OAO Raspadskaya

Consolidated financial statements

for the year ended 31 December 2012

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Independent auditors' report

To Shareholders and Board of Directors of
OAO Raspadskaya

We have audited the accompanying consolidated financial statements of OAO Raspadskaya and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements, which discloses a significant concentration of the Group's business with related parties.

Ernst & Young LLC

29 March 2013

OAO Raspadskaya

Consolidated statement of comprehensive income

for the year ended 31 December 2012

	Notes	2012	2011
		US$000	*US$000*
Revenue			
Sales of goods		**532,150**	707,970
Other sales		**9,536**	18,131
	4	**541,686**	726,101
Cost of sales		**(446,592)**	(358,805)
Gross profit		**95,094**	367,296
Selling and distribution costs		**(9,766)**	(4,543)
General and administrative expenses		**(61,552)**	(60,879)
Social expenses		**(8,463)**	(9,117)
Loss on disposal of property, plant and equipment		**(2,308)**	(7,057)
Foreign exchange gains/(losses)		**3,991**	(10,754)
Other operating income		**9,347**	9,512
Other operating expenses		**(22,160)**	(95,926)
Operating profit		**4,183**	188,532
Dividend income		**51**	23
Interest income		**8,688**	16,865
Interest expense		**(43,367)**	(28,132)
Profit/(loss) before income tax		**(30,445)**	177,288
Income tax expense	6	**(543)**	(41,571)
Profit/(loss) for the year		**(30,988)**	135,717
Other comprehensive income/(loss):			
Effect of translation to presentation currency		**63,047**	(78,094)
Net gain/(loss) on available-for-sale financial assets		**412**	(697)
Income tax		**(64)**	126
		348	(571)
Other comprehensive income/(loss) for the year, net of tax		**63,395**	(78,665)
Total comprehensive income for the year, net of tax		**32,407**	57,052
Profit/(loss) for the year attributable to:			
Equity holders of the parent		**(30,946)**	135,439
Non-controlling interests		**(42)**	278
		(30,988)	135,717
Total comprehensive income for the year attributable to:			
Equity holders of the parent		**32,181**	57,001
Non-controlling interests		**226**	51
		32,407	57,052
Earnings/(loss) per share: basic and diluted, for the profit/(loss) for the year attributable to equity holders of the parent, *US dollars* ((1.34) rubles and 5.10 rubles for the years ended 31 December 2012 and 2011 respectively)	14	**(0.04)**	0.17

The accompanying notes form an integral part of these consolidated financial statements.

OAO Raspadskaya

Consolidated statement of financial position

as at 31 December 2012

	Notes	2012	2011
		US$000	*US$000*
Assets			
Non-current assets			
Property, plant and equipment	7	**1,493,128**	1,461,779
Deferred income tax asset	6	**65,355**	49,206
Other non-current assets	8	**5,662**	5,258
		1,564,145	1,516,243
Current assets			
Inventories	10	**107,745**	84,046
Trade and other receivables	11	**71,803**	60,033
Prepayments	11	**9,981**	4,614
Receivables from related parties	12	**42,522**	39,785
Income tax receivable		**2,281**	2,763
Other taxes recoverable	13	**12,962**	10,361
Short-term bank deposits	9	**112,689**	80,179
Cash and cash equivalents	9	**7,731**	180,100
		367,714	461,881
Total assets		**1,931,859**	1,978,124
Equity and liabilities			
Equity attributable to equity holders of the parent			
Issued capital	14	**273**	303
Additional paid-in capital		**387,790**	784,139
Reserve capital	14	**7**	7
Accumulated profits		**876,684**	543,859
Unrealized gain on available-for-sale investments		**1,835**	1,487
Translation difference		**(174,797)**	(272,382)
		1,091,792	1,057,413
Non-controlling interests		**4,712**	4,486
		1,096,504	1,061,899
Non-current liabilities			
Long-term loans	15	**546,533**	1,243
Deferred income tax liabilities	6	**136,966**	136,242
Post-employment benefits liabilities	16	**31,054**	23,045
Site restoration provision	17	**13,576**	9,937
		728,129	170,467
Current liabilities			
Trade and other payables	18	**69,865**	45,863
Advances from customers		**20**	49
Short-term loans and current portion of long-term loans	15	**7,145**	304,027
Payables to related parties	12	**3,591**	2,262
Income tax payable		**373**	4,324
Other taxes payable	19	**26,169**	25,337
Share buyback liability	14	**–**	363,771
Dividends payable		**63**	125
		107,226	745,758
Total equity and liabilities		**1,931,859**	1,978,124

The accompanying notes form an integral part of these consolidated financial statements.

OAO Raspadskaya

Consolidated cash flow statement

for the year ended 31 December 2012

	Notes	2012	2011
		US$000	*US$000*
Operating activities			
Profit/(loss) for the period		**(30,988)**	135,717
Adjustments to reconcile net profit/(loss) to net cash flows from operating activities:			
Depreciation, depletion and amortization	5	**132,493**	124,952
Deferred income tax benefit	6	**(20,235)**	(38,622)
Loss on disposal of property, plant and equipment		**2,308**	7,057
Foreign exchange (gains)/losses		**(3,991)**	10,754
Dividend income		**(51)**	(23)
Interest income		**(8,688)**	(16,865)
Interest expense		**43,367**	28,132
Reversal of the value of assets written off in prior periods		**–**	(3,969)
Net employee benefit expense		**5,338**	1,257*
Change in bad debt allowance		**680**	(95)
		120,233	248,295
Changes in working capital:			
Inventories		**(18,221)**	(12,018)
Trade and other receivables		**(8,287)**	(16,696)
Prepayments		**(5,614)**	7,910
Receivables from / payables to related parties		**825**	(9,875)
Trade and other payables		**28,225**	3,777*
Advances from customers		**(31)**	33
Taxes payable, net of taxes receivable		**(6,085)**	11,286
Net cash flows from operating activities		**111,045**	232,712
Investing activities			
Purchases of property, plant and equipment		**(88,131)**	(144,437)
Bank deposits, including interest		**(26,106)**	99,655
Other investing activities, net		**755**	631
Net cash flows used in investing activities		**(113,482)**	(44,151)
Financing activities			
Proceeds from loans		**514,990**	812
Repayment of loans, including interest, net of government grants		**(338,784)**	(29,426)
Purchase of non-controlling interest in subsidiary		**–**	(545)
Purchase of treasury shares		**(396,379)**	–
Dividends paid		**(72)**	(135,217)
Net cash flows used in financing activities		**(220,245)**	(164,376)
Effect of foreign exchange rate changes on cash and cash equivalents		**50,313**	(8,713)
Net increase/(decrease) in cash and cash equivalents		**(172,369)**	15,472
Cash and cash equivalents at the beginning of the year		**180,100**	164,628
Cash and cash equivalents at the end of the year		**7,731**	180,100
Supplementary cash flow information			
Cash flows during the year:			
Interest paid		**34,396**	23,012
Interest received		**9,375**	16,495
Income tax paid		**25,486**	91,341

* The amount does not correspond to that in the consolidated financial statements for the year ended 31 December 2011 and reflects reclassification made (Note 2).

The accompanying notes form an integral part of these consolidated financial statements.

OAO Raspadskaya

Consolidated statement of changes in equity

for the year ended 31 December 2012

	Attributable to equity holders of the parent									
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Accumulated profits	Unrealized gain on available-for-sale investments	Translation difference	Parent share-holders' equity	Non-controlling interests	Total
	US$000	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December 2010	303	–	783,862	7	907,359	2,058	(194,515)	1,499,074	5,257	1,504,331
Profit for the year	–	–	–	–	135,439	–	–	135,439	278	135,717
Other comprehensive loss	–	–	–	–	–	(571)	(77,867)	(78,438)	(227)	(78,665)
Total comprehensive income/(loss)	–	–	–	–	135,439	(571)	(77,867)	57,001	51	57,052
Share buyback	–	–	–	–	(363,771)	–	–	(363,771)	–	(363,771)
Acquisition of non-controlling interest in subsidiary	–	–	277	–	–	–	–	277	(822)	(545)
Dividends paid	–	–	–	–	(135,168)	–	–	(135,168)	–	(135,168)
At 31 December 2011	303	–	784,139	7	543,859	1,487	(272,382)	1,057,413	4,486	1,061,899
Loss for the year	**–**	**–**	**–**	**–**	**(30,946)**	**–**	**–**	**(30,946)**	**(42)**	**(30,988)**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**348**	**62,779**	**63,127**	**268**	**63,395**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**(30,946)**	**348**	**62,779**	**32,181**	**226**	**32,407**
Share buyback (Note 14)	**–**	**(396,379)**	**–**	**–**	**363,771**	**–**	**34,806**	**2,198**	**–**	**2,198**
Retirement of treasury shares (Note 14)	**(30)**	**396,379**	**(396,349)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 December 2012	**273**	**–**	**387,790**	**7**	**876,684**	**1,835**	**(174,797)**	**1,091,792**	**4,712**	**1,096,504**

The accompanying notes form an integral part of these consolidated financial statements.

1. Corporate information

The consolidated financial statements of OAO Raspadskaya (the "Company") for the year ended 31 December 2012 were authorized for issue in accordance with a resolution of the Board of Directors on 29 March 2013.

The Company is an open joint-stock company ("OAO") registered under Russian law. The Company commenced operations in 1973. The registered office of the Company is 106, Mira Street, Mezhdurechensk, Kemerovo region, Russia. The Company's controlling shareholder is Corber Enterprises Limited (Cyprus) ("Corber"). Before 16 January 2013 (Note 22), Corber was a 50/50 joint venture set up by Adroliv Investments Limited (Cyprus) ("Adroliv") owned by the Company's management, and Mastercroft Mining Limited, a subsidiary of EVRAZ plc (UK) ("Evraz"). After share buyback (Note 14), Corber holds approx. 81.95% of the Company's shares. The Company's shares are traded on the Russian stock exchange RTS-MICEX.

The Company and its subsidiaries (the "Group") derive 98% of their revenues from sales of coking coal. Other revenue sources include sales of other goods, transport-handling and other services.

In the years ended 31 December 2012 and 2011, 24% and 29%, respectively, of the Group's revenues were generated in transactions with related parties (Note 12).

The major subsidiaries included in the consolidated financial statements of the Company at 31 December were as follows:

	Ownership interest		
	2012	**2011**	**Business activity**
OAO MUK-96	**100%**	100%	Coal mining
ZAO Razrez Raspadskiy	**100%**	100%	Coal mining
ZAO Raspadskaya-Koksovaya	**100%**	100%	Coal mining
ZAO Raspadskaya Preparation Plant	**100%**	100%	Coal processing
OOO Raspadskiy Ugol	**100%**	100%	Coal trading
ZAO Raspadskaya Coal Company	**100%**	100%	Managing

The Group operates as a vertically integrated business and reports its activities as a single business segment. All of the Group's subsidiaries and assets are located and incorporated in Russia. The Group consolidates a Eurobond vehicle – Raspadskaya Securities Limited, a special purpose entity registered in the Republic of Ireland.

2. Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under historical cost convention, except as disclosed in the accounting policies below. Exceptions include, but are not limited to, property, plant and equipment at the date of transition to IFRS accounted for at deemed cost, available for sale investments measured at fair value, assets classified as held for sale measured at the lower of their carrying amount or fair value less costs to sell and post-employment benefits obligations measured at present value.

Certain reclassifications have been made to the consolidated cash flow statement for the year ended 31 December 2011 to conform to the current period presentation: net employee benefit in the amount of US$1,260,000 has been classified as net benefit expense in the amount of US$1,257,000; change in trade and other payables has been decreased by US$2,517,000.

These consolidated financial statements are presented in US dollars (US$) and all values are rounded to the nearest thousand (US$000) except when otherwise stated.

2. Significant accounting policies (continued)

Going concern

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

The current economic conditions create uncertainty particularly over (a) the level of demand and prices for the Group's products; and (b) the exchange rate between the US dollar and the Russian ruble.

In the next 12 months, the Group expects to finance its operating and investing activities primarily by cash generated from operations. If necessary, management may postpone certain investment projects and capital repairs to provide the Group with sufficient resources to manage its cash and debt position allowing the compliance with the terms of loan agreements. Accordingly, management believes the Group has adequate resources to continue in operational existence for the foreseeable future.

Changes in accounting policies

In the preparation of the consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the consolidated financial statements for year ended 31 December 2011, except for the adoption of the revision of the existing standards:

Revised standards adopted in 2012

IAS 12 *Income Taxes – Recovery of Underlying Assets (Amendment)*
The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis of the assets. The amendment is effective for annual periods beginning on or after 1 January 2012. This amendment did not have an impact on Group's financial position, performance or its disclosures.

IFRS 7 *Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IAS 1 *Presentation of Items of Other Comprehensive Income – Amendments to IAS 1*
The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

Standards issued but not yet effective (continued)

IAS 19 *Employee Benefits* (Revised)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group made a voluntary change in accounting policy to recognize actuarial gains and losses in other comprehensive income in the current period. However, the amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the new IFRS 11 *Joint Arrangements,* and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates,* has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 *Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32*
These amendments clarify the meaning of “currently has a legally enforceable right to set-off”. The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group’s financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7*
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognized financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group’s financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 *Financial Instruments: Classification and Measurement*
IFRS 9, as issued, reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but *Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group’s financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 *Consolidated Financial Statements,* IAS 27 *Separate Financial Statements*
IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation -Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2. Significant accounting policies (continued)

Changes in accounting policies (continued)

Standards issued but not yet effective (continued)

IFRS 11 *Joint Arrangements*
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

IFRS 12 *Disclosure of Interests in Other Entities*
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 *Fair Value Measurement*
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance, but based on the preliminary analyses, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*
This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

Amended IAS 19 "Employee Benefits" introduced recognition of actuarial gains and losses in other comprehensive income in the period they occur. This amendment is required to be applied retrospectively. At 31 December 2012 and 2011, the Group had US$26,409,000 and US$21,909,000 (Note 16) actuarial losses, respectively, they will increase the Group's liabilities under defined benefit plans.

Foreign currency transactions

The presentation currency of these consolidated financial statements is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the consolidated financial statements.

The functional currency of the Group is the Russian ruble (the "ruble"). As at the reporting date, the assets and liabilities of the subsidiaries are translated into the presentation currency at the rate of exchange ruling at the end of the reporting period, and their statements of comprehensive income are translated at the weighted average exchange rates that approximate the exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to equity as a separate component.

Transactions in foreign currencies in the Group are initially recorded in the functional currency at the rate ruling at the date of transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated into rubles at the exchange rate ruling at the end of the reporting period. All resulting differences are taken to the consolidated statement of comprehensive income.

2. Significant accounting policies (continued)

Basis of consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Company has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Company and are no longer consolidated from the date when control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of subsidiaries

Business combinations are accounted for using the acquisition method.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2. Significant accounting policies (continued)

Basis of consolidation (continued)

Increases in ownership interests in subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative, in these consolidated financial statements.

Property, plant and equipment

The Group's property, plant and equipment, except for the items acquired prior to 1 January 2003, are stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred and recognition criteria are met. The items of property, plant and equipment acquired prior to 1 January 2003 were accounted for at deemed cost being their fair value at 1 January 2003 less subsequent accumulated depreciation and any impairment in value.

The Group's property, plant and equipment include mining assets, which consist of mineral reserves, mine development and construction costs and capitalized site restoration costs. Mineral reserves represent tangible assets acquired in business combinations. Mine development and construction costs represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, buildings, machinery and equipment.

At each reporting date management makes an assessment to determine whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognized as an impairment loss in the statement of comprehensive income. An impairment loss recognized for an asset in previous years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Land and assets under construction are not depreciated. Depreciation on other classes of property, plant and equipment, except for mining assets, is calculated on a straight-line basis over the estimated useful lives of the assets.

Useful lives of items of property, plant and equipment and methods of their depreciation are reviewed, and adjusted as appropriate, at each fiscal year-end. The following table sets out useful lives of items of property, plant and equipment.

	Useful lives (years)	Weighted average useful life (years)
Buildings and constructions	10 – 60	21
Machinery and equipment	2 – 25	4
Transport and motor vehicles	4 – 32	4
Other assets	2 – 9	4

The Group determines the depreciation charge separately for each significant part of an item of property, plant and equipment.

Depletion of mining assets including capitalized site restoration costs is calculated using the units-of-production method based upon proved and probable mineral reserves.

Maintenance costs relating to items of property, plant and equipment are expensed as incurred. Major renewals and improvements are capitalized, and the replaced assets are derecognized.

2. Significant accounting policies (continued)

Property, plant and equipment (continued)

Exploration and evaluation expenditures represent costs incurred by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. The expenditures include acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching, sampling, activities in relation to evaluating the technical feasibility and commercial viability of extracting mineral resources. These costs are expensed as incurred.

When the technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the Group commences recognition of expenditures related to the development of mineral resources as assets. These assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

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

Financial assets

The Group classified its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity and available-for-sale. When financial assets are recognized initially, they are measured at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition.

Financial assets that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading and included in the category “financial assets at fair value through profit or loss”. Financial assets which are included in this category are subsequently carried at fair value; gains or losses on such financial assets are recognized in income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the management has the positive intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity financial assets are carried at amortized cost using the effective interest method.

2. Significant accounting policies (continued)

Financial assets (continued)

Financial investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the end of the reporting period or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its financial investments at the time of the purchase and re-evaluates such designation on a regular basis. After initial recognition available-for-sale financial investments are measured at fair value with gains or losses being recognized as a separate component of other comprehensive income until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in the profit or loss. Reversals of impairment losses in respect of equity instruments are not recognized in the statement of comprehensive income. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income.

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other valuation models.

All purchases and sales of financial assets under contracts to purchase or sell financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place are recognized on the settlement date i.e. the date the asset is delivered by/to the counterparty.

Trade and other receivables

Accounts receivable, which generally are short term, are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

The Group establishes an allowance for impairment of accounts receivable that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar receivables in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Inventories

Inventories are recorded at the lower of cost and net realizable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring or producing inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

2. Significant accounting policies (continued)

Value added tax

Russian tax legislation permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performance of work or rendering of services, as well as upon collection of prepayments from customers. VAT on purchases, even if related accounts payable have not been settled at the end of the reporting period, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Cash and cash equivalents

Cash and cash equivalents, mainly denominated in rubles, comprise cash at bank and in hand, deposits with initial maturity of no more than 90 days, and deposits with initial maturity of more than 90 days with the right of repayment on demand.

Equity

Share capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognized as additional paid-in capital.

Treasury shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognized in statement of comprehensive income on the purchase, sale, issue or cancellation of the treasury shares.

Dividends

Dividends are recognized as a liability and deducted from equity at the end of the reporting period only if they are declared before or on the end of the reporting period. Dividends are disclosed when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period but before the financial statements are authorized for issue.

Financial liabilities

Borrowings

Borrowings are initially recognized at the fair value of consideration received, net of directly attributable transaction costs. After initial recognition, borrowings are measured at amortized cost using the effective interest rate method; any difference between the amount initially recognized and the redemption amount is recognized as interest expense over the period of the borrowings.

Accounts payable

Accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

2. Significant accounting policies (continued)

Government grants

Government grants are recognized at their fair value, where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Grants related to assets are presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset and are recognized as a deduction from depreciation expense over the life of the asset.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Provisions for site restoration costs are capitalized in mining assets within property, plant and equipment.

Employee benefits

Social and pension contributions

Defined contributions are made by the Group to the Russian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Post-employment benefits

The Group companies provide pensions and other benefits to their employees. The entitlement to these benefits is usually conditional on the completion of a minimum service period. Certain benefit plans require the employee to remain in service up to retirement age. Other employee benefits consist of various compensations and non-monetary benefits. The amount of the benefits is stipulated in the collective bargaining agreements and/or in the plan documents.

The liability recognized in the statement of financial position in respect of post-employment benefits is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using 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 to the terms of the related obligations.

Actuarial gains and losses are recognized as income or expense when the cumulative unrecognized actuarial gains or losses for each individual plan exceed 10% of the higher of defined benefit obligation and the fair value of plan assets. The excess of cumulative actuarial gains or losses over the 10% of the higher of defined benefit obligation and the fair value of plan assets are recognized over the expected average remaining working lives of the employees participating in the plan.

2. Significant accounting policies (continued)

Employee benefits (continued)

Post-employment benefits (continued)

The past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately. The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly.

The Group includes current service cost, past service cost and net actuarial gains and losses recognized in the year, in cost of sales and general and administrative expenses captions, and interest cost on benefit obligation in interest expense caption of the consolidated statement of comprehensive income.

Other costs

The Group incurs employee costs related to the provision of benefits such as health services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to cost of sales.

Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. The moment of transfer of the risks and rewards of ownership is determined by the contract terms.

Rendering of services

Revenue is recognized when services are rendered. The Group’s revenues from rendering of services include transportation, operating rent and other services.

Interest

Interest is recognized using the effective interest method.

Dividends

Revenue is recognized when the Group’s right to receive the payment is established.

2. Significant accounting policies (continued)

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income tax is provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

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

3. Significant accounting judgments and estimates

Estimation uncertainty

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

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. No impairment losses were recognized or reversed in the years ended 31 December 2012 and 2011.

Useful lives of items of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

3. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Mineral reserves

Mineral reserves are a material factor in the Group's computation of depreciation, depletion and amortization charge. The Group estimates its mineral reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). Estimation of reserves in accordance with JORC Code involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgement and development of assumptions.

The relative degree of uncertainty can be conveyed by placing reserves into one of the principal classifications, either proved and probable reserves or measured and indicated resources. Proved and probable reserves are more than certain to be recovered than measured and indicated resources. Estimates of proved and probable reserves are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, engineering and production data; availability of new data; or changes in underlying assumptions. Proved and probable reserves are used to calculate the unit of production rates for depletion. The Group has included in proved and probable reserves those quantities that are expected to be extracted during the next 20 years assuming that certain licenses will be renewed in the future. An increase in the Group's license periods and increase in reported proved and probable reserves would generally lead to lower depletion charge and could materially affect earnings. A reduction in proved and probable reserves will increase depletion charge, reduce income and could also result in an immediate impairment of mining assets. Given the relatively small number of producing mines and open pit operations, it is possible that any changes in reserve estimates, year on year, could significantly affect prospective charges for depletion.

Site restoration provision

The Group reviews site restoration provision at each end of the reporting period, and adjusts it to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgment is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

More detailed information on estimations of mineral reserves and site restoration provision is provided in Notes 7 and 17, respectively.

Fair values of assets and liabilities acquired in business combinations

The Group recognizes separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques which require considerable judgment in forecasting future cash flows and developing other assumptions.

Post-employment benefits

The Group uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, etc.). More details on post-employment benefits are provided in Note 16.

3. Significant accounting judgments and estimates (continued)

Estimation uncertainty (continued)

Allowances for doubtful accounts

The Group makes allowances for doubtful accounts to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. More detailed information on allowances for doubtful accounts is provided in Note 11.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details on current taxes are provided in Note 20.

Deferred income tax assets

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the statement of comprehensive income.

4. Revenue

Distribution of revenue by country

	2012		2011	
	Amount	**Portion**	**Amount**	**Portion**
	US$000		*US$000*	
Russia	**458,502**	**85%**	720,592	99%
Ukraine	**50,082**	**9%**	5,509	1%
China	**19,772**	**4%**	–	–
South Korea	**7,261**	**1%**	–	–
Taiwan	**3,842**	**1%**	–	–
North Korea	**1,277**	**0%**	–	–
Vietnam	**950**	**0%**	–	–
	541,686	**100%**	726,101	100%

4. Revenue (continued)

Distribution of revenue by customer

	2012		2011	
	Amount	**Portion**	**Amount**	**Portion**
	US$000		*US$000*	
MMK	**124,522**	**23%**	181,199	25%
Evraz	**114,758**	**21%**	202,478	28%
Koks	**84,015**	**16%**	156,694	22%
Mechel	**73,151**	**13%**	50,064	7%
NLMK	**54,473**	**10%**	76,001	10%
Alchevskkoks	**15,783**	**3%**	–	–
Metalloinvest	**15,284**	**3%**	16,522	2%
Stroyservis	**15,206**	**3%**	24,271	3%
Other	**44,494**	**8%**	18,872	3%
	541,686	**100%**	726,101	100%

5. Expenses

	2012	2011
	US$000	*US$000*
Cost of inventories recognized as expense	**102,890**	102,390
Staff cost, including payroll taxes	**170,750**	175,039
Depreciation, depletion and amortization	**132,493**	124,952

6. Income tax

Major components of income tax expense

	2012	2011
	US$000	*US$000*
Current income tax:		
Current income tax charge	**(20,685)**	(79,218)
Adjustments in respect of income tax of prior years	**(93)**	(975)
Deferred income tax:		
Relating to origination and reversal of temporary differences	**20,235**	38,622
Income tax expense	**(543)**	(41,571)

Russia was the only tax jurisdiction in which the Group's income was subject to taxation.

Reconciliation between the income tax expenses applicable to the profit before income tax at the statutory tax rate to the income tax expense at the Group's effective income tax rate is set out in the following table:

	2012	2011
	US$000	*US$000*
Tax at the Russian statutory income tax rate of 20%	**6,089**	(35,458)
Adjustments in respect of previous years	**(93)**	(975)
Effect of the difference in tax rates	**6**	372
Effect of non-deductible expenses and other non-temporary differences	**(6,545)**	(5,510)
Income tax expense	**(543)**	(41,571)

6. Income tax (continued)

Movement in deferred income tax assets and liabilities

	At 31 December 2012	Change recognized as income tax expense	Change recognized in other comprehensive income	Translation difference	At 31 December 2011
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
Deferred income tax liabilities:					
Property, plant and equipment	**139,292**	**(6,393)**	**–**	**8,108**	**137,577**
Investments	**459**	**–**	**64**	**23**	**372**
Inventory	**2,081**	**1,463**	**–**	**68**	**550**
Other	**4,200**	**(42)**	**–**	**239**	**4,003**
	146,032	**(4,972)**	**64**	**8,438**	**142,502**
Deferred income tax assets:					
Accrued liabilities	**4,393**	**1,129**	**–**	**210**	**3,054**
Loss carry forward	**67,065**	**13,809**	**–**	**3,325**	**49,931**
Other	**2,963**	**325**	**–**	**157**	**2,481**
	74,421	**15,263**	**–**	**3,692**	**55,466**
Total deferred income tax asset/(liability)	**(71,611)**	**20,235**	**(64)**	**(4,746)**	**(87,036)**
Represented by the following:					
Net deferred income tax asset	**65,355**	**12,952**	**(64)**	**3,261**	**49,206**
Net deferred income tax liability	**136,966**	**(7,283)**	**–**	**8,007**	**136,242**

	At 31 December 2011	Change recognized as income tax expense	Change recognized in other comprehensive income	Translation difference	At 31 December 2010
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
Deferred income tax liabilities:					
Property, plant and equipment	137,577	(6,811)	–	(7,518)	151,906
Investments	372	–	(126)	(16)	514
Inventory	550	279	–	(41)	312
Other	4,003	2,212	–	(304)	2,095
	142,502	(4,320)	(126)	(7,879)	154,827
Deferred income tax assets:					
Accrued liabilities	3,054	(621)	–	(150)	3,825
Loss carry forward	49,931	36,039	–	(4,105)	17,997
Other	2,481	(1,116)	–	(99)	3,696
	55,466	34,302	–	(4,354)	25,518
Total deferred income tax asset/(liability)	(87,036)	38,622	126	3,525	(129,309)
Represented by the following:					
Net deferred income tax asset	49,206	30,393	126	(3,866)	22,553
Net deferred income tax liability	136,242	(8,229)	–	(7,391)	151,862

The current tax rate for dividend income in Russia ranges from 0% to 15%, depending on certain conditions. No deferred income tax on distribution of earnings has been provided as the Group does not plan to distribute earnings.

7. Property, plant and equipment

At 31 December:	2012 US$000	2011 US$000
Cost:		
Land	**61**	54
Mining assets	**1,113,905**	1,035,828
Buildings and constructions	**140,813**	125,515
Machinery and equipment	**584,921**	519,707
Transport and motor vehicles	**82,993**	70,518
Other assets	**16,080**	12,788
Assets under construction	**242,609**	225,608
	2,181,382	1,990,018
Accumulated depreciation and depletion:		
Mining assets	**(272,048)**	(210,077)
Buildings and constructions	**(28,868)**	(22,028)
Machinery and equipment	**(341,239)**	(265,094)
Transport and motor vehicles	**(38,125)**	(25,718)
Other assets	**(7,974)**	(5,322)
	(688,254)	(528,239)
	1,493,128	1,461,779

Movement in property, plant and equipment

	Land	Mining assets	Buildings and con-structions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under con-struction	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 31 December 2011, cost, net of accumulated depreciation, depletion and government grants	**54**	**825,751**	**103,487**	**254,613**	**44,800**	**7,466**	**225,608**	**1,461,779**
Additions	**–**	**12,952**	**–**	**–**	**–**	**–**	**70,151**	**83,103**
Assets put into operation	**4**	**–**	**7,535**	**45,373**	**10,538**	**1,832**	**(65,282)**	**–**
Disposals	**–**	**–**	**(113)**	**(1,392)**	**(740)**	**(41)**	**(736)**	**(3,022)**
Reclassification	**–**	**818**	**(1)**	**(72)**	**–**	**73**	**(818)**	**–**
Depreciation and depletion charge	**–**	**(48,216)**	**(5,228)**	**(69,518)**	**(12,359)**	**(2,009)**	**–**	**(137,330)**
Change in site restoration provision	**–**	**1,755**	**–**	**–**	**–**	**331**	**63**	**2,149**
Translation difference	**3**	**48,797**	**6,265**	**14,678**	**2,629**	**454**	**13,623**	**86,449**
At 31 December 2012, cost, net of accumulated depreciation, depletion and government grants	**61**	**841,857**	**111,945**	**243,682**	**44,868**	**8,106**	**242,609**	**1,493,128**

	Land	Mining assets	Buildings and con-structions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under con-struction	Total
	US$000	US$000	US$000	US$000	US$000	US$000	US$000	US$000
At 31 December 2010, cost, net of accumulated depreciation, depletion and government grants	57	897,045	99,457	251,926	37,238	6,435	237,736	1,529,894
Additions	–	21,599	–	–	–	–	130,597	152,196
Assets put into operation	–	–	15,521	86,238	21,776	2,939	(126,474)	–
Reversal of the value of assets written off in prior periods	–	–	7	3,616	–	–	–	3,623
Disposals	–	–	(127)	(5,806)	(780)	(335)	(616)	(7,664)
Reclassification	–	2,887	–	13	(12)	(1)	(2,887)	–
Depreciation and depletion charge	–	(46,987)	(5,168)	(66,724)	(10,520)	(2,005)	–	(131,404)
Change in site restoration provision	–	(3,129)	–	–	–	907	–	(2,222)
Translation difference	(3)	(45,664)	(6,203)	(14,650)	(2,902)	(474)	(12,748)	(82,644)
At 31 December 2011, cost, net of accumulated depreciation, depletion and government grants	54	825,751	103,487	254,613	44,800	7,466	225,608	1,461,779

7. Property, plant and equipment (continued)

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of US$4,740,000 and US$3,680,000 as at 31 December 2012 and 2011 respectively.

The Group had production equipment with a carrying value of US$6,979,000 and US$7,392,000 pledged to banks as collateral against loans to the Group as at 31 December 2012 and 2011 respectively.

The amounts of borrowing costs capitalized were US$33,000 and zero in the years ended 31 December 2012 and 2011 respectively.

8. Other non-current assets

	2012	2011
At 31 December:	*US$000*	*US$000*
Available-for-sale investments:		
Quoted equity shares	**2,299**	1,862
Unquoted equity shares	**244**	231
	2,543	2,093
Loans to employees	**3,119**	2,466
Other non-current assets	**–**	699
	5,662	5,258

9. Short-term bank deposits and cash and cash equivalents

Short-term bank deposits

	2012	2011
	US$000	*US$000*
At 31 December:		
Russian rubles	**26,010**	19,878
US dollars	**86,679**	60,301
	112,689	80,179

The above short-term deposits are non-restricted deposits placed in Russian state banks and affiliates of international banks with initial maturity of more than 90 days.

Cash and cash equivalents

	2012	2011
	US$000	*US$000*
At 31 December:		
Russian rubles	**2,703**	112,955
US dollars	**5,028**	67,145
	7,731	180,100

The above cash and cash equivalents mainly consisted of cash at banks.

10. Inventories

	2012	2011
	US$000	*US$000*
At 31 December:		
Raw materials and spare parts (at cost)	**78,513**	74,259
Finished goods (at cost)	**27,443**	9,787
Finished goods (at net realizable value)	**1,789**	–
	107,745	84,046

In 2012, write-down of finished goods to net realizable value amounted to US$3,502,000.

11. Trade and other receivables and prepayments

	2012	2011
	US$000	*US$000*
At 31 December:		
Trade accounts receivable	**68,329**	54,834
Prepayments	**10,934**	4,895
Other receivables	**3,979**	5,636
	83,242	65,365
Allowance for doubtful accounts	**(1,458)**	(718)
	81,784	64,647

Movement in the allowance for doubtful accounts

	2012	2011
	US$000	*US$000*
At 1 January	**718**	849
Charge for the year	**728**	706
Amounts written off	**(48)**	(799)
Unused amounts reversed	**–**	(1)
Translation difference	**60**	(37)
At 31 December	**1,458**	718

12. Related party disclosures

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Transactions with related parties

	Sales to related parties		Purchases from related parties	
	2012	2011	2012	2011
	US$000	*US$000*	*US$000*	*US$000*
ZSMK	**70,970**	107,681	**5**	–
EvrazResource-Ukraine	**24,227**	5,509	**–**	–
NTMK	**17,902**	39,214	**–**	–
Evraz Ukraine	**10,072**	–	**–**	–
Southern Kuzbass	**5,413**	6,040	**–**	–
SPK	**390**	391	**8,571**	4,410
Sibirsky Spas	**119**	10	**839**	1,118
TC EvrazHolding	**–**	50,073	**7,074**	8,595
Other entities	**161**	100	**1,535**	2,069
	129,254	209,018	**18,024**	16,192

12. Related party disclosures (continued)

Amounts owed by/to related parties

	Amounts due from related parties		**Amounts due to related parties**	
	2012	**2011**	**2012**	**2011**
	US$000	*US$000*	*US$000*	*US$000*
At 31 December:				
ZSMK	**21,563**	25,764	**–**	–
EvrazResource-Ukraine	**4**	1,530	**–**	–
NTMK	**9,889**	11,656	**–**	–
Evraz Ukraine	**10,157**	–	**–**	–
Southern Kuzbass	**445**	629	**–**	–
SPK	**80**	98	**1,262**	316
Sibirsky Spas	**241**	105	**126**	109
TC EvrazHolding	**–**	–	**1,981**	1,539
Other entities	**143**	3	**222**	298
	42,522	39,785	**3,591**	2,262

ZSMK (OAO EVRAZ United West Siberian Iron and Steel Plant) is an entity under control of Evraz. In the years ended 31 December 2012 and 2011, the Group sold to the entity raw coal and coal concentrate. These sales accounted for approx. 15% and 17% of the Group's total sales volumes of coal products in the years ended 31 December 2012 and 2011 respectively.

EvrazResource-Ukraine (OOO Trade House EvrazResource-Ukraine) is an entity under control of Evraz. In the years ended 31 December 2012 and 2011, the Group sold to the entity coal concentrate. These sales accounted for approx. 6% and 1% of the Group's total sales volumes of coal products in the years ended 31 December 2012 and 2011 respectively.

NTMK (OAO EVRAZ Nizhny Tagil Iron and Steel Plant) is an entity under control of Evraz. In the years ended 31 December 2012 and 2011, the Group sold to the entity coal concentrate. These sales accounted for approx. 3% and 5% of the Group's total sales volumes of coal products in the years ended 31 December 2012 and 2011 respectively.

Evraz Ukraine (OOO Trade House Evraz Ukraine) is an entity under control of Evraz. In the year ended 31 December 2012, the Group sold to the entity coal concentrate. These sales accounted for approx. 3% of the Group's total sales volumes of coal products in the years ended 31 December 2012.

Southern Kuzbass (OAO Southern Kuzbass Coal Company), a Russian coal mining company controlled by OAO Mechel, is a minority shareholder of a subsidiary of the Group. The subsidiary renders transportation services to the Group and to Southern Kuzbass.

SPK (OOO Constructing Industrial Company, OOO Raspadskaya Constructing Industrial Company, before 15 October 2012) is an entity under control of the shareholders of Adroliv. The entity provides cleaning and renovating services to the Group.

Sibirsky Spas (ZAO Sibirsky Spas Insurance Company) is an entity under control of the shareholders of Adroliv. The entity provides insurance services to the Group.

TC EvrazHolding (OOO Trade Company EvrazHolding) is an entity under control of Evraz. In the year ended 31 December 2011, the Group sold to the entity raw coal and coal concentrate. In February 2011 an agreement under which TC EvrazHolding purchased coal products from the Group for ZSMK and NTMK was terminated and replaced with separate agreements with these two companies. In the year ended 31 December 2011, the Group sold to TC EvrazHolding approx. 9% of the total sales volumes of coal products. In addition, in the years ended 31 December 2012 and 2011, the Group bought from TC EvrazHolding certain steel products.

12. Related party disclosures (continued)

One of the directors of the Company has a significant influence on ZAO Commercial Bank Garant-Invest. The bank is therefore a related party. The Company held at the bank cash and cash equivalents and short-term deposits in the amount of US$26,019,000 at 31 December 2012 and US$32,311,000 at 31 December 2011 on market terms. Interest income amounted to US$1,929,000 and US$3,774,000 for the years ended 31 December 2012 and 2011 respectively.

As at 31 December 2012 and 2011, the Group had prepayments to related parties for property, plant and equipment in the amount of US$92,000 and US$149,000 respectively.

Compensation to key management personnel

Key management personnel totaled 9 people as at 31 December 2012 and 2011. Total compensation to key management personnel was included in general and administrative expenses in the statement of comprehensive income and consisted of the following:

	2012	**2011**
	US$000	*US$000*
Short-term benefits:		
Salary	**3,614**	3,565
Bonus	**531**	425
Payroll taxes	**370**	66
	4,515	4,056

13. Other taxes recoverable

	2012	**2011**
	US$000	*US$000*
At 31 December:		
Input VAT	**12,061**	9,676
Other taxes	**901**	685
	12,962	10,361

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input VAT and believes it is fully recoverable within one year.

14. Equity

Share capital

As at 31 December 2012 and 2011, the Company's issued and fully paid number of shares consisted of 703,191,443 and 780,799,809 ordinary shares with par value 0.004 rubles each, respectively; the authorized share capital consisted of 1,478,811,096 ordinary shares.

Issued and fully paid shares and treasury shares

	Number of issued shares	**Number of treasury shares**	**Issued capital**	**Treasury shares**
			US$000	*US$000*
At 31 December 2011	**780,799,809**	**–**	**303**	**–**
Share buyback		**77,608,366**	**–**	**396,379**
Retirement of treasury shares	**(77,608,366)**	**(77,608,366)**	**(30)**	**(396,379)**
At 31 December 2012	**703,191,443**	**–**	**273**	**–**

14. Equity (continued)

Issued and fully paid shares and treasury shares (continued)

In the period from 20 February 2012 to 20 April 2012 the Company bought back 77,608,366 of its ordinary shares for 11,641,254,900 rubles (150 rubles per share) or, US$396,379,000 at exchange rates at the date of each of the transactions. Translation gain of US$34,806,000 arising on the amount of liability recognized at 31 December 2011 and the amount actually paid was charged directly to equity. On 23 October 2012 the Company canceled all its treasury shares.

Reserve capital

According to Russian law, the Group creates a reserve capital in the amount of 5% of share capital per Russian statutory accounts by annual appropriations which should be at least 5% of the annual net profit per statutory financial statements. The reserve capital can be used only for covering losses and for redemption of the Company's bonds and purchase of own shares if there are no other sources of financing.

Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. The Company has no potentially dilutive ordinary shares, diluted earnings per share is therefore equal to basic earnings per share.

	2012	2011
Profit for the year attributable to equity holders of the parent, *US$000*	**(30,946)**	135,439
Weighted average number of outstanding ordinary shares	**717,448,099**	780,799,809
Basic and diluted earnings/(loss) per share, *US dollars*	**(0.04)**	0.17

Dividends

On 29 June 2012 shareholders of the Company approved no final dividends for 2011.

15. Loans and borrowings

Loans and borrowings by source

	2012	2011
	US$000	*US$000*
At 31 December:		
7.75% notes due 2017	**396,551**	–
Raiffeisenbank	**149,982**	–
Interest payable	**5,873**	2,501
Other Russian banks	**1,272**	2,923
7.5% notes due 2012	**–**	299,846
	553,678	305,270

On 17 May 2007 the Group issued loan participation notes in the amount of US$300,000,000 bearing an interest of 7.5% per annum and matured on 22 May 2012. To repay those notes and finance its operating activities, on 27 April 2012 the Group issued loan participation notes amounting to US$400,000,000. The new notes bear an interest of 7.75% per annum payable semi-annually and mature on 27 April 2017. The terms and conditions of the 7.75% notes provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions. As at 31 December 2012 and for the year then ended, the Group complied with all the covenants.

15. Loans and borrowings (continued)

Average annual interest rates

	2012	2011
US dollars	**7.3%**	7.5%
Euro	**4.5%**	4.7%

Loans and borrowings by currency

	2012	2011
	US$000	*US$000*
At 31 December:		
US dollars	**552,406**	302,346
Euro	**1,272**	2,901
Russian rubles	**–**	23
	553,678	305,270

Loans and borrowings by period of repayment

	2012	2011
	US$000	*US$000*
At 31 December:		
Not more than one year	**7,145**	304,027
After one year but not more than two years	**–**	1,243
After two years but not more than five years	**546,533**	–
	553,678	305,270

16. Employee benefits

In accordance with collective bargaining agreements, the Group provides to its employees lump-sum amounts payable at the retirement date. These benefits generally depend on years of service, level of remuneration and amount of pension payment under the collective bargaining agreements. The Group funds the benefits when the amounts of benefits fall due for payment.

Defined contribution plans represent payments made by the Group to the Russian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits.

In the years ended 31 December 2012 and 2011, the Group's expenses under defined contribution plans amounted to US$49,169,000 and US$48,111,000 respectively.

Defined benefit plans

The principal assumptions used in determining pension obligations for the Group's plan are shown in the following table:

	2012	2011
Discount rate	**7.0%**	8.0%
Future benefits increases	**8.0%**	8.0%
Future salary increases	**8.0%**	8.0%

The Group's defined benefit plan is unfunded.

The components of net benefit expense recognized in the consolidated statement of comprehensive income for the years ended 31 December 2012 and 2011 and amounts recognized in the consolidated statement of financial position as at 31 December 2012 and 2011 for the defined benefit plan were as follows:

16. Employee benefits (continued)

Net benefit expense (recognized in cost of sales and general and administrative expenses)

	2012	2011
	US$000	*US$000*
Current service cost	**2,805**	2,352
Interest cost on benefit obligation	**3,690**	3,485
Net actuarial gain/(loss) recognized in the year	**2,586**	(1,311)
Past service cost	**(53)**	216
	9,028	4,742

Net benefit liability

	2012	2011
	US$000	*US$000*
At 31 December:		
Benefit obligation	**56,955**	44,424
Unrecognized net actuarial losses	**(26,409)**	(21,909)
Unrecognized past service cost	**508**	530
	31,054	23,045

Movement in benefit obligation

	2012	2011
	US$000	*US$000*
At 1 January	**44,424**	41,825
Interest cost on benefit obligation	**3,690**	3,485
Current service cost	**2,805**	2,352
Past service cost	**–**	248
Benefits paid	**(2,555)**	(2,517)
Actuarial losses on obligation	**5,696**	1,702
Translation difference	**2,895**	(2,671)
At 31 December	**56,955**	44,424

The following table is a summary of the present value of the benefit obligation and experience adjustments for the current year and previous four annual periods:

	2012	2011	2010	2009	2008
	US$000	*US$000*	*US$000*	*US$000*	*US$000*
At 31 December:					
Defined benefit obligation	**56,955**	44,424	41,825	26,102	23,498
Deficit	**(56,955)**	(44,424)	(41,825)	(26,102)	(23,498)
Experience adjustments on plan liabilities	**(981)**	395	12,859	(1,334)	3,722

17. Site restoration provision

Under Russian law, mining companies have obligations to restore mining sites. The respective liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate of 7% and 8% for the years ended 31 December 2012 and 2011 respectively.

Movement in site restoration provision

	2012	2011
	US$000	*US$000*
At 1 January	**9,937**	11,703
Charge for the year	**823**	971
Change in provision	**2,149**	(2,221)
Translation difference	**667**	(516)
At 31 December	**13,576**	9,937

18. Trade and other payables

	2012	2011
	US$000	*US$000*
At 31 December:		
Trade accounts payable	**51,179**	29,844
Accrued payroll	**6,909**	5,605
Other payables	**11,777**	10,414
	69,865	45,863

19. Other taxes payable

	2012	2011
	US$000	*US$000*
At 31 December:		
VAT	**14,829**	16,487
Other taxes	**11,340**	8,850
	26,169	25,337

20. Commitments and contingencies

Operating environment of the Group

The Group is one of the biggest coking coal producers in Russia. Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent on these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2012 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be some uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not determinable now.

20. Commitments and contingencies (continued)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within Russia suggest that tax authorities are taking a more assertive position in their interpretation of legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, fines and penalties may be assessed.

Management believes that its interpretation of relevant legislation is appropriate and that the Group has paid or accrued all applicable taxes. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Contractual commitments

The Group was a party to executory contracts for the purchase of production equipment and construction works for the amount of US$31,309,000 as at 31 December 2012.

Social commitments

The Group is involved in a number of social programs aimed to support education, health care and social infrastructure development in the towns where the Group's assets are located. In 2013 the Group plans to spend US$7,600,000 under these programs.

Environmental protection

The Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management believes that any pending environmental claims or proceedings will not have a material adverse effect on the Group's financial position or results of operations. Under the Plan on environmental protection for the years 2011-15 authorized by management, the Group expects to spend US$10,635,000 in 2013.

Insurance policies

The Group maintains obligatory insurance policies required by Russian law. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

21. Financial risks management objectives and policies

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial assets that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable. To manage credit risk related to cash, the Group maintains its available cash, mainly in Russian rubles in major Russian state banks and reputable Russian affiliates of international banks. Management periodically reviews the credit-worthiness of the banks in which it deposits cash.

The Group's trade receivables consist of a limited number of customers, to whom the Group sells on credit terms. The Group has developed standard payment terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed in the following table:

	2012	2011
	US$000	*US$000*
At 31 December:		
Financial instruments	**2,543**	2,093
Long-term receivables	**3,119**	2,466
Trade and other receivables	**71,803**	60,033
Receivables from related parties	**42,522**	39,785
Short-term investments, cash and cash equivalents	**120,420**	260,279
	240,407	364,656

Ageing analysis of trade and other receivables

	2012		2011	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
	US$000	*US$000*	*US$000*	*US$000*
At 31 December:				
Not past due	**115,095**	**–**	101,669	–
Past due:				
not more than 6 months	**1,114**	**–**	120	–
more than 6 months	**1,740**	**505**	932	437
	117,949	**505**	102,721	437

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group prepares a detailed financial plan on the monthly basis which ensures that the Group has sufficient cash to meet expected operational expenses, financial obligations and investing activities for a period of 30 days.

All of the Group's financial liabilities are non-derivative financial instruments.

21. Financial risks management objectives and policies (continued)

Liquidity risk (continued)

The following two tables summarize the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments.

	Not more than 1 year	**1 to 2 years**	**2 to 5 years**	**Total**
	US$000	*US$000*	*US$000*	*US$000*
At 31 December 2012:				
Fixed-rate debt				
Loans and borrowings				
Principal	**–**	**–**	**400,000**	**400,000**
Interest	**5,511**	**–**	**–**	**5,511**
	5,511	**–**	**400,000**	**405,511**
Variable-rate debt				
Loans and borrowings				
Principal	**1,272**	**–**	**150,000**	**151,272**
Interest	**362**	**–**	**–**	**362**
	1,634	**–**	**150,000**	**151,634**
Non-interest bearing debt				
Trade and other payables	**69,865**	**–**	**–**	**69,865**
Payables to related parties	**3,591**	**–**	**–**	**3,591**
Dividends payable	**63**	**–**	**–**	**63**
	73,519	**–**	**–**	**73,519**
	80,664	**–**	**550,000**	**630,664**

	Not more than 1 year	**1 to 2 years**	**Total**
	US$000	*US$000*	*US$000*
At 31 December 2011:			
Fixed-rate debt			
Loans and borrowings			
Principal	300,022	–	300,022
Interest	11,251	–	11,251
	311,273	–	311,273
Variable-rate debt			
Loans and borrowings			
Principal	1,658	1,243	2,901
Interest	146	47	193
	1,804	1,290	3,094
Non-interest bearing debt			
Trade and other payables	45,863	–	45,863
Payables to related parties	2,262	–	2,262
Dividends payable	125	–	125
	48,250	–	48,250
	361,327	1,290	362,617

Currency risk

The Group is exposed to currency risk on sales, purchases, deposits and borrowings that are denominated in a currency other than the Group's functional currency. The currencies in which these transactions are primarily denominated are US dollars and euro.

The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is secured from currency risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

21. Financial risks management objectives and policies (continued)

Currency risk (continued)

The Group's exposure to currency risk determined as the net monetary position in respective currencies is set out in the following table:

	2012	**2011**
	US$000	*US$000*
At 31 December:		
USD/RUB	**(447,068)**	(173,657)
EUR/RUB	**895**	(6,953)

Sensitivity analysis

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating a reasonably possible change, the Group assessed the volatility of foreign exchange rates during the three years preceding the end of the reporting period:

	2012		**2011**	
	Change in exchange rate	**Effect on profit before tax**	**Change in exchange rate**	**Effect on profit before tax**
		US$000		*US$000*
USD/RUB	**(11.09)**	**49,580**	(12.50)	21,707
	11.09	**(49,580)**	12.50	(21,707)
EUR/RUB	**(8.12)**	**(73)**	(11.77)	818
	8.12	**73**	11.77	(818)

Interest rate risk

The Group incurs interest rate risk on loans and borrowings. The Group borrows on both fixed and variable rate basis.

The following table summarizes the Group's outstanding interest-bearing debt:

	2012	**2011**
	US$000	*US$000*
At 31 December:		
Fixed-rate debt	**396,551**	299,868
Variable-rate debt	**151,254**	2,901
	547,805	302,769

21. Financial risks management objectives and policies (continued)

Cash flow sensitivity analysis for variable rate instruments

Based on the analysis of exposure during the years presented, reasonably possible changes in floating interest rates at the reporting date would have changed profit before tax by the amounts shown in the following table. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2012		2011	
	Change in exchange rate	**Effect on profit before tax**	**Change in exchange rate**	**Effect on profit before tax**
	basis points	*US$000*	*basis points*	*US$000*
Liabilities denominated in US dollars				
Decrease in LIBOR	**(2)**	**(30)**	(15)	–
Increase in LIBOR	**2**	**30**	15	–
Liabilities denominated in euro				
Decrease in EURIBOR	**(4)**	**(1)**	(15)	(4)
Increase in EURIBOR	**4**	**1**	15	4

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder wealth. There were no changes in the objectives, policies and processes of the Group's capital management during 2012.

The Group manages its capital structure and makes adjustments to it by issue of new shares, dividend payments and purchase of treasure shares.

Fair value of financial instruments

The carrying amounts of financial instruments, consisting of cash, short-term investments, short-term accounts receivable and payable, variable rate short-term and variable rate long-term loans payable approximate their fair value.

Fair value of 7.75% notes due in 2017 with carrying amount US$396,551,000 is determined by reference to published price quotations in an active market and amounts to US$423,572,000.

22. Events after the reporting period

Acquisition of control over the Company by Evraz

On 16 January 2013, Adroliv sold to Evraz its ownership interest in Corber.

Inability to incur indebtedness

The Loan Agreement on 7.75% Eurobonds and the Loan Agreement with Raiffeisenbank stipulate a number of covenants. One of these is an obligation not to incur indebtedness if a ratio in respect of indebtedness and profitability exceeds 3. Based on financial results for 2012, the ratio equaled 3.9. The Group therefore may not incur additional indebtedness.