Metinvest B.V.

Abbreviated IFRS Consolidated Financial Statements

31 December 2012

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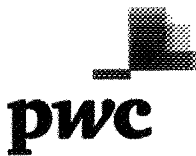

Independent auditor's report

To: the general meetings of shareholders of Metinvest B.V.

The accompanying summary financial statements, which comprise the summary consolidated balance sheet as at 31 December 2012, the summary consolidated income statement, the statements of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of Metinvest B.V. for the year 2012. We expressed an unqualified audit opinion on those financial statements in our report dated 11 April 2013. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements.

The summary financial statements do not contain the company financial statements as required by International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Reading the summary financial statements, therefore, is not a substitute for reading the complete audited financial statements of Metinvest B.V.

Director's responsibility

The directors are responsible for the preparation of a summary of the audited financial statements.

Auditor's responsibility

Our responsibility is to express an opinion on the summary financial statements and the related explanatory notes based on our procedures, which we conducted in accordance with Dutch Law, including the Dutch Standard 810 "Engagements to report on summary financial statements".

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of Metinvest B.V. for the year 2012 are consistent, in all material respects, with those financial statements.

Amsterdam, 11 April 2013
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 2012	31 December 2011
ASSETS			
Non-current assets			
Goodwill	7	980	961
Other intangible assets	8	937	989
Property, plant and equipment	9	8,152	7,299
Investments in associates and joint venture	10	811	276
Deferred tax asset	26	245	280
Other non-current assets	11	273	234
Total non-current assets		**11,398**	**10,039**
Current assets			
Inventories	12	2,113	2,137
Income tax prepaid		250	51
Trade and other receivables	13	3,194	2,988
Cash and cash equivalents	14	530	792
Total current assets		**6,087**	**5,968**
TOTAL ASSETS		**17,485**	**16,007**
EQUITY			
Share capital	15	0	0
Share premium	15	5,461	5,461
Other reserves	16	(3,238)	(3,818)
Retained earnings		7,052	6,673
Equity attributable to the owners of the Company		**9,275**	**8,316**
Non-controlling interest		**1,160**	**1,201**
TOTAL EQUITY		**10,435**	**9,517**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	17	2,654	2,614
Seller's notes	18	150	220
Retirement benefit obligations	19	572	537
Deferred tax liability	26	175	146
Other non-current liabilities	20	80	79
Total non-current liabilities		**3,631**	**3,596**
Current liabilities			
Loans and borrowings	17	1,384	1,057
Seller's notes	18	90	90
Trade and other payables	21	1,945	1,747
Total current liabilities		**3,419**	**2,894**
TOTAL LIABILITIES		**7,050**	**6,490**
TOTAL LIABILITIES AND EQUITY		**17,485**	**16,007**

Signed and authorized for release on behalf of Metinvest B.V. on 29 March 2013:

Originally signed by Igor Syry – Director B

Originally signed by John W. Macdonald – Director A

Abbreviated Consolidated Income Statement
All amounts in millions of US dollars

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Revenue	6	12,565	14,189
Cost of sales	22	(10,078)	(9,783)
Gross profit		**2,487**	**4,406**
Distribution costs	22	(1,122)	(1,049)
General and administrative expenses	22	(394)	(395)
Other operating income/(expenses), net	23	8	(171)
Operating profit		**979**	**2,791**
Finance income	24	52	78
Finance costs	25	(321)	(355)
Share of result of associates and joint venture	10	(9)	(10)
Profit before income tax		**701**	**2,504**
Income tax expense	26	(266)	(650)
Profit for the year		**435**	**1,854**
Profit is attributable to:			
Owners of the Company		184	1,359
Non-controlling interests		251	495
Profit for the year		**435**	**1,854**

Abbreviated Consolidated Statement of Comprehensive Income
All amounts in millions of US dollars

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Profit for the year		435	1,854
Other comprehensive income			
Revaluation of property, plant and equipment	9, 22	1,071	(2)
Currency translation differences		29	(60)
Share in other comprehensive income of associates	10	-	(33)
Income tax relating to components of other comprehensive income	26	(178)	-
Total other comprehensive income		**922**	**(95)**
Total comprehensive income for the period		**1,357**	**1,759**
Total comprehensive income attributable to:			
Owners of the Company		955	1,270
Non-controlling interest		402	489
		1,357	**1,759**

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Cash flows from operating activities			
Profit before income tax		**701**	**2,504**
Adjustments for:			
Depreciation of property, plant and equipment ("PPE") and amortisation of intangible assets	22	899	832
Impairment and devaluation of PPE	22	86	15
(Gain)/loss on disposal of property, plant and equipment and intangible assets	23	(33)	4
Finance income	24	(52)	(78)
Finance costs	25	321	355
Unrealised foreign exchange differences		3	-
Change in retirement benefit obligation		(44)	(132)
Impairment of accounts receivable	23	-	39
Share of result of associates and joint venture	10	9	10
Write-offs of inventory	12	(17)	36
Other non-cash operating losses		10	28
Operating cash flows before working capital changes		**1,883**	**3,613**
Decrease /(increase) in inventories		55	(557)
(Increase)/decrease in trade and other accounts receivable		(279)	77
Increase/(decrease) in trade and other accounts payable		331	(65)
Decrease in other non-current assets		6	15
Decrease in other non-current liabilities		(2)	(4)
Cash generated from operations		**1,994**	**3,079**
Income taxes paid		(623)	(915)
Interest paid		(225)	(220)
Net cash from operating activities		**1,146**	**1,944**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(686)	(1,064)
Purchase of intangible assets		(13)	(7)
Proceeds from sale of property, plant and equipment		15	16
Payments for subsidiaries acquired in prior periods		-	(26)
Acquisition of interest in Zaporozhstal Group	10	(512)	(238)
Loans issued to related parties	11, 13	(133)	(198)
Proceeds from repayments of loans issued	11, 13	161	48
Interest received		68	13
Dividends received		-	2
Proceeds from disposal of interest in subsidiaries		6	-
Net cash used in investing activities		**(1,094)**	**(1,454)**
Cash flows from financing activities			
Proceeds from loans and borrowings	17	721	2,140
Repayment of loans and borrowings	17	(410)	(1,419)
Repayment of seller's notes	18	(90)	(89)
Net trade financing proceeds	17	51	157
Payment for acquisition of non-controlling interest in subsidiaries		(10)	-
Dividends paid		(575)	(937)
Net cash generated from/(used in) financing activities		**(313)**	**(148)**
Effect of exchange rate changes on cash and cash equivalents		(1)	1
Net increase/(decrease) in cash and cash equivalents		**(262)**	**343**
Cash and cash equivalents at the beginning of the year		**792**	**449**
Cash and cash equivalents at the end of the year	14	**530**	**792**

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 2011	**0**	**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)**
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	**0**	**5,461**	**(3,818)**	**6,673**	**8,316**	**1,201**	**9,517**
Revaluation of property, plant and equipment (Note 9, 22)	-	-	893	-	**893**	178	**1,071**
Income tax relating to components of other comprehensive income (Note 26)	-	-	(149)	-	**(149)**	(29)	**(178)**
Currency translation differences	-	-	27	-	**27**	2	**29**
Other comprehensive income for the period	**-**	**-**	**771**	**-**	**771**	**151**	**922**
Profit for the period	-	-	-	184	**184**	251	**435**
Total comprehensive income for the period	**-**	**-**	**771**	**184**	**955**	**402**	**1,357**
Realised revaluation reserve	-	-	(191)	191	**-**	-	**-**
Acquisition of non-controlling interest in subsidiaries				4	**4**	(9)	**(5)**
Dividends declared by non-wholly-owned subsidiaries	-	-	-	-	**-**	(434)	**(434)**
Balance at 31 December 2012	**0**	**5,461**	**(3,238)**	**7,052**	**9,275**	**1,160**	**10,435**

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. SCM Cyprus and SMART additionally agreed that SMART would contribute their equity interest in JSC Makeyevka Steel Plant ("MMZ") and JSC Promet Steel. In exchange SMART would acquire certain veto rights over the management of the Company. 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. It was further agreed that SCM Cyprus will 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 2012, SCM's carrying value of such assets totalled USD 665 million (31 December 2011: USD 754 million). As of the date of preparation of these financial statements, the shareholders are undecided on the exact mechanism, and at which value these assets will be brought into the Group.

In 2011, 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 2012, 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 2012	2011	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	96.1%	95.9%	Metallurgical	Ukraine
PJSC Yenakiieve Iron and Steel Works	90.7%	90.6%	Metallurgical	Ukraine
JV Metalen LLC	100.0%	100.0%	Metallurgical	Ukraine
PJSC Khartsyzsk Pipe Plant	98.0%	97.6%	Metallurgical	Ukraine
Ferriera Valsider S.p.A.	70.0%	70.0%	Metallurgical	Italy
Metinvest Trametal S.p.A.	100.0%	100.0%	Metallurgical	Italy
Spartan UK Limited	100.0%	100.0%	Metallurgical	UK
Metinvest International SA	100.0%	100.0%	Metallurgical	Switzerland
Metinvest Eurasia LLC	99.0%	99.0%	Metallurgical	Russia
Metinvest Service Metal Centres LLC	100.0%	100.0%	Metallurgical	Ukraine
Metinvest Ukraine LLC	100.0%	100.0%	Metallurgical	Ukraine
JSC Promet Steel	95.3%	95.3%	Metallurgical	Bulgaria
PJSC Makiivka Iron and Steel Works	90.2%	90.2%	Metallurgical	Ukraine
PJSC Ilyich Iron and Steel Works	99.2%	99.1%	Metallurgical	Ukraine
PSC Ilyich Steel	100.0%	100.0%	Metallurgical	Ukraine
PJSC Avdiivka Coke Plant	92.6%	91.7%	Metallurgical	Ukraine
PJSC Northern Iron Ore Enrichment Works	63.3%	63.3%	Mining	Ukraine
PJSC Central Iron Ore Enrichment Works	76.0%	76.0%	Mining	Ukraine
PJSC Ingulets Iron Ore Enrichment Works	82.5%	82.5%	Mining	Ukraine
PJSC Komsomolske Flux Plant	99.7%	99.7%	Mining	Ukraine
United Coal Company LLC (“UCC”)	100.0%	100.0%	Mining	USA
PJSC Krasnodon Coal Company	92.5%	91.6%	Mining	Ukraine

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

As at 31 December 2012, the Group employed approximately 103 thousand people (31 December 2011: 108 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 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 29 March 2013.

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.

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.

In the fourth quarter 2011, generally positive trends in the development of steel and iron ore markets changed, resulting in a decrease in prices for steel products and iron ore. In 2012 the downward trend in prices for steel products continued. Prices for iron ore products were relatively stable up to July 2012 with significant decrease during August – September 2012 with recovery by the year end.

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.

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 with resulting gains recognised in consolidated income statement.

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.

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 merger 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.

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.

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

	31 December 2012	31 December 2011
USD/UAH	7.993	7.990
EUR/UAH	10.537	10.298

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 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.

Exchange restrictions in Ukraine are limited to compulsory receipt of foreign accounts receivable within 90 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 2012 and 31 December 2011, 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 ready for 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 as loans and receivables.

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.

Initial recognition of financial instruments. The Group's principal financial instruments comprise 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.

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.

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.

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.

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.

3 Basis of preparation and significant accounting policies (continued)

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 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.

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.

3 Basis of preparation and significant accounting policies (continued)

(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.

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.

Change in segment reporting. In 2012 the Group has changed the structure of segment reporting due to changes in operating model. Comparative information for 2011 have been presented under the new management structure (Note 6).

Change in classification of interest expense on pension obligations. In 2012 management has changed the classification of interest expense related to pension obligations to conform to the accounting policy used by SCM. The change resulted in decrease of cost of sales in 2011 by USD 90 million and respective increase in finance cost.

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

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. Within 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 7.

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.

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's expectations that are believed to be reasonable under the circumstances and are disclosed in Note 7. In addition, a number of tax planning opportunities are available to the Group to recover the deferred tax asset recognised.

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 of Ukraine, 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 government 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 19.

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 28).

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.

Revaluation of property, plant and equipment. On an annual basis management of the Group carries out an analysis to assess whether carrying amounts of items of property, plant and equipment differ materially from that which would be determined using fair value at the end of the reporting period. The analysis is based on price indices, developments in technology, movements in exchange rates since the date of latest revaluation, profitability of underlying businesses and other relevant factors. Where the analysis indicates that the fair values of items of property plan and equipment differ materially from the carrying amounts, further revaluation is performed.

Fair value is determined using depreciated replacement cost or market value where it is available. When performing valuation using these methods, the key judgments and estimates applied by the valuers are as follows:

- choice of information sources for construction costs analysis (actual costs recently incurred by the Group, specialised reference materials and hand-books, estimates for cost of construction of various equipment etc.);
- determination of comparatives for replacement cost of certain equipment, as well as corresponding adjustments required to take into account differences in technical characteristics and condition of new and existing equipment; and
- selection of market data when determining market value where it is available.

Changes in these judgments could have a material effect on the fair value of property, plant and equipment.

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 3,180 million as at 31 December 2012 (31 December 2011: USD 3,306 million).

5 Adoption of new or revised standards and interpretations

There no new standards, amendments to standards or interpretations that are effective for the first time for the financial periods beginning on or after 1 January 2012 that would be expected to 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 2012 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 2014).
- Amended IAS 28, Investments in Associates and Joint Ventures (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 11, Joint arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- 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 impact of the standard will be as follows: actuarial gains and losses will be recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the periods in which they occur. Past service costs will be recognised in profit or loss in the period of a plan amendment. Retrospective application of the amended standard is required.
  The impact of the amended IAS 19 on the Group's financial statement will be as follows:
  - As at 31 December 2011, retirement benefit obligations in the balance sheet will increase by USD 106 million to USD 643 million with corresponding decrease in equity due to recognition of actuarial gains/losses and past service costs which are unrecognised under current IAS 19;
  - Other comprehensive income for 2012 will be lower by USD 35 million due to immediate recognition of actuarial losses occurred in the period;
  - Profit for 2012 will by higher by USD 9 million because there will be no impact of actuarial losses recognised under "corridor" approach in current IAS 19;
  - Accordingly, retirement benefit obligations in the balance sheet as at 31 December 2012 will increase by USD 132 million (Note 19).

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

6 Segment information

In August 2011 the Group approved a new operating model, comprising two operating divisions: metallurgical and mining.

The structure and format of management reporting has changed in 2012 and, accordingly, format of segments disclosure has changed compared to the latest annual financial statements and comparative information was restated.

Under the new operating model the Group is organised on the basis of two main business segments:

- Metallurgical – comprising the production and sale of coke, semi-finished and finished steel products;
- Mining – comprising the production, enrichment and sale of iron ore and coal.

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

	Metallurgical	**Mining**	**Corporate overheads**	**Eliminations**	**Total**
2012					
Sales – external	9,265	3,300	-	-	**12,565**
Sales to other segments	75	2,002	-	(2,077)	-
Total of the reportable segments' revenue	9,340	5,302	-	(2,077)	**12,565**
Adjusted EBITDA	**(270)**	**2,269**	**(115)**	**101**	**1,985**
Reconciling items:					
Depreciation and amortisation					(899)
Sponsorship and other charity payments					(21)
Impairment and devaluation of PPE					(86)
Share of result of associates and joint venture					(9)
Finance income					52
Finance costs					(321)
Profit before income tax					**701**

	Metallurgical	**Mining**	**Corporate overheads**	**Total**
Capital expenditure	313	426	26	**765**
Significant non-cash items included into adjusted EBITDA:				
- net change in retirement benefit obligations	(31)	(13)	-	**(44)**

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

Analysis of revenue by category:

	Metallurgical	**Mining**	**Total**
2012			
Sales of own products	**8,564**	**2,938**	**11,502**
- Steel products	8,147	-	8,147
- Iron ore products	-	2,386	2,386
- Coal and coal concentrate	-	472	472
- Other	417	80	497
Sales of purchased goods	**701**	**362**	**1,063**
- Steel products	695	-	695
- Coal and coal concentrate	-	314	314
- Other	6	48	54
Total	**9,265**	**3,300**	**12,565**

6 Segment information (continued)

	Metallurgical	Mining	Corporate overheads	Eliminations	Total
2011					
Sales – external	10,538	3,651	-	-	**14,189**
Sales to other segments	80	2,874	-	(2,954)	-
Total of the reportable segments' revenue	10,618	6,525	-	(2,954)	**14,189**
Adjusted EBITDA	**50**	**3,727**	**(119)**	**(3)**	**3,655**
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					(355)
Other					1
Profit before income tax					**2,504**

	Metallurgical	Mining	Corporate overheads	Total
Capital expenditure	473	684	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	(81)	(51)	-	**(132)**

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

Analysis of revenue by category:

	Metallurgical	Mining	Total
2011			
Sales of own products	**10,474**	**3,358**	**13,832**
- Steel products	10,099	-	10,099
- Iron ore products	-	2,682	2,682
- Coal and coal concentrate	-	581	581
- Other	375	95	470
Sales of purchased goods	**64**	**293**	**357**
- Steel products	45	-	45
- Coal and coal concentrate	-	232	232
- Other	19	61	80
Total	**10,538**	**3,651**	**14,189**

6 Segment information (continued)

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

2012	Metallurgical	Mining	Total
Ukraine	2,384	1,753	**4,137**
Rest of Europe	2,410	378	**2,788**
Commonwealth of Independent States ("CIS")	1,875	4	**1,879**
South Eastern Asia	802	852	**1,654**
Middle East and Northern Africa	1,577	-	**1,577**
North America	82	273	**355**
Other countries	135	40	**175**
Total	**9,265**	**3,300**	**12,565**

2011	Metallurgical	Mining	Total
Ukraine	2,176	1,949	**4,125**
Rest of Europe	3,601	471	**4,072**
South Eastern Asia	1,380	832	**2,212**
CIS	1,930	5	**1,935**
Middle East and Northern Africa	1,213	-	**1,213**
North America	72	354	**426**
Other countries	166	40	**206**
Total	**10,538**	**3,651**	**14,189**

7 Goodwill

The movements of goodwill were as follows:

	2012	2011
Book amount as at 1 January, net	**961**	**974**
Currency translation differences	19	(13)
Book amount as at 31 December, net	**980**	**961**

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

	2012	2011
Metallurgical	634	615
Mining	346	346
Total	**980**	**961**

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:

	2012
Metallurgical	
Post-tax discount rate	10.5%
Revenue growth rate	-29% – 20%
Growth rate in perpetual period	3%
Gross margins	1% – 18%
EBITDA margins	-1% – 16%
Mining	
Post-tax discount rate	10.5%
Revenue growth rate	-18% – 23%
Growth rate in perpetual period	3%
Gross margins	38% – 52%
EBITDA margins	37% – 51%

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.

The assumptions for iron ore prices ranged from USD 105 per tonne to USD 125 per tonne of Fe 62% fines CFR North China in 2013–2021 and equals to USD 122 per ton in 2022, last year of forecast. Forecasted prices for other iron ore products and prices at other markets were determined based on respective discounts or premiums for Fe content, transportation costs and historic discounts or premiums usual for those markets.

Forecasted prices for hot-rolled coils at Ukrainian ports gradually increase from current levels to USD 670 per ton in 2022. Forecasted prices for other steel products are based on historic discounts or premiums to prices for hot-rolled coils. Forecasts from industry experts and other external reputable sources, as well as internal analysis were used by management to determine price levels used in the impairment test.

7 Goodwill (continued)

As at 31 December 2012 Metallurgical division recoverable amount exceeds its carrying amount by USD 435 million (2011: USD 1,045 million).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 Metallurgical division:

	Impairment required
Volumes	
Decrease of volumes of sales in all the periods by 5%	recoverable amount equals carrying amount
Decrease of volumes of sales in all the periods by 10%	USD 484 million
Steel prices	
Decrease of prices in all the periods by 0.5%	recoverable amount equals carrying amount
Decrease of prices in all the periods by 1%	USD 529 million
Iron ore prices	
Increase of prices in all the periods by 2%	recoverable amount equals carrying amount
Increase of prices in all the periods by 5%	USD 816 million
Discount rates	
Increase of discount rates in all the periods by 0.3%	recoverable amount equals carrying amount
Increase of discount rates in all the periods by 1%	USD 942 million
Growth rate in perpetual period	
Decrease of growth rate in perpetual period by 0.5%	recoverable amount equals carrying amount
Decrease of growth rate in perpetual period by 1%	USD 428 million

With regard to impairment testing of the goodwill related to Mining division, 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.

8 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 2011					
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 of subsidiaries	-	-	-	(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
Additions	-	-	-	24	**24**
Amortisation	(8)	(11)	(52)	(5)	**(76)**
As at 31 December 2012					
Cost	418	-	726	70	**1,214**
Accumulated amortisation	(23)	-	(222)	(32)	**(277)**
Net carrying amount	**395**	**-**	**504**	**38**	937

The iron ore license is being amortised using the units-of-production method over its remaining useful life of approximately 11 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 their useful life of approximately 30 years.

9 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 2011	**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**
Additions	-	-	-	-	741	**741**
Transfers	1	196	461	57	(715)	**-**
Disposals	-	(37)	(33)	(6)	(18)	**(94)**
Disposal of subsidiaries	-	(3)	(4)	-	(1)	**(8)**
Reclassification to inventory	-	-	-	-	(11)	**(11)**
Elimination against gross carrying amount	-	(308)	(933)	(20)	-	**(1,261)**
Revaluation	1	476	504	4	-	**985**
Currency translation differences	-	2	5	1	-	**8**
As at 31 December 2012	**78**	**3,085**	**4,943**	**153**	**917**	**9,176**
Accumulated depreciation and impairment						
As at 1 January 2011	**-**	**(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)**
Charge for the year	-	(183)	(612)	(28)	-	**(823)**
Disposals	-	38	17	1	1	**57**
Transfers	-	10	-	(10)	-	**-**
Elimination against gross carrying amount		308	933	20	-	**1,261**
Currency translation differences	-		(2)	-	-	**(2)**
As at 31 December 2012	**-**	**(209)**	**(761)**	**(48)**	**(6)**	**(1,024)**
Net book value as at						
31 December 2011	**76**	**2,377**	**3,846**	**86**	**914**	**7,299**
31 December 2012	**78**	**2,876**	**4,182**	**105**	**911**	**8,152**

9 Property, plant and equipment (continued)

During 2012, management performed assessment if carrying amounts of items of property, plant and equipment are materially different from their fair values. Where the material differences were identified as probable, the Group engaged independent appraisers to determine the fair value of its property, plant and equipment. Fair value was determined with reference to depreciated replacement cost or market-based evidence, in accordance with International Valuation Standards.

The majority of the structures, plant and machinery are specialised in nature and are rarely sold in the open market in Ukraine other than as part of a continuing business. The market for similar property, plant and equipment is not active in Ukraine and does not provide a sufficient number of sales of comparable assets to allow for using a market-based approach for determining fair value. Consequently, the fair value of structures, plant and machinery was primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economic depreciation, and obsolescence.

The depreciated replacement cost was estimated based on internal sources and analysis of Ukrainian and international markets for similar property, plant and equipment. Various market data was collected from published information, catalogues, statistical data etc, and industry experts and suppliers.

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 2012, the Group has not filed any application to exercise the purchase option. Total payments under land lease agreement for 2012 and 2011 were insignificant.

During 2012 USD 21 million of borrowing costs were capitalised, capitalisation rate was 6% (2011: USD 18 million, capitalisation rate 6%).

As at 31 December 2012 no buildings, plant and machinery were pledged to third parties as collateral for loans and borrowings (31 December 2011: USD 9 million) (Note 17).

10 Investments in associates and joint venture

The principal associates and joint venture of the Group are as follows:

			2012		2011	
Name		**Segment**	**% of ownership**	**Carrying value**	**% of ownership**	**Carrying value**
Zaporozhstal	Joint venture	Metallurgical	49.9%	739	12.5%	202
IMU	Associate	Metallurgical	49.9%	22	49.9%	22
JSC Donetskkoks	Associate	Metallurgical	37.5%	15	37.5%	16
JSC Zaporozhkoks	Associate	Metallurgical	25.0%	32	25.0%	33
Other	Associate	Mining	n/a	3	n/a	3
Total				**811**		**276**

None of the associates nor the joint venture are listed on international stock exchanges.

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

	2012	2011
Carrying amount at 1 January	**276**	**109**
Acquisition of interest in Zaporozhstal Group	544	208
Share of other equity movements of associates and joint venture	-	(33)
Share of after tax results of associates and joint venture	(9)	(10)
Currency translation differences	-	2
Carrying amount at 31 December	**811**	**276**

In July 2011, Metinvest together with two other investors entered into binding agreements with the sellers known as Industrial Group to acquire 50% of all Industrial Group's interests in the steel and mining business. The most significant of the Industrial Group's shareholdings was a 50.0032% interest in JSC Zaporozhstal Integrated Iron & Steel Works ("Zaporozhstal") which also held significant stakes in various other entities in the steel and mining sector in Ukraine, the most significant of which are JSC Zaporizhya Iron Ore Plant, JSC Zaporozhkoks and JSC Zaporozhogneupor. All such steel and mining shareholdings of Industrial Group, including 50.0032% interest in Zaporozhstal, are referred to as "Zaporozhstal Group".

10 Investments in associates and joint venture (continued)

The purchase price for 50% in Zaporozhstal Group was USD 416 million. The Group's 24.9% interest in Zaporozhstal Group (constituting, i.a., a 12.5% effective share in Zaporozhstal itself) was purchased for USD 208 million.

In July 2012, Metinvest exercised an option (acquired from Industrial Group in August 2011 for a consideration of USD 30 million) to purchase the remaining 50% stake in Zaporozhstal Group. The purchase price of such additional 50% interest was USD 300 million.

Finally, in August 2012 Metinvest completed acquisition of 24.9% interest in Zaporozhstal Group from one of its co-investors in the initial 2011 transaction, for USD 212 million.

As a result of these and other related transactions done in 2011-2012, the Group became an owner of 99.8% interest in Zaporozhstal Group previously owned by Industrial Group. The total consideration paid by Metinvest for 99.8% interests in Zaporozhstal Group is USD 750 million.

As of 31 December 2012, Metinvest's investment in Zaporozhstal is classified as a joint venture due to the fact that strategic financial and operating decisions require participation of and consents from the other shareholders of Zaporozhstal.

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

2012	**Segment**	**% of ownership**	**Total assets**	**Total liabilities**	**Revenue**	**Profit/ (loss)**
IMU	Metallurgical	49.9%	49	-	-	-
JSC Donetskkoks	Metallurgical	37.5%	60	21	97	(3)
JSC Zaporozhkoks	Metallurgical	25.0%	150	64	404	(2)

2011	**Segment**	**% of ownership**	**Total assets**	**Total liabilities**	**Revenue**	**Profit/ (loss)**
Zaporozhstal	Metallurgical	12.5%	1,862	854	2,238	(43)
IMU	Metallurgical	49.9%	49	-	-	-
JSC Donetskkoks	Metallurgical	37.5%	61	19	123	7
JSC Zaporozhkoks	Metallurgical	25.0%	203	115	441	(28)

The summarised financial information of Zaporozhstal Group as at 31 December 2012 and for the year then ended:

2012	**Non-current assets**	**Current assets**	**Non-current liabilities**	**Current liabilities**	**Revenue**	**Profit/ (loss)**
Zaporozhstal	1,383	406	159	881	1,973	(81)

11 Other non-current assets

	2012	2011
Long-term loans issued to related parties (USD denominated, 9% effective interest rate, mature during 2014-2017)	41	-
Long-term loans issued to related parties (USD denominated, 11% effective interest rate, mature in 2016)	98	98
Long-term receivables from related parties (UAH denominated, 13.6% effective interest rate, mature in 2014)	83	73
Long-term loans issued to related parties (USD denominated, 11.5% effective interest rate, mature in 2013)	-	18
Other non-current financial assets	42	37
Other non-current non-financial assets	9	8
Total	**273**	**234**

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

	2012	2011
Balances neither past due nor impaired:		
- related parties	222	189
- other	42	37
Total non-current and not impaired	**264**	**226**

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.

12 Inventories

	2012	2011
Finished goods and work in progress	1,092	1,179
Raw materials	457	469
Ancillary materials, spare parts and consumables	369	419
Goods for resale	195	70
Total inventories	**2,113**	**2,137**

Reversal of inventory write down recognised as an income in 2012 was USD 17 million (2011: inventory write down recognised as an expense USD 36 million).

As at 31 December 2012, inventories totalling USD 145 million (31 December 2011: USD 211 million) have been pledged as collateral for borrowings (Note 17).

13 Trade and other receivables

	2012	2011
Trade receivables and receivables on commission sales	1,680	1,470
Receivables for bonds and promissory notes sold	361	361
Loans issued to related parties (USD denominated, 10% effective interest rate on average)	274	325
Interest accrued on loans issued to related parties	35	62
Receivables for disposal of subsidiaries and associates	176	176
Receivables for deposit certificates sold	58	62
Option for acquisition of interest in Zaporozhstal Group (Note 10)	-	30
Receivables for property, plant and equipment sold	39	5
Other financial receivables	138	34
Total financial assets	**2,761**	**2,525**
Recoverable value added tax	273	309
Prepayments made	103	95
Other receivables	57	59
Total trade and other receivables	**3,194**	**2,988**

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

	2012		2011	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Provision for impairment at 1 January	**112**	**24**	**68**	**27**
Net impairment during the year	-	-	39	-
Reclassification	6	(6)	3	(3)
Currency translation differences	-	-	2	-
Provision for impairment at 31 December	**118**	**18**	**112**	**24**

13 Trade and other receivables (continued)

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

	2012		2011	
	Trade receivables and receivables on commission sales	Other financial receivables	Trade receivables and receivables on commission sales	Other financial receivables
Key customers	155	-	256	-
SCM and other related companies, including associates	71	225	137	397
Balances covered by bank letters of credit	136	-	185	-
Balances insured	239	-	189	-
Existing customers with no history of default	129	53	158	24
New customers	18	2	16	1
Balances renegotiated with SCM and other related companies, including associates	30	778	43	589
Balances renegotiated with other customers	-	7	5	5
Option for acquisition of interest in Zaporozhstal Group	-	-	-	30
Total current and not impaired	**778**	**1,065**	**989**	**1,046**
Past due but not impaired:				
- less than 30 days overdue	254	8	206	5
- 30 to 90 days overdue	286	-	183	-
- 90 to 180 days overdue	207	-	74	-
- 180 to 360 days overdue	101	5	5	-
- over 360 days overdue	54	3	13	4
Total past due but not impaired	**902**	**16**	**481**	**9**
Total individually impaired	**118**	**18**	**112**	**24**
Less impairment provision	**(118)**	**(18)**	**(112)**	**(24)**
Total	**1,680**	**1,081**	**1,470**	**1,055**

As at 31 December 2012, 56% of overdue but not impaired receivables related to key customers (2011: 56%) and 30% to SCM and other related parties (2011: 24%).

As at 31 December 2012, trade and other receivables totalling USD 123 million (31 December 2011: USD 134 million) have been pledged as collateral for borrowings (Note 17).

14 Cash and cash equivalents

	2012	2011
Current accounts	518	782
Bank deposits up to 3 months	12	10
Total cash and cash equivalents	**530**	**792**

The bank balances and term deposits are neither past due nor impaired. Analysis by credit quality of bank balances and term deposits is as follows:

	31 December 2012	31 December 2011
As rated by Moody's:		
- Aa2	5	-
- Aa3	-	229
- A1	-	29
- A2	374	-
- A3	2	-
- Baa2	5	43
- Baa3	1	1
- B3	-	470
- Caa1	121	-
Not covered by Moody's rating	22	20
Total cash and cash equivalents	**530**	**792**

Amounts in banks rated Caa1 as at 31 December 2012 and B3 as at 31 December 2011 relate mainly to First Ukrainian International Bank which is under common control of SCM.

15 Share capital

	Number of outstanding shares		Ordinary shares	Share premium	Total
	Class A	Class B			
At 31 December 2011	**9,000**	**474**	**0**	**5,461**	**5,461**
At 31 December 2012	**9,000**	**474**	**0**	**5,461**	**5,461**

As at 31 December 2012, the authorised share capital comprised 42,750 ordinary class A shares (2011: 42,750) and 2,250 ordinary class B shares (2011: 2,250) with a par value of EUR 10. Each ordinary share carries one vote.

16 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 2011	**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)**
Total comprehensive income for the period	-	744	-	27	**771**
Depreciation transfer, net of tax	-	(191)	-	-	**(191)**
Balance as at 31 December 2012	**(13)**	**2,137**	**(2,987)**	**(2,375)**	**(3,238)**

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.

17 Loans and borrowings

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

	2012	2011
Non-current		
Bank borrowings	1,419	1,382
Bonds	1,235	1,232
	2,654	**2,614**
Current		
Bank borrowings	519	245
Trade finance	835	784
Bonds	30	28
	1,384	**1,057**
Total loans and borrowings	**4,038**	**3,671**

	2012	2011
Loans and borrowings due:		
- within 1 year	1,384	1,057
- between 1 and 5 years	1,915	1,877
- after 5 years	739	737
Total borrowings	**4,038**	**3,671**

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 2012		31 December 2011	
In % per annum	**USD**	**EUR**	**USD**	**EUR**
Bank borrowings	4%	2%	4%	4%
Bonds issued	9%	-	9%	-
Trade finance	3%	3%	3%	3%
Reported amount	**3,842**	**196**	**3,331**	**340**

As at 31 December 2012, bonds issued carry fixed interest rates (31 December 2011: fixed interest rate); bank borrowings and trade finance denominated in EUR carry interest rates of EURIBOR 1–6 months plus margins of 0.5%–2.5% (31 December 2011: EURIBOR 1–6 months plus margins of 0.2%–2.5%); the bank borrowings and trade finance denominated in USD carry interest rates of LIBOR 1–6 months plus margins of 1%–6% (31 December 2011: LIBOR 1–3 months plus margins of 0.1%–6%).

During 2012 the Group fully repaid a loan drawn by Metinvest Trametal S.p.A with balance outstanding as at 31 December 2011 of EUR 163 million.

In June 2012 the Group obtained a syndicate loan in the nominal amount of USD 325 million bearing nominal interest of LIBOR 3 month plus margin of 4.75% per annum, paid quarterly. Principal is repayable in equal monthly instalments starting from June 2013 through May 2015.

In December 2012 the Group obtained a loan in the nominal amount of USD 300 million bearing nominal interest of LIBOR 3 month plus margin of 5.25% per annum, paid quarterly. Principal is repayable in equal monthly instalments starting from November 2013 through October 2015.

As at 31 December 2012, borrowings totalling USD 118 million were secured with inventories (31 December 2011: USD 188 million were secured with inventories and property, plant and equipment), borrowings totalling USD 119 million were secured with trade and other accounts receivable (31 December 2011: USD 98 million) and borrowings totalling USD 1,813 million were secured with the future sales proceeds (31 December 2011: USD 1,389 million).

As at 31 December 2012, the fair value of bonds was USD 1,245 million (31 December 2011: USD 1,135 million) as determined by reference to observable market quotations. The fair value of bank borrowings was USD 1,907 million (31 December 2011: USD 1,593 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 2012, the fair value of trade finance borrowings is approximately equal to their carrying value.

18 Seller's notes

	2012	2011
Non-current portion	150	220
Current portion	90	90
Total seller's notes	**240**	**310**

Seller's notes are secured with a 100% of the capital of United Coal Company LLC and subordinated to other borrowings of the Group to the extent that total borrowings do not exceed USD 3 billion excluding interest.

Seller's notes are repayable in equal semiannual instalments through 2015, bear nominal interest rate of 5% p.a., and are recorded at an effective interest rate of 12.5% p.a.

As of 31 December 2012, the fair value of seller's notes was USD 253 million (31 December 2011: USD 332 million).

19 Retirement benefit obligations

	2012	2011
Present value of unfunded defined benefit obligations	704	643
Unrecognised net actuarial loss	(137)	(111)
Unrecognised past service cost	5	5
Liability in the consolidated balance sheet	**572**	**537**

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

	2012	2011
Current service cost	25	34
Recognised cost of past service	-	(105)
Interest cost	81	90
Recognised actuarial losses	9	8
Total	**115**	**27**

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

	2012	2011
Defined benefit obligation as at 1 January	**643**	**704**
Current service cost	25	34
Actuarial losses	35	40
Past service cost	-	(157)
Interest cost	81	90
Benefits paid	(79)	(67)
Currency translation differences	(1)	(1)
Defined benefit obligation as at 31 December	**704**	**643**

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 as of 31 December 2011 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 was recognised immediately in accordance with the requirements of IAS 19.

19 Retirement benefit obligations (continued)

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

	2012	2011
As at 1 January	**537**	**579**
Benefits paid	(79)	(68)
Net expense recognised in the income statement	115	27
Currency translation differences	(1)	(1)
As at 31 December	**572**	**537**

The principal actuarial assumptions used were as follows:

	2012	2011
Nominal discount rate	14%	14%
Nominal salary increase	3.62% -11%	5.0%-28.3%
Nominal pension entitlement increase	3.62% -11%	5.0%-28.3%

Payments in respect of post-employment benefit plans obligations expected to be made during the year ending 31 December 2013 are USD 84 million.

Present value of unfunded defined benefit obligations totals to USD 704 million as at 31 December 2012 (31 December 2011: USD 643 million; 31 December 2010: USD 704 million; 31 December 2009: USD 385 million; 31 December 2008: USD 381 million).

Experience adjustments for 2012 approximate to USD 18 million (2011: USD 58 million; 2010: USD 33 million; 2009: USD 12 million; 2008: USD 38 million).

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

	2012	2011
Nominal discount rate increase/decrease by 1%	(36)/41	(42)/48
Nominal salary increase increase/decrease by 1%	20/(19)	24/(22)

20 Other non-current liabilities

	2012	2011
Tax liabilities under moratorium (Note 28)	23	23
Asset retirement obligations	33	30
Other non-current liabilities	18	20
Deferred income	6	6
Total other non-current liabilities	**80**	**79**

Asset retirement obligations is primarily comprised of USD 30 million which relate to obligation of UCC on recultivation of land after coal extraction.

As of 31 December 2012 the fair value of financial other non-current liabilities approximates their carrying values.

21 Trade and other payables

	2012	2011
Trade payables and payables on sales made on commission	1,292	1,027
Payables for acquired non-controlling interest	-	5
Dividends payable to shareholders of Metinvest B.V.	-	109
Dividends payable to non-controlling shareholders of Company subsidiaries	16	48
Payable for acquired property, plant and equipment, intangibles	140	106
Other financial liabilities	28	24
Total financial liabilities	**1,476**	**1,319**
Prepayments received	241	167
Accruals for employees' unused vacations and other payments to employees	100	83
Income tax payable	11	57
Other tax payable	55	49
Wages and salaries payable	33	43
Other allowances	29	29
Total trade and other payables	**1,945**	**1,747**

22 Expenses by nature

	2012	2011
Raw materials including change in finished goods and work in progress	3,924	4,468
Goods for resale	1,024	366
Energy materials including gas, electricity and fuel	2,227	2,297
Wages and salaries	929	932
Transportation services	938	871
Repairs and maintenance expenses	451	480
Pension and social security costs	314	311
Pension costs – defined benefit obligations (Note 19)	34	(63)
Depreciation and amortisation	899	832
Impairment of property, plant and equipment	86	15
Taxes and duties	118	117
Services and other costs	650	601
Total operating expenses	**11,594**	**11,227**
Classified in the income statement as		
- cost of sales	10,078	9,783
- distribution costs	1,122	1,049
- general and administrative expenses	394	395
Total operating expenses	**11,594**	**11,227**

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

22 Expenses by nature (continued)

Auditor's fees. The following fees were expensed in the income statement in the reporting period:

	2012	**2011**
Audit of the financial statements (including audit fee of the signing firm of USD 0.1 million)	3	3
Tax services	-	-
Other non-audit services	1	-
Total	**4**	**3**

23 Other operating (income)/expenses, net

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

	2012	**2011**
Impairment of trade and other receivables (Note 13)	-	39
Maintenance of social infrastructure	53	44
Foreign exchange (gain)/loss, net	(58)	13
Sponsorship and other charity payments	42	50
Gain on disposal of property, plant and equipment and intangible assets	(33)	4
Other (income)/expenses	(12)	21
Total other operating (income)/ expenses, net	**(8)**	**171**

24 Finance income

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

	2012	**2011**
Net foreign exchange gain	1	-
Interest income		
- bank deposits	5	3
- imputed interest on other financial instruments	10	43
- loans issued	36	29
Other finance income	-	3
Total finance income	**52**	**78**

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

25 Finance costs

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

	2012	2011
Net foreign exchange loss	-	11
Interest expense		
- borrowings	89	89
- bonds	112	112
- Seller's notes	16	9
- imputed interest on Seller's notes	19	33
Loss on origination of financial assets	-	4
Interest cost on retirement benefit obligations	81	90
Other finance costs	4	7
Total finance costs	**321**	**355**

26 Income tax

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

	2012	2011
Current tax	380	923
Deferred tax	(114)	(273)
Income tax expense	**266**	**650**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2012 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 21% (2011: 23-25%). In 2012, the tax rate for Swiss operations was 10% (2011: 10%) and for European Companies tax rate in 2012 varied from 10% to 35% (2011: varied from 10.0% to 31.4%). The tax rate for US operations was 35% (2011: 39%).

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

	2012	2011
IFRS profit before tax	**701**	**2,504**
Tax calculated at domestic tax rates applicable to profits in the respective countries	121	556
Tax effect of items not deductible or assessable for taxation purposes:		
- charitable donations and sponsorship	7	8
- non-deductible expenses	53	47
- non-taxable income	(11)	(6)
Effect of foreign exchange realised as a result of currency sale	-	9
Change in estimate regarding realisability of deferred tax balances	96	36
Income tax expense	**266**	**650**

The weighted average applicable tax rate was 17.3% in 2012 (2011: 22.2%).

26 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.

	1 January 2012	Credited/ (charged) to income statement	Charged to other compreh ensive income	Currency translation difference	31 December 2012
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	94	(25)	-	-	69
Long-term receivables	102	3	-	-	105
Inventory valuation	74	(45)	-	-	29
Trade and other accounts receivable	30	(7)	-	-	23
Accrued expenses	41	26	-	-	67
Tax losses carried forward	187	151	-	-	338
Retirement benefit obligations	100	(9)		-	91
Prepayments received	44	(11)	-	-	33
Other	20	3	-	-	23
Gross deferred tax asset	**692**	**86**	**-**	**-**	**778**
Less offsetting with deferred tax liabilities	(412)	(121)	-	-	(533)
Recognised deferred tax asset	**280**	**(35)**	**-**	**-**	**245**
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(386)	40	(178)	-	(524)
Advances paid	(40)	7	-	-	(33)
Inventory tax differences	(11)	(2)	-	-	(13)
Borrowings and long-term payables	(119)	4	-	-	(115)
Other	(2)	(21)	-	-	(23)
Gross deferred tax liability	**(558)**	**28**	**(178)**	**-**	**(708)**
Less offsetting with deferred tax assets	412	121	-	-	533
Recognised deferred tax liability	**(146)**	**149**	**(178)**	**-**	**(175)**

26 Income tax (continued)

	1 January 2011	Credited/ (charged) to income statement	Charged to other comprehensive 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	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)**

26 Income tax (continued)

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

			2012			2011
	Before tax	Deferred tax charge	After tax	Before tax	Deferred tax charge	After tax
Revaluation of property, plant and equipment	1,071	(178)	893	-	-	-
Other comprehensive income	**1,071**	**(178)**	**893**	**-**	**-**	**-**

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. Deferred tax assets and liabilities are offset only when they relate to the same taxable entity and the entity has a legally enforceable right to set off current tax assets against current tax liabilities.

27 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 2012 and 2011 significant balances outstanding with related parties are detailed below:

	31 December 2012					31 December 2011			
	SCM	**Asso-ciates**	**Joint venture**	**Other related parties**	**Smart Group**	**SCM**	**Asso-ciates**	**Other related parties**	**Smart Group**
ASSETS									
Other non-current assets, including:	**-**	**-**	**98**	**124**	**-**	**-**	**98**	**73**	**18**
Long-term loans issued	-	-	98	41	-	-	98	-	18
Other non-current assets	-	-	-	83	-	-	-	73	-
Trade and other receivables, including:	**543**	**40**	**333**	**452**	**86**	**685**	**221**	**367**	**25**
Trade receivables and receivables on commission sales	-	40	272	68	6	-	195	90	-
Prepayments made	-	-	59	3	-	-	24	1	-
Receivables for promissory notes and bonds sold	140	-	2	210	-	140	2	211	-
Loans issued	185	-	-	19	70	293	-	10	22
Interest accrued on long term loans issued	25	-	-	-	10	59	-	-	3
Receivables for disposal of subsidiaries and associates	171	-	-	5	-	171	-	5	-
Receivables for deposit certificates sold	20	-	-	32	-	20	-	33	-
Other financial receivables	2	-	-	115	-	2	-	17	-
Cash and cash equivalents	**-**	**-**	**-**	**119**	**-**	**-**	**-**	**466**	**-**

	31 December 2012					31 December 2011			
	SCM	**Asso-ciates**	**Joint venture**	**Other related parties**	**Smart Group**	**SCM**	**Asso-ciates**	**Other related parties**	**Smart Group**
LIABILITIES									
Non-current liabilities, including:	**-**	**-**	**-**	**1**	**-**	**-**	**-**	**1**	**-**
Other non-current liabilities	-	-	-	1	-	-	-	1	-
Trade and other payables, including:	**2**	**48**	**48**	**205**		**75**	**60**	**116**	**66**
Accounts payable for promissory notes purchased	-	-	-	-	-	-	1	-	-
Dividends payable	1	1	-	-	-	74	1	1	66
Trade payables and payables on sales made on commission	-	44	47	135	-	-	54	99	-
Prepayments received	-	3	-	66	-	-	4	14	-
Other financial liabilities	1	-	1	4	-	1	-	2	-

27 Balances and transactions with related parties (continued)

Significant transactions (excluding purchases) with related parties during 2012 and 2011 are detailed below:

2012	**SCM**	**Asso-ciates**	**Joint venture**	**Other related parties**	**Smart Group**	**Total**
Sales, including:	**-**	**630**	**196**	**87**	**-**	**913**
Steel	-	5	11	66	-	82
Scrap metal	-	86	55	6	-	147
Coke and coking coal	-	328	7	5	-	340
Iron ore	-	183	116	1	-	300
Other	-	28	7	9	-	44
Other operating income/(expense) net	**-**	**(4)**	**2**	**(7)**	**-**	**(9)**
Sponsorship and other charity payments	-	-	-	(20)	-	(20)
Other	-	(4)	2	13	-	11
Finance income, including:	**16**	**6**	**5**	**14**	**6**	**47**
Interest income - bank deposits	-	-	-	3	-	3
Interest income - other	17	6	5	1	6	35
Other finance income (expenses)	(1)	-	-	10	-	9

2011	**SCM**	**Asso-ciates**	**Joint venture**	**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	**-**	**-**	**-**	**73**	**-**	**73**

27 Balances and transactions with related parties (continued)

The following is a summary of purchases from related parties in 2012 and 2011:

2012	**Associates**	**Joint venture**	**Other related parties**	**Total**
Purchases, including:	**340**	**524**	**1,388**	**2,252**
Metal products	218	516	-	734
Coke and coking coal	114	-	116	230
Raw materials and spare parts	6	3	266	275
Electricity	-	-	871	871
Fuel	-	-	5	5
Services	-	-	90	90
Other	2	5	40	47

2011	**Associates**	**Joint venture**	**Other related parties**	**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**

In 2012, the remuneration of key management personnel of the Group comprised current salaries and related bonuses totalling USD 9.5 million (in 2011: USD 10.4 million).

28 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 relate to the Group. As at 31 December 2012, the 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 20). For the remaining balance the Group is continually negotiating early settlement and thus recorded those as part of trade and other payables. In addition to that, USD 10 million is not recognised as a liability because, based on the previous court decisions made, management of the Group believes that claims in respect of this amount will be rejected by the court.

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 evaluates 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 2012, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling USD 157 million (31 December 2011: USD 168 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 2012, the Group has no outstanding guarantees to third parties (31 December 2011: USD 11 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 2012 and as at 31 December 2011 and during 2012 and 2011 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 and 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.

29 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. 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 2012 and 2011 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 2012, 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 94 million (2011: USD 45 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.

(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 and short-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 2012, 31% of the total borrowings were provided to the Group at fixed rates (31 December 2011: 34%). During 2012 and 2011, the Group's borrowings at variable rate were denominated in USD and EUR.

29 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 13, 17 and 21 for information about maturity dates and effective interest rates of financial instruments.

At 31 December 2012, if interest rates on USD and EUR denominated borrowings had been on 1% higher/lower (2011: 1%) with all other variables held constant, post-tax profit for the year would have been USD 23 million lower/higher (2011: USD 20 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, the Group 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 2012 is USD 3,555 million (2011: USD 3,543 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, 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.

29 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 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	582	802	685	-
Trade finance	835	-	-	-
Bonds	117	117	718	761
Seller's notes	102	97	93	-
Trade and other payables	1,476	-	-	-
Guarantees issued	-	-	-	-
At 31 December 2011				
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	-	-	-

30 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 2012 and 31 December 2011.

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 B3, updated in July 2012 and December 2012 respectively, capped by the Sovereign rating.

	31 December 2012	31 December 2011
Total borrowings (Note 17)	4,038	3,671
Seller's notes (Note 18)	240	310
Less: cash and cash equivalents (Note 14)	530	792
Net debt	3,748	3,189
Total equity	10,435	9,517
Total capital	14,183	12,706
Gearing ratio	26%	25%

31 Fair values of financial instruments

The fair value of financial instruments traded in active markets 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 17, 18 and 20).

32 Reconciliation of classes of financial instruments with measurement categories

All of the Group’s financial assets and financial liabilities are carried at amortised cost.

33 Events after the balance sheet date

In January and March 2013, Metinvest B.V. declared dividends in the amount of USD 210 million and USD 400 million respectively .