margins	22% – 34%	25% – 34%
EBITDA margins	19% – 30%	20% – 31%

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources.

8 Goodwill (continued)

As at 31 December 2011 Steel division recoverable amount exceeds its carrying amount by USD 1,045 million (2010: nil).The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill related to the Steel division:

	Impairment required
Volumes	
Decrease of volumes of sales in all the periods by 4.5%	recoverable amount equals carrying amount
Decrease of volumes of sales in all the periods by 10%	USD 1,342 million
Steel prices	
Decrease of prices in all the periods by 1%	recoverable amount equals carrying amount
Decrease of prices in all the periods by 2%	USD 1,076 million
Iron ore prices	
Increase of prices in all the periods by 6%	recoverable amount equals carrying amount
Increase of prices in all the periods by 10%	USD 680 million
Discount rates	
Increase of discount rates in all the periods by 0.6%	recoverable amount equals carrying amount
Increase of discount rates in all the periods by 1%	USD 570 million
Growth rate in perpetual period	
Decrease of growth rate in perpetual period by 1.1%	recoverable amount equals carrying amount

With regard to impairment testing of the goodwill related to Iron Ore and Coke and Coal divisions, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value to materially exceed the recoverable amount.

9 Other intangible assets

The movements of other intangible assets were as follows:

	Coal reserves	Long-term sales contracts	Licenses and mining permits	Other intangible assets	Total
As at 1 January 2010					
Cost	418	144	722	40	**1,324**
Accumulated amortisation	(3)	(65)	(66)	(23)	**(157)**
Net carrying amount	**415**	**79**	**656**	**17**	1,167
Additions	-	-	-	8	**8**
Amortisation	(5)	(47)	(50)	(2)	**(104)**
Disposal of subsidiaries	-	-	-	(1)	**(1)**
Currency translation differences	-	-	2	-	**2**
As at 31 December 2010					
Cost	418	144	724	45	**1,331**
Accumulated amortisation	(8)	(112)	(116)	(23)	**(259)**
Net carrying amount	**410**	**32**	**608**	**22**	1,072
Additions	-	-	4	3	**7**
Amortisation	(7)	(21)	(54)	(4)	**(86)**
Disposal	-	-	-	(2)	**(2)**
Currency translation differences	-	-	(2)	-	**(2)**
As at 31 December 2011					
Cost	418	144	726	46	**1,334**
Accumulated amortisation	(15)	(133)	(170)	(27)	**(345)**
Net carrying amount	**403**	**11**	**556**	**19**	989

The iron ore license is being amortised using the units-of-production method over its remaining useful life of approximately 12 years.

The coal reserves and long-term sales contracts were acquired as part of the acquisition of UCC. The coal reserves are being amortised using the units-of-production method over its useful life of approximately 90 years.

The long-term sales contracts are being amortised over the remaining term of the contracts. Expected amortisation based on the fulfilment of the contracts for 2012 is USD 11 million.

10 Property, plant and equipment

The movements of property, plant and equipment were as follows:

	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
Cost or valuation						
As at 1 January 2010	**81**	**1,991**	**3,201**	**52**	**545**	**5,870**
Acquisition of subsidiaries	-	334	892	69	109	**1,404**
Disposal of subsidiaries	-	(42)	(45)	(5)	(7)	**(99)**
Additions	-	-	-	-	570	**570**
Transfers	-	138	297	12	(447)	**-**
Disposals	-	(7)	(15)	(4)	(10)	**(36)**
Reclassification to inventory	-	-	-	-	(4)	**(4)**
Elimination against gross carrying amount	-	(19)	(24)	(1)	-	**(44)**
Revaluation	-	45	107	1	-	**153**
Currency translation differences	(6)	(2)	(17)	(1)	-	**(26)**
As at 31 December 2010	**75**	**2,438**	**4,396**	**123**	**756**	**7,788**
Additions	-	-	-	-	1,158	**1,158**
Transfers	3	346	619	2	(970)	**-**
Disposals	-	(14)	(47)	(7)	(19)	**(87)**
Currency translation differences	(2)	(11)	(25)	(1)	(4)	**(43)**
As at 31 December 2011	**76**	**2,759**	**4,943**	**117**	**921**	**8,816**
Accumulated depreciation and impairment						
As at 1 January 2010	**-**	**(47)**	**(167)**	**(4)**	**(3)**	**(221)**
Charge for the year	-	(148)	(430)	(14)	-	**(592)**
Disposal of subsidiaries	-	3	6	2	-	**11**
Disposals	-	3	6	2	-	**11**
Elimination against gross carrying amount	-	19	24	1	-	**44**
Impairment	-	(22)	(15)	-	(15)	**(52)**
Currency translation differences	-	1	4	1	-	**6**
As at 31 December 2010	**-**	**(191)**	**(572)**	**(12)**	**(18)**	**(793)**
Charge for the year	-	(176)	(547)	(23)	-	**(746)**
Disposals	-	6	21	4	1	**32**
Impairment	-	(22)	(5)	-	10	**(17)**
Currency translation differences	-	1	6	-	-	**7**
As at 31 December 2011	**-**	**(382)**	**(1,097)**	**(31)**	**(7)**	**(1,517)**
Net book value as at						
31 December 2010	**75**	**2,247**	**3,824**	**111**	**738**	**6,995**
31 December 2011	**76**	**2,377**	**3,846**	**86**	**914**	**7,299**

10 Property, plant and equipment (continued)

The assets transferred to the Ukrainian subsidiaries of the Group upon privatisation did not include the land on which the Group's factories and buildings are situated. The Group has the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. Ukrainian legislation does not specify an expiry date to this option. As at 31 December 2011, the Group has not filed any application to exercise the purchase option. Total payments under land lease agreement for 2011 and 2010 were insignificant.

During 2011 USD 18 million of borrowing costs were capitalised, capitalisation rate was 6% (2010: nil).

As at 31 December 2011 USD 9 million of buildings, plant and machinery were pledged to third parties as collateral for loans and borrowings (31 December 2010: USD 300 million) (Note 19).

11 Investments in associates

The principal associates of the Group are as follows:

			2011		2010
Name	**Segment**	**% of ownership**	**Carrying value**	**% of ownership**	**Carrying value**
Zaporozhstal Group	Steel	24.9%	202	-	-
IMU	Steel	49.9%	22	49.9%	55
JSC Donetskkoks	Coke and coal	37.5%	16	37.5%	13
JSC Zaporozhkoks	Coke and coal	25.0%	33	25.0%	39
Other	Iron ore	n/a	3	N/a	2
Total			**276**		**109**

No associates are listed on international stock exchanges.

Movements in the carrying amount of the Group investments in associates are presented below:

	2011	2010
Carrying amount at 1 January	**109**	**144**
Acquisition of interest in Zaporozhstal Group	208	-
Share of other equity movements of associates	(33)	(26)
Increase of interest in JSC Donetskkoks through acquisition of Ilyich Group	-	6
Disposal of associates	-	(21)
Share of after tax results of associates	(10)	5
Currency translation differences	2	1
Carrying amount at 31 December	**276**	**109**

In July 2011, Metinvest jointly with the two other investors entered binding agreements with the owners of Industrial Group (owner of group of steel and mining assets in Ukraine, the most significant being a 50% interest in JSC Zaporozhstal Integrated Iron & Steel Works), to acquire 50% of the assets owned by Industrial Group. The value of 50% of the Industrial Group's interest is USD 416 million, the Group's 24.9% interest was purchased for USD 208 million.

In addition to the sale and purchase agreement the parties concluded a Shareholders Agreement which prescribes a mechanism for corporate governance in respect of their interests in Zaporozhstal Group.

In August 2011, Metinvest, jointly with the same two other investors, acquired an option for USD 30 million to purchase the remaining 50% interest in the Industrial Group's steel and mining business for USD 416 million. The option is exercisable before 4th August 2012 and its value is deductible from final purchase consideration. Metinvest and the two other investors have to agree the split of 50% interest which may be acquired according to the option. The agreements also envisage certain adjustments to final purchase consideration if certain criteria related to working capital balances of the acquired business are not met.

In February 2010, the Group sold its interests in associates with a total carrying value of USD 21 million to SCM Cyprus for total consideration of USD 144 million, generating a gain of USD 123 million. As discussed in Note 4, this gain was recognised directly in equity.

As discussed in Note 6, the disposal consideration was partly set-off with the payables for acquisition of remaining equity interests in MetalUkr Holding Limited.

11 Investments in associates (continued)

The summarised financial information of the Group's major associates is as follows:

2011	Segment	% of ownership	Total assets	Total liabilities	Revenue	Profit/ (loss)
Zaporozhstal Group	Steel	24.9%	1,862	854	2,238	(43)
IMU	Steel	49,9%	49	-	-	-
JSC Donetskkoks	Coke and coal	37.5%	61	19	123	7
JSC Zaporozhkoks	Coke and coal	25.0%	203	115	441	(28)

2010	Segment	% of ownership	Total assets	Total liabilities	Revenue	Profit/ (loss)
IMU	Steel	49,9%	116	-	-	-
JSC Donetskkoks	Coke and coal	37.5%	41	5	15	1
JSC Zaporozhkoks	Coke and coal	25.0%	211	94	362	19

12 Non-current assets held for sale

As of 31 December 2010 non-current assets held for sale comprise non-core businesses (mainly agricultural businesses) acquired with the Ilyich Group (Note 6). In 2011, the Group sold the agriculture companies to a newly created holding company controlled by SCM for UAH 843 million (USD 105 million), payable in 2014. The fair value of the deferred consideration, using an imputed discount rate of 13.6%, was USD 73 million and was recorded in other non-current assets (Note 13).

13 Other non-current assets

	2011	2010
Long-term loans issued to related parties (USD denominated, 11%, mature in 2016)	98	-
Long-term receivables from related parties (UAH denominated, 13.6% effective interest, mature in 2014)	73	-
Long-term loans issued to related parties (USD denominated, 11.5%, mature in 2013)	18	79
Other non-current financial assets	37	24
Other non-current non-financial assets	8	9
Total	**234**	**112**

Analysis by credit quality of financial non-current assets is as follows:

	2011	2010
Balances neither past due nor impaired:		
- Related parties	189	84
- Other	37	19
Total non-current and not impaired	**226**	**103**

The maximum exposure to credit risk at the reporting date is the carrying value of financial non-current assets. The Group does not hold any collateral as security.

14 Inventories

	2011	2010
Finished goods and work in progress	1,246	846
Raw materials	469	455
Ancillary materials, spare parts and consumables	419	311
Goods for resale	3	12
Total inventories	**2,137**	**1,624**

Inventory write down recognised as an expense in 2011 was USD 36 million (2010: USD 32 million).

As at 31 December 2011, inventories totalling USD 211 million (31 December 2010: USD 150 million) have been pledged as collateral for borrowings (Note 19).

15 Trade and other receivables

	2011	2010
Trade receivables and receivables on commission sales	1,470	1,510
Receivables for bonds and promissory notes sold	361	362
Loans issued to related parties	325	209
Interest accrued on loans issued to related parties	62	43
Receivables for disposal of subsidiaries and associates	176	167
Receivables for deposit certificates sold	62	59
Option for acquisition of interest in Zaporozhstal Group (Note 11)	30	-
Other financial receivables	39	32
Total financial assets	**2,525**	**2,382**
Recoverable value added tax	309	319
Prepayments made	95	144
Income tax prepaid	51	39
Other receivables	59	49
Total trade and other receivables	**3,039**	**2,933**

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

	2011		2010	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Provision for impairment at 1 January	**68**	**27**	**68**	**20**
Net impairment during the year	39	-	7	4
Reclassification	3	(3)	(8)	8
Currency translation differences	2	-	1	(5)
Provision for impairment at 31 December	**112**	**24**	**68**	**27**

15 Trade and other receivables (continued)

Analysis by credit quality of financial trade and other receivables is as follows:

	2011		2010	
	Trade receivables and receivables on commission sales	Other financial receivables	Trade receivables and receivables on commission sales	Other financial receivables
Key customers	256	-	225	12
SCM and other related companies, including associates	137	397	7	265
Balances covered by bank letters of credit	185	-	128	-
Balances insured	189	-	125	-
Existing customers with no history of default	158	24	223	28
New customers	16	1	38	7
Balances renegotiated with key customers	-	-	1	-
Balances renegotiated with SCM and other related companies, including associates	43	589	139	543
Balances renegotiated with other customers	5	5	13	11
Option for acquisition of interest in Zaporozhstal Group	-	30	-	-
Total current and not impaired	**989**	**1,046**	**899**	**866**
Past due but not impaired				
- less than 30 days overdue	206	5	202	-
- 30 to 90 days overdue	183	-	201	-
- 90 to 180 days overdue	74	-	24	-
- 180 to 360 days overdue	5	-	44	-
- over 360 days overdue	13	4	140	6
Total past due but not impaired	**481**	**9**	**611**	**6**
Total individually impaired	**112**	**24**	**68**	**27**
Less impairment provision	**(112)**	**(24)**	**(68)**	**(27)**
Total	**1,470**	**1,055**	**1,510**	**872**

As of 31 December 2011 58% of overdue but not impaired over 30 days receivables related to key customers (2010: 77%) and 13% to SCM and other related parties (2010: 21%).

As at 31 December 2011, trade and other receivables totalling USD 134 million (31 December 2010: USD 334 million) have been pledged as collateral for borrowings (Note 19).

Credit concentration. As at 31 December 2011, 20% of trade receivables and receivables on commission sales are due from a single party, as the Group has an arrangement to sell pipe and plates for pipes (31 December 2010: 15%). The payments from this customer have been delayed and the Group has extended the credit terms to approximately three months beyond the standard credit terms. An impairment charge totalling USD 39 million has been recorded in the income statement in 2011 (2010: USD 19 million).

16 Cash and cash equivalents

	2011	2010
Current accounts	782	301
Bank deposits up to 3 months	10	148
Total cash and cash equivalents	**792**	**449**

No bank balances and term deposits are past due or impaired.

17 Share capital

	Number of outstanding shares	Ordinary shares	Share premium	Total
At 1 January 2010	**9,000**	**-**	**4,172**	**4,172**
Shares issued to sellers of Ilyich Group	474	-	1,289	**1,289**
At 31 December 2010	**9,474**	**-**	**5,461**	**5,461**
At 31 December 2011	**9,474**	**-**	**5,461**	**5,461**

As at 31 December 2011, the authorised, issued and fully paid share capital comprised 9,000 ordinary class A shares (2010: 9,000) and 474 ordinary class B shares (2010: zero) with a par value of EUR 10. Each ordinary share carries one vote.

In June 2011, Metinvest B.V. issued new 474 class B shares which constitutes 5% of its issued share capital to the sellers of Ilyich Group (Note 6). In accordance with IFRS 3, this share issue was given retrospective treatment in the 2010 Group consolidated financial statements and accordingly recorded as if such shares had been issued in 2010. The share issue has been recorded at the fair value of the acquired net assets of Ilyich Group totalling USD 1,289 million within share premium in the statement of changes in equity.

18 Other reserves

	Revaluation of available-for-sale investments and share in OCI of associates	Revaluation of property, plant and equipment	Merger reserve	Cumulative currency translation reserve	Total
Balance as at 1 January 2010	**54**	**1,256**	**(3,028)**	**(2,401)**	**(4,119)**
Total comprehensive income for the period	(36)	529	-	(50)	**443**
Depreciation transfer, net of tax	-	(153)	-	-	**(153)**
Disposal of subsidiaries to SCM Cyprus	-	(9)	147	105	**243**
Acquisition of additional interest in existing subsidiaries from SCM Cyprus and related parties	-	165	(106)	-	**59**
Balance as at 31 December 2010	**18**	**1,788**	**(2,987)**	**(2,346)**	**(3,527)**
Total comprehensive income for the period	(31)	(2)	-	(56)	**(89)**
Depreciation transfer, net of tax	-	(202)	-	-	**(202)**
Balance as at 31 December 2011	**(13)**	**1,584**	**(2,987)**	**(2,402)**	**(3,818)**

The revaluation reserve for available-for-sale investments is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for property, plant and equipment is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal. Currency translation reserve is transferred to profit or loss when realised through disposal of a subsidiary by sale, liquidation, repayment of share capital or abandonment of all, or part of, that subsidiary.

Retained earnings of the Group represent the earnings of the Group entities from the date they have been established or acquired by the entities under common control. Company subsidiaries distribute profits as dividends or transfer them to reserves on the basis of their statutory financial statements prepared in accordance with local GAAP as appropriate. Ukrainian legislation identifies the basis of distribution as retained earnings only, however this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose the amount of distributable reserves in these consolidated financial statements.

19 Loans and borrowings

As at 31 December, loans and borrowings were as follows:

	2011	2010
Non-current		
Bank borrowings	1,382	967
Bonds	1,232	493
Non-bank borrowings	-	4
	2,614	**1,464**
Current		
Bank borrowings	245	524
Trade finance	784	623
Bonds	28	185
	1,057	**1,332**
Total loans and borrowings	**3,671**	**2,796**

	2011	2010
Loans and borrowings due:		
- within 1 year	1,057	1,332
- between 1 and 5 years	1,877	1,460
- after 5 years	737	4
Total borrowings	**3,671**	**2,796**

The majority of the Group's borrowings have variable interest rates. The weighted average effective interest rates and currency denomination of loans and borrowings as at the balance sheet dates are as follows:

	31 December 2011		**31 December 2010**	
In % per annum	**USD**	**EUR**	**USD**	**EUR**
Bank borrowings	4%	4%	5%	5%
Bonds issued	9%	-	10%	-
Trade finance	3%	3%	2%	2%
Non-bank borrowings	-	-	6%	-
Reported amount	**3,331**	**340**	**2,330**	**466**

As at 31 December 2011, bonds issued carry fixed interest rates (31 December 2010: fixed interest rate); bank borrowings and trade finance denominated in EUR carry interest rates of Euribor 1–6 months plus margins of 0.2%–2.5% (31 December 2010: Euribor 1–6 months plus margins of 0.2%–4.5%); the bank borrowings and trade finance denominated in USD carry interest rates of Libor 1–3 months plus margins of 0.1%–6% (31 December 2010: Libor 1–3 months plus margins of 0.1%–5.5%).

On 14 February 2011, Metinvest B.V. placed Eurobonds with a par value of USD 750 million on the Irish Stock Exchange. The bonds carry a coupon rate of 8.75% per annum, paid semi-annually, were placed with a discount of 1.28% and are repayable in 2018.

As of 28 February 2011 JSC Azovstal Iron and Steel Works repaid in full the Eurobonds in total amount of USD 175 million.

In August 2011, Metinvest B.V. refinanced two existing three-year loans totalling USD 800 million and bearing nominal interest of Libor 1 month plus margin of 5.5% with a new five-year USD 850 million loan bearing interest of Libor 1 month plus 3% per annum. Subsequently, in November 2011, the loan amount was extended to USD 1 billion. The loan is repayable in equal monthly instalments starting September 2013 through August 2016.

19 Loans and borrowings (continued)

As at 31 December 2011, borrowings totalling USD 188 million were secured with inventories and property, plant and equipment (31 December 2010: USD 191 million), borrowings totalling USD 98 million were secured with trade and other accounts receivable (31 December 2010: USD 311 million) and borrowings totalling USD 1,389 million were secured with the future sales proceeds (31 December 2010: USD 1,414 million).

As at 31 December 2011 and 2010, the Group had pledged 100% of the issued share capital of Metinvest Trametal S.P.A. and 100% of the issued share capital of Spartan UK Ltd for loans drawn by Metinvest Trametal S.P.A. with balance outstanding as at 31 December 2011 of EUR 163 million (equivalent of USD 209 million).

As at 31 December 2011, the fair value of bonds was USD 1,135 million (31 December 2010: USD 718 million) as determined by reference to observable market quotations. The fair value of bank borrowings was USD 1,593 million (31 December 2010: USD 1,473 million) as estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 December 2011, the fair value of trade finance borrowings is approximately equal to their carrying value.

20 Seller's notes

	2011	**2010**
Non-current portion	220	276
Current portion	90	92
Total seller's notes	**310**	**368**

UCC notes were secured with a 100% of the capital of United Coal Company LLC and subordinated to other borrowings (up to USD 3 billion excluding interest).

As of 31 December 2011, the fair value of seller's notes was USD 332 million (31 December 2010: USD 397 million).

21 Retirement benefit obligations

	2011	2010
Present value of unfunded defined benefit obligations	643	704
Unrecognised net actuarial loss	(111)	(79)
Unrecognised past service cost	5	(46)
Liability in the consolidated balance sheet	**537**	**579**

The amounts recognised in the consolidated income statement were as follows:

	2011	2010
Current service cost	34	24
Recognised cost of past service	(105)	9
Interest cost	90	55
Recognised actuarial (gains)/losses	8	(12)
Total	**27**	**76**

Changes in the present value of the defined benefit obligation were as follows:

	2011	2010
Defined benefit obligation as at 1 January	**704**	**385**
Current service cost	34	24
Actuarial gains	40	80
Past service cost	(157)	1
Interest cost	90	55
Benefits paid	(67)	(30)
Acquired with subsidiaries	-	188
Currency translation differences	(1)	1
Defined benefit obligation as at 31 December	**643**	**704**

During 2011 certain amendments to the pension legislation in Ukraine were introduced. Principal changes relate to the rules of indexation, calculation and recalculation of pensions and to increase of pension age for women. Cumulatively these changes led to decrease in defined benefit obligation which was presented as negative past service cost of USD 157 million. Out of this amount, USD 105 million related to benefits which were already vested were recognised immediately in accordance with the requirements of IAS 19.

The movement in the present value of the liability recognised in the consolidated balance sheet was as follows:

	2011	2010
As at 1 January	**579**	**343**
Benefits paid	(68)	(30)
Net expense recognised in the income statement	27	76
Acquired with subsidiaries (Note 6)	-	188
Currency translation differences	(1)	2
As at 31 December	**537**	**579**

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21 Retirement benefit obligations (continued)

The principal actuarial assumptions used were as follows:

	2011	2010
Nominal discount rate	14%	14%
Nominal salary increase	5.0%-28.3%	5.8%-30%
Nominal pension entitlement increase	5.0%-28.3%	5.8%-30%

Payments in respect of post-employment benefit plans obligations expected to be made during the year ending 31 December 2012 are USD 73 million.

Present value of unfunded defined benefit obligations totals to USD 385 million as at 31 December 2009 (31 December 2008: USD 381 million, 31 December 2007: USD 512 million).

Experience adjustments for 2011 approximate to USD 58 million (2010: USD 33 million; 2009: USD 12 million; 2008: USD 38 million, 2007: USD 82 million).

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented below:

	2011	2010
Nominal discount rate increase/decrease by 1%	(42)/48	(43)/49
Nominal salary increase increase/decrease by 1%	24/(22)	43/(38)

22 Other non-current liabilities

	2011	2010
Long-term dividends payable to shareholders of Metinvest B.V.	-	49
Long-term dividends payable to non-controlling shareholders of Company subsidiaries	-	1
Tax liabilities under moratorium (Note 30)	23	23
Asset retirement obligations	30	26
Other non-current liabilities	20	25
Deferred income	6	8
Total other non-current liabilities	**79**	**132**

Asset retirement obligations is primarily comprised of USD 25 million which relate to obligation of UCC on recultivation of land after coal extraction.

As of 31 December 2011 the fair value of financial other non-current liabilities approximates their carrying values.

23 Trade and other payables

	2011	2010
Trade payables and payables on sales made on commission	1,027	902
Payables for acquired subsidiaries and non-controlling interest	5	30
Dividends payable to shareholders of Metinvest B.V.	109	523
Dividends payable to non-controlling shareholders of Company subsidiaries	48	220
Promissory notes issued (UAH denominated with 15% effective interest)	-	120
Payable for acquired property, plant and equipment, intangibles	106	21
Other financial liabilities	24	47
Total financial liabilities	**1,319**	**1,863**
Prepayments received	167	202
Accruals for employees' unused vacations and other payments to employees	83	61
Income tax payable	57	44
Other tax payable	49	53
Wages and salaries payable	43	42
Other allowances	29	22
Total trade and other payables	**1,747**	**2,287**

24 Expenses by nature

	2011	2010
Raw materials including change in finished goods and work in progress	4,468	2,361
Goods for resale	366	621
Energy materials including gas, electricity and fuel	2,297	1,231
Wages and salaries	932	637
Transportation services	871	703
Repairs and maintenance expenses	480	398
Pension and social security costs	311	207
Pension costs – defined benefit obligations (Note 21)	27	76
Depreciation and amortisation	832	694
Impairment of property, plant and equipment (Note 10)	15	52
Taxes and duties	117	85
Services and other costs	601	412
Total operating expenses	**11,317**	**7,477**
Classified in the income statement as		
- cost of sales	9,873	6,372
- distribution costs	1,049	820
- general and administrative expenses	395	285
Total operating expenses	**11,317**	**7,477**

Raw materials include externally purchased coke and coal, iron ore, scrap metal, ferroalloys, ancillary and other materials and cost of their transportation.

24 Expenses by nature (continued)

Auditor's fees

The following fees were expensed in the income statement in the reporting period:

	2011	2010
Audit of the financial statements	3	2
Tax services	-	-
Other non-audit services	-	-
Total	**3**	**2**

25 Other operating expenses/(income), net

Other operating income and expenses for the year ended 31 December were as follows:

	2011	2010
Impairment of trade and other receivables (Note 15)	39	11
Maintenance of social infrastructure	36	13
Foreign exchange losses less gains	13	20
Sponsorship and other charity payments	50	184
Other expenses	33	35
Total other operating expenses/(income), net	**171**	**263**

26 Finance income

Finance income for the year ended 31 December was as follows:

	2011	2010
Net foreign exchange income	-	9
Interest income		
- bank deposits	3	3
- imputed interest on other financial instruments	43	17
- loans issued	29	14
Other finance income	3	2
Total finance income	**78**	**45**

The majority of finance income relates to term deposits and long term loans issued to related parties.

27 Finance costs

Finance costs for the year ended 31 December were as follows:

	2011	2010
Net foreign exchange losses	11	-
Interest expense		
- borrowings	89	99
- bonds	112	48
- Seller's notes	9	13
- imputed interest on Seller's notes	33	37
- imputed interest on other financial liabilities	2	10
Loss on origination of financial assets	4	30
Other finance costs	5	9
Total finance costs	**265**	**246**

28 Income tax

Income tax for the year ended 31 December was as follows:

	2011	2010
Current tax	923	608
Deferred tax	(273)	(338)
Income tax expense	**650**	**270**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2011 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 23-25% (2010: 25%). In 2011, the tax rate for Swiss operations was 8% (2010: 12%) and for European Companies tax rate in 2011 varied from 10.0% to 31.4% (2010: varied from 10.0% to 31.4%). The tax rate for US operations was 39% (2010: 39%).

Reconciliation between the expected and the actual taxation charge is provided below.

	2011	2010
IFRS profit before tax	**2,504**	**707**
Tax calculated at domestic tax rates applicable to profits in the respective countries	556	294
Tax effect of items not deductible or assessable for taxation purposes:		
- charitable donations and sponsorship	8	46
- non-deductible expenses	47	35
- non-taxable income (primarily operating foreign exchange gains)	(6)	(2)
Effect of foreign exchange realised as a result of currency sale	9	8
Effect of changes in tax rates in Ukraine	-	(61)
Effect of changes in tax rules in Ukraine	-	(50)
Change in estimate regarding realisability of deferred tax balances	36	-
Income tax expense	**650**	**270**

The weighted average applicable tax rate was 22.2% in 2011 (2010: 41.6%). As discussed in Note 30, with effect from 1 January 2011, the new Tax Code of Ukraine came into force, resulting, among other in the corporate profit tax rate gradual decrease from 25% to 16% by 2014.

28 Income tax (continued)

Differences between IFRS and Ukrainian and other countries' statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 23-25% (2010: 25%) for the majority of subsidiaries.

	1 January 2011	Business combi-nations	Disposal of subsidiaries	Credited/ (charged) to income statement	Charged to other compreh ensive income	Currency translation difference	31 December 2011
Tax effect of deductible temporary differences							
Property, plant and equipment and intangible assets	96	-	-	(2)	-	-	94
Long-term receivables	47	-	-	55	-	-	102
Inventory valuation	52	-	-	21	-	1	74
Trade and other accounts receivable	25	-	-	5	-	-	30
Accrued expenses	33	-	-	8	-	-	41
Tax losses carried forward	92	-	-	95	-	-	187
Retirement benefit obligations	114	-	-	(14)		-	100
Prepayments received and deferred income	110	-	-	(66)	-	-	44
Other	16	-	-	4	-	-	20
Gross deferred tax asset	**585**	**-**	**-**	**106**	**-**	**1**	**692**
Less offsetting with deferred tax liabilities	(389)	-	-	(23)	-	-	(412)
Recognised deferred tax asset	**196**	**-**	**-**	**83**	**-**	**1**	**280**
Tax effect of taxable temporary differences							
Property, plant and equipment and intangible assets	(404)	-	-	19	-	(1)	(386)
Accounts receivable valuation	(109)	-	-	109	-	-	-
Advances paid	(97)	-	-	57	-	-	(40)
Inventory tax differences	(29)	-	-	18	-	-	(11)
Borrowings and long-term payables	(75)	-	-	(44)	-	-	(119)
Other	(10)	-	-	8	-	-	(2)
Gross deferred tax liability	**(724)**	**-**	**-**	**167**	**-**	**(1)**	**(558)**
Less offsetting with deferred tax assets	389	-	-	23	-	-	412
Recognised deferred tax liability	**(335)**	**-**	**-**	**190**	**-**	**(1)**	**(146)**

28 Income tax (continued)

	1 January 2010	Business combi-nations	Disposal of subsidiaries	Credited/ (charged) to income statement	Charged to other compreh ensive income	Currency translation difference	31 December 2010
Tax effect of deductible temporary differences							
Property, plant and equipment and intangible assets	46	-	(1)	51	-	-	96
Long-term receivables	2	-	-	45	-	-	47
Inventory valuation	33	1	-	18	-	-	52
Trade and other accounts receivable	22	5	-	(2)	-	-	25
Accrued expenses	48	-	-	(15)	-	-	33
Tax losses carried forward	83	11	-	(2)	-	-	92
Retirement benefit obligations	88	44	-	(18)	-	-	114
Prepayments received and deferred income	48	15	-	47	-	-	110
Other	16	5	-	(5)	-	-	16
Gross deferred tax asset	**386**	**81**	**(1)**	**119**	**-**	**-**	**585**
Less offsetting with deferred tax liabilities	(298)	(81)	1	(11)	-	-	(389)
Recognised deferred tax asset	**88**	**-**	**-**	**108**	**-**	**-**	**196**
Tax effect of taxable temporary differences							
Property, plant and equipment and intangible assets	(896)	(204)	8	216	473	(1)	(404)
Accounts receivable valuation	(202)	-	2	91	-	-	(109)
Advances paid	(40)	(7)	2	(52)	-	-	(97)
Inventory tax differences	(12)	(6)	1	(12)	-	-	(29)
Borrowings and long-term payables fair valuation	(50)	-	-	(25)	-	-	(75)
Other	(11)	-	-	1	-	-	(10)
Gross deferred tax liability	**(1,211)**	**(217)**	**13**	**219**	**473**	**(1)**	**(724)**
Less offsetting with deferred tax assets	298	81	(1)	11	-	-	389
Recognised deferred tax liability	**(913)**	**(136)**	**12**	**230**	**473**	**(1)**	**(335)**

28 Income tax (continued)

The tax charge relating to components of other comprehensive income is as follows:

			2011			**2010**
	Before tax	**Deferred tax charge**	**After tax**	**Before tax**	**Deferred tax charge**	**After tax**
Revaluation of property, plant and equipment	-	-	-	153	(29)	124
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

29 Balances and transactions with related parties

For the purposes of these IFRS consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Unless stated otherwise, other related parties are related through common control of SCM, or are associates of SCM. As at 31 December 2011 and 2010 significant balances outstanding with related parties are detailed below:

				2011				**2010**
	SCM	**Asso-ciates**	**Other related parties**	**Smart Group**	**SCM**	**Asso-ciates**	**Other related parties**	**Smart Group**
ASSETS								
Other non-current assets, including:	**-**	**98**	**73**	**18**	**-**	**5**	**-**	**79**
Receivables for promissory notes	-		-	-	-	5	-	-
Long-term loans issued	-	98	-	18	-	-	-	79
Other non-current assets	-	-	73	-	-	-	-	-
Trade and other receivables, including:	**685**	**221**	**367**	**25**	**556**	**55**	**471**	**8**
Trade receivables and receivables on commission sales	-	195	90	-	-	40	183	-
Prepayments made	-	24	1	-	-	13	27	-
Receivables for promissory notes and bonds sold	140	2	211	-	138	2	211	-
Loans issued	293	-	10	22	192	-	9	8
Interest accrued on long term loans issued	59	-	-	3	43	-	-	-
Receivables for disposal of subsidiaries and associates	171	-	5	-	162	-	5	-
Receivables for deposit certificates sold	20	-	33	-	19	-	32	-
Other financial receivables	2	-	17	-	2	-	4	-
Cash and cash equivalents	**-**	**-**	**466**	**-**	**-**	**-**	**199**	**-**

				2011				**2010**
	SCM	**Asso-ciates**	**Other related parties**	**Smart Group**	**SCM**	**Asso-ciates**	**Other related parties**	**Smart Group**
LIABILITIES								
Non-current liabilities, including:	**-**	**-**	**1**	**-**	**-**	**1**	**4**	**49**
Non-bank borrowings	-	-	-	-	-	-	3	-
Long-term dividends payable	-	-	-	-	-	-	-	49
Other non-current liabilities	-	-	1	-	-	1	1	-
Trade and other payables, including:	**75**	**60**	**116**	**66**	**546**	**80**	**283**	**159**
Accounts payable for promissory notes purchased	-	1	-	-	-	1	-	-
Payables for acquired subsidiaries and non-controlling interest	-	-	-	-	-	-	-	-
Dividends payable	74	1	1	66	545	1	12	159
Trade payables and payables on sales made on commission	-	54	99	-	-	40	234	-
Prepayments received	-	4	14	-	-	37	35	-
Other financial liabilities	1	-	2	-	1	1	2	-

29 Balances and transactions with related parties (continued)

Significant transactions (excluding purchases) with related parties during 2011 and 2010 are detailed below:

2011	**SCM**	**Associates**	**Other related parties**	**Smart Group**	**Total**
Sales, including:	**-**	**599**	**66**	**-**	**665**
Steel	-	5	61	-	**66**
Scrap metal	-	96	-	-	**96**
Coke and coking coal	-	268	-	-	**268**
Iron ore	-	196	1	-	**197**
Other	-	34	4	-	**38**
Other operating income/(expense) net	**(5)**	**(2)**	**(8)**	**-**	**(15)**
Sponsorship and other charity payments	(5)	-	(10)	-	**(15)**
Other	-	(2)	2	-	**-**
Finance income, including:	**30**	**5**	**5**	**5**	**45**
Interest income - bank deposits	-	-	2	-	**2**
Interest income - other	16	2	-	5	**23**
Other finance income (expenses)	14	3	3	-	**20**
Sales of Assets Held for Sale (Note 12)	**-**	**-**	**73**	**-**	**73**

2010	**SCM**	**Associates**	**Other related parties**	**Smart Group**	**Total**
Sales, including:	**-**	**207**	**46**	**-**	**253**
Steel	-	1	39	-	40
Coke and coking coal	-	195	2	-	197
Iron ore	-	-	-	-	**-**
Other	-	11	5	-	16
Other operating income/(expense) net	**(12)**	**-**	**(131)**	**(15)**	**(158)**
Sponsorship and other charity payments	(12)	-	(131)	(15)	(158)
Other	-	-	-	-	-
Finance income, including:	**-**	**(3)**	**(2)**	**2**	**(3)**
Interest income - bank deposits	-	-	2	-	2
Interest income - other	12	-	-	2	14
Other finance income (expenses)	(12)	(3)	1	-	(14)
Interest expense – borrowings	-	-	**(5)**	**-**	**(5)**

29 Balances and transactions with related parties (continued)

The following is a summary of purchases from related parties in 2011 and 2010:

2011	SCM	Associates	Other related parties	Smart Group	Total
Purchases, including:	**-**	**262**	**1,180**	**-**	**1,442**
Metal products	-	62	-	-	**62**
Coke and coking coal	-	197	109	-	**306**
Raw materials and spare parts	-	2	358	-	**360**
Electricity	-	-	648	-	**648**
Fuel	-	-	2	-	**2**
Services	-	-	44	-	**44**
Other	-	1	19	-	**20**

2010	SCM	Associates	Other related parties	Smart Group	Total
Purchases, including:	**-**	**21**	**822**	**-**	**843**
Metal products	-	-	1	-	1
Coke and coking coal	-	19	133	-	152
Raw materials and spare parts	-	-	246	-	246
Electricity	-	-	363	-	363
Fuel	-	2	2	-	4
Services	-	-	43	-	43
Other	-	-	34	-	34
Acquisition of interest in subsidiaries from SCM Cyprus (Note 6)	**510**	**-**	**-**	**-**	**510**
Acquisition of interest in Ilyich I&SW from SCM Cyprus (Note 6)	**64**	**-**	**-**	**-**	**64**

In 2011, the remuneration of key management personnel of the Group comprised current salaries and related bonuses totalling USD 10.4 million (in 2010: USD 9.8 million).

30 Contingencies, commitments and operating risks

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. With effect from 1 January 2011, Ukraine adopted the new Tax Code of Ukraine. Applicable taxes include value-added tax, corporate income tax, customs duties and other taxes. As a result, there is significant uncertainty as to the implementation or interpretation of the new legislation and unclear or non-existent implementing regulations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and State authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

The Group conducts intercompany transactions at terms that may be assessed by the Ukrainian tax authorities as non-market. Because of non-explicit requirements of the applicable tax legislation, such transactions have not been challenged in the past. However, it is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities, that such transactions could be challenged in the future. The impact of any such challenge cannot be estimated; however, management believes that it will not be significant.

Bankruptcy proceedings. During 2006, bankruptcy proceedings were initiated against the Group's subsidiary JSC Krasnodonugol. The majority of the creditors' claims summarised by the external manager relates to the Group. As at 31 December 2011, the net amount of the liabilities recorded in these financial statements is USD 29 million. The Group recognised USD 23 million as non-current liability related to the bankruptcy moratorium (Note 22). For the remaining balance the Group is continually negotiating early settlement and thus recorded those as part of trade and other payables. Based on the previous court decisions made, management of the Group believes that an amount of USD 10 million will be rejected by the court and, therefore, is not recognised as a liability.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Environmental matters. The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluate its obligations (including asset retirement obligations) under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Capital expenditure commitments. As at 31 December 2011, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling USD 80 million (31 December 2010: USD 206 million). The Group has already allocated the necessary resources in respect of these commitments. Management of the Group believes that future net income and funding will be sufficient to cover this and any similar commitments.

Guarantees issued. As at 31 December 2011, the Group has outstanding guarantees to third parties in the amount of USD 11 million (31 December 2010: USD 18 million).

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non compliance with such covenants may result in negative consequences for the Group including increase in the cost of borrowings and declaration of default. As at 31 December 2011 and as at 31 December 2010 the Group was in compliance with the covenants.

Insurance. Metinvest maintains mandatory insurance policies against certain types of risk in accordance with Ukrainian law, including life and health insurance; third party liability insurance on hazardous industrial assets and in respect of cargo and motor vehicles; voluntary insurance cover for most of its production facilities in respect of cargo and motor vehicles; "All Risk" insurance to cover property damage and provide business interruption coverage including "inter-dependency" coverage for its key production facilities in Ukraine; property damage and business interruption policies in respect of its European and US assets.

31 Financial risk management

Financial risk management

The Group activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management is carried out jointly by the internal control and risk management department and the central treasury department. These departments identify, evaluate and mitigate financial risks in close co-operation with the Group's operating units.

(a) Market risk.

(i) Foreign exchange risk.

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

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed through (i) borrowings denominated in the relevant foreign currencies; (ii) different treasury operations like forward, swap and other. Fair value of derivatives as at 31 December 2011 and 2010 is immaterial.

Foreign exchange risk is managed centrally by the Group treasury. The Group treasury has set up a policy to manage foreign exchange risk. The Group treasury sets limits on the level of exposure by currency and maximum amount of exposure. The subsidiaries have not entered into transactions designed to hedge against these foreign currency risks without permission of the Group treasury.

At 31 December 2011, if the UAH had strengthened/ weakened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been USD 45 million (2010: USD 11 million at 10% change) higher/lower, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated trade receivables and foreign exchange gains/losses on translation of US dollar denominated borrowings.

At 31 December 2011, if the UAH had strengthened/ weakened by 10% against the EUR with all other variables held constant, post-tax profit for the year would have been USD 1 million lower/higher (2010: USD 23 million higher/lower at 10% change), mainly as a result of foreign exchange losses/gains on translation of Euro denominated trade receivables and foreign exchange gains/losses on translation of Euro denominated borrowings.

(ii) Price risk.

Metinvest's revenue is exposed to the market risk from price fluctuations related to the sale of its steel and iron ore products. The prices of the steel and iron ore products sold both within Ukraine and abroad are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global economic growth. The prices of the products that Metinvest sells to third parties are also affected by supply/demand and global/Ukrainian economic growth. Adverse changes in respect of any of these factors may reduce the revenue that Metinvest receives from the sale of its steel or mined products.

Metinvest's exposure to commodity price risk associated with the purchases is limited as the Group is vertically integrated and is self sufficient for iron ore and certain portion of coking coal requirements.

(iii) Cash flow and fair value interest rate risk.

The Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced borrowings portfolio of fixed and floating rate instruments. As at 31 December 2011, 34% of the total borrowings were provided to the Group at fixed rates (31 December 2010: 29%). During 2011 and 2010, the Group's borrowings at variable rate were denominated in USD and EUR.

31 Financial risk management (continued)

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Refer to Note 15, 19 and 23 for information about maturity dates and effective interest rates of financial instruments.

At 31 December 2011, if interest rates on USD and EUR denominated borrowings had been on 1% higher/lower (2010: 1%) with all other variables held constant, post-tax profit for the year would have been USD 20 million lower/higher (2010: USD 14 million).

(b) Credit risk

Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. When wholesale customers are independently rated, these ratings are used for credit quality assessment. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Financial assets, which potentially subject the Group to credit risk, consist principally of cash, loans, trade and other accounts receivable.

Cash is placed with major Ukrainian and international reputable financial institutions, which are considered at time of deposit to have minimal risk of default.

The Group has policies in place to ensure that provision of loans and sales of products/services are made to customers with an appropriate credit history. The Group's credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The carrying amount of loans, trade and other accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk. Concentration of credit risk mainly relates to CIS and European countries where the major customers are located.

The maximum exposure to credit risk at 31 December 2011 is USD 3,552 million (2010: USD 2,934 million) being the carriyng value of long and short term loans issued and receivables and cash. In order to reduce credit risk on receivables, the Group uses letters of credit, guarantees and trade insurance. The Group does not hold any collateral as security.

Management believes that credit risk is appropriately reflected in impairment allowances recognised against assets. No credit limits were exceeded during the reporting period, and management does not expect any significant losses from non-performance by these counterparties.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Group treasury analyses the ageing of their assets and the maturity of their liabilities and plans their liquidity depending on the expected repayment of various instruments. In case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among the entities of the Group to achieve optimal financing of the business needs of each entity.

31 Financial risk management (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	302	364	1,116	-
Trade finance	787	-	-	-
Bonds	117	117	769	827
Seller's notes	106	102	190	-
Trade and other payables	1,319	-	-	-
Guarantees issued	11	-	-	-
At 31 December 2010				
Bank borrowings	566	591	447	4
Trade finance	623	-	-	-
Bonds	234	51	628	-
Seller's notes	101	106	292	-
Other non-current liabilities	-	79	-	-
Trade and other payables	1,863	-	-	-
Guarantees issued	18	-	-	-

32 Capital risk management

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

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of a gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and Seller's Notes (including current and non-current parts) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The Group needs to comply with certain restrictive covenants such as maintaining certain financial ratios determined by the loan agreements (e.g. gearing). Covenants are monitored by the management and there were no cases of non-compliance with the covenants at 31 December 2011 and 31 December 2010.

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 1 - 5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has credit ratings assigned by two international rating agencies, Fitch and Moody's, B and B2, updated in January 2012 and November 2011 respectively, capped by the Sovereign rating.

	31 December 2011	31 December 2010
Total borrowings (Note 19)	3,671	2,796
Sellers notes (Note 20)	310	368
Less: cash and cash equivalents (Note 16)	792	449
Net debt	3,189	2,715
Total equity	9,517	8,058
Total capital	12,706	10,773
Gearing ratio	25%	25%

33 Fair values of financial instruments

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying values less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

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

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

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid (Note 19, 20 and 22).

34 Reconciliation of classes of financial instruments with measurement categories

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2011:

	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 16)			
- Current accounts	782	-	**782**
- Term deposits	10	-	**10**
Trade and other receivables (Note 15)		-	
- Trade receivables and receivables on commission	1,470	-	**1,470**
- Other financial receivables	1,055	-	**1,055**
Other non-current assets (Note 13)	226	-	**226**
TOTAL FINANCIAL ASSETS	**3,543**	**-**	**3,543**
NON-FINANCIAL ASSETS			**12,464**
TOTAL ASSETS			**16,007**

All of the Group's financial liabilities are carried at amortised cost.

The following table provides a reconciliation of classes of financial assets with these measurement categories as at 31 December 2010:

	Loans and receivables	Available-for-sale assets	Total
ASSETS			
Cash and cash equivalents (Note 16)			
- Current accounts	301	-	**301**
- Term deposits	148	-	**148**
Trade and other receivables (Note 15)			
- Trade receivables and receivables on commission	1,510	-	**1,510**
- Other financial receivables	872	-	**872**
Other non-current assets (Note 13)	103	-	**103**
TOTAL FINANCIAL ASSETS	**2,934**	**-**	**2,934**
NON-FINANCIAL ASSETS			**11,621**
TOTAL ASSETS			**14,555**