OAO KOKS

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

For the year ended 31 December 2012

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Independent auditor's report

To the Shareholders and Board of Directors of OAO KOKS:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

ZAO PricewaterhouseCoopers Audit

12 April 2013

Moscow, Russian Federation

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(in million RR unless stated otherwise)

	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets:			
Property, plant and equipment	7	33,915	28,337
Goodwill	9	4,586	4,600
Other intangible assets	8	5,935	6,215
Deferred income tax asset	28	653	562
Available-for-sale financial assets	33,5.2	2,877	2,929
Non-current loans issued	13	1,408	1,459
Other non-current assets	10	446	519
Total non-current assets		**49,820**	**44,621**
Current assets:			
Inventories	11	4,250	5,542
Trade and other receivables	14	1,537	2,732
VAT recoverable		2,164	2,422
Advances issued	14	483	408
Cash, cash equivalents and restricted cash	15	894	180
Other current assets	12, 33	28	713
Total current assets		**9,356**	**11,997**
Total assets		**59,176**	**56,618**
EQUITY			
Share capital	16	213	213
Treasury shares	16	(5,928)	(5,928)
Retained earnings		26,139	25,286
Revaluation reserve		1,231	1,387
Currency translation reserve		(1)	(17)
Equity attributable to the Company's equity holders		**21,654**	**20,941**
Non-controlling interest		**583**	**644**
Total equity		**22,237**	**21,585**
LIABILITIES			
Non-current liabilities:			
Provision for restoration liability	18	134	128
Deferred income tax liability	28	2,395	2,608
Long-term borrowings	19	6,955	5,772
Long-term bonds	19	14,378	14,942
Derivative financial instruments	31	103	159
Total non-current liabilities		**23,965**	**23,609**
Current liabilities:			
Trade and other payables	20	6,060	5,164
Payables on treasury shares	16	360	581
Current income tax payable		108	66
Other taxes payable	21	581	746
Provision for restoration liability	18	18	15
Short-term borrowings and current portion of long-term borrowings	19	5,730	4,571
Short-term bonds	19	117	281
Total current liabilities		**12,974**	**11,424**
Total liabilities		**36,939**	**35,033**
Total liabilities and equity		**59,176**	**56,618**

E. B. Zubitskiy
President - Chairman of the Management Board
OOO Management Company Industrial Metallurgical Holding

L.V. Arincheva
Chief Accountant
OOO Management Company Industrial Metallurgical Holding

11 April 2013

The accompanying notes are an integral part of these consolidated financial statements

(in million RR unless stated otherwise)

	Note	2012	2011
Revenue	22	45,704	55,589
Cost of sales	23	(34,765)	(39,570)
Gross profit		**10,939**	**16,019**
Distribution costs	25	(4,120)	(6,003)
General and administrative expenses	26	(2,755)	(3,037)
Taxes other than income tax	24	(547)	(728)
Gain on disposal of investment in subsidiary	29	112	-
Other operating expenses, net	27	(247)	(508)
Operating profit		**3,382**	**5,743**
Interest income		95	121
Interest expenses		(1,662)	(2,065)
Gain/(Loss) arising on revaluation of derivative financial instruments, net	33	141	(125)
Exchange gain/(loss), net		647	(1,946)
Profit before income tax		**2,603**	**1,728**
Income tax expense	28	(606)	(501)
Profit for the year		**1,997**	**1,227**
Profit/(Loss) is attributable to:			
Equity holders of the Company		2,059	1,274
Non-controlling interest		(62)	(47)
Profit for the year		**1,997**	**1,227**
Earnings per ordinary share, basic and diluted (in RR per share)	35	**6.77**	**4.19**

(in million RR unless stated otherwise)

	Note	2012	2011
Profit for the year		**1,997**	**1,227**
Other comprehensive income:			
Exchange differences on translating foreign operations:			
Exchange differences arising during the year, net		(20)	3
Reclassification adjustments relating to foreign operations disposed of during the period	29	35	-
		15	**3**
Available-for-sale financial assets:			
(Loss)/Gain arising on revaluation of available-for-sale financial assets during the year, net	33	(52)	386
		(52)	**386**
Income tax relating to components of other comprehensive income	28	**11**	**(79)**
Total other comprehensive income for the year		**(26)**	**310**
Total comprehensive income for the year		**1,971**	**1,537**
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		**2,033**	**1,584**
Non-controlling interest		**(62)**	**(47)**
Total comprehensive income for the year		**1,971**	**1,537**

(in million RR unless stated otherwise)

	Note	2012	2011
Cash flows from operating activities			
Profit before income tax		2,603	1,728
Adjustments for:			
Depreciation of property, plant and equipment	23, 26	2,444	2,202
Amortisation of intangible assets	23	281	280
Gain on disposal of investment in subsidiary	29	(112)	-
Finance income		(95)	(121)
Interest expenses		1,662	2,065
(Gain)/Loss arising on revaluation of derivative financial instruments, net	31	(141)	125
Gain on sale of available-for-sale financial asset	27	-	(33)
Accrual of vacation reserve		40	247
Accrual of obsolete stock provision		16	15
Accrual of bad debt provision		78	24
Exchange (gain)/loss, net		(647)	1,946
Non-cash transactions		53	(9)
Impairment of available-for-sale financial asset	27	-	58
Other effects		324	(39)
Operating cash flows before working capital changes		**6,506**	**8,488**
Changes in working capital			
Decrease in trade and other receivables		1,235	6
Decrease /(Increase) in inventories		734	(1,291)
Decrease in trade and other payables		(609)	(1,032)
(Decrease)/Increase in taxes other than income tax payable		(157)	2
Decrease in other liabilities		(1)	(5)
Cash from operating activities		**7,708**	**6,168**
Income tax paid		(623)	(1,312)
Net cash from operating activities		**7,085**	**4,856**
Cash flows from investing activities			
Purchase of property, plant and equipment		(7,875)	(5,823)
Proceeds from sale of property, plant and equipment		12	11
Proceeds from sale of available-for-sale financial assets		-	33
Proceeds from disposal of subsidiaries, net of cash disposed	29	(57)	-
Purchase of available-for-sale financial assets		-	(68)
Changes in restricted cash		(533)	226
Loans issued		(624)	(795)
Repayment of loans issued		1,309	101
Interest received on loans issued		49	64
Proceeds from sale of financial assets at fair value through profit and loss		2	-
Acquisition of intangible assets and other non-current assets		(1)	-
Net cash used in investing activities		**(7,718)**	**(6,251)**

(in million RR unless stated otherwise)

	Note	2012	2011
Cash flows from financing activities			
Purchase of treasury shares	16	(221)	(667)
Proceeds from borrowings		39,634	39,121
Repayment of borrowings		(36,463)	(37,323)
Interest paid on loans and borrowings		(1,630)	(2,240)
Dividends paid	17	(43)	(543)
Proceeds from derivative financial instruments, net	31	85	34
Sale /(Purchase) of non-controlling interest in subsidiaries		1	(5)
Net cash from/(used in) financing activities		**1,363**	**(1,623)**
Net increase/(decrease) in cash and cash equivalents		**730**	**(3,018)**
Effects of exchange rate changes on cash and cash equivalents		155	(144)
Net cash and cash equivalents at the beginning of the year, including		**(783)**	**2,379**
Cash and cash equivalents		162	2,705
Bank overdraft		(945)	(326)
Net cash and cash equivalents at the end of the year, including		**102**	**(783)**
Cash and cash equivalents		338	162
Bank overdraft		(236)	(945)

Consolidated Statement of Changes in Equity for the year ended 31 December 2012

(in million RR unless stated otherwise)

	Note	Share capital	Treasury shares	Currency translation reserve	Revaluation reserve	Retained earnings	Total attributable to equity holders of the Company	Non-controlling interest	Total equity
Balance at 31 December 2010		**213**	**(5,928)**	**(18)**	**1,202**	**23,887**	**19,356**	**692**	**20,048**
Profit/(Loss) for the year		-	-	-	-	1,274	**1,274**	(47)	**1,227**
Other comprehensive income for the year		-	-	1	309	-	**310**	-	**310**
Total comprehensive income/(loss) for the year		-	-	**1**	**309**	**1,274**	**1,584**	**(47)**	**1,537**
Purchase of non-controlling interest in subsidiaries, net		-	-	-	-	1	**1**	(1)	-
Revaluation reserve written-off to retained earnings		-	-	-	(124)	124	-	-	-
		-	-	-	**(124)**	**125**	**1**	**(1)**	-
Balance at 31 December 2011		**213**	**(5,928)**	**(17)**	**1,387**	**25,286**	**20,941**	**644**	**21,585**
Profit/(Loss) for the year		-	-	-	-	2,059	**2,059**	(62)	**1,997**
Other comprehensive income for the year		-	-	16	(42)	-	**(26)**	-	**(26)**
Total comprehensive income/(loss) for the year		-	-	**16**	**(42)**	**2,059**	**2,033**	**(62)**	**1,971**
Sale of non-controlling interest in subsidiaries, net		-	-	-	-	-	-	1	**1**
Dividends declared	17	-	-	-	-	(1,320)	**(1,320)**	-	**(1,320)**
Revaluation reserve written-off to retained earnings		-	-	-	(114)	114	-	-	-
		-	-	-	**(114)**	**(1,206)**	**(1,320)**	**1**	**(1,319)**
Balance at 31 December 2012		**213**	**(5,928)**	**(1)**	**1,231**	**26,139**	**21,654**	**583**	**22,237**

(in RR, tabular amounts in million RR unless stated otherwise)

1 General information about OAO Koks and its subsidiaries

OAO Koks (the "Company") was established as state-owned enterprise Kemerovski Koksokhimicheski Kombinat in 1924. It was incorporated as an open joint stock company on 30 July 1993 as part of Russia's privatisation programme. The Company's registered office is located at 1st Stakhanovskaya street, 6, Kemerovo, the Russian Federation, 650021.

OAO Koks and its subsidiaries' (together, the "Group") principal activities include coal mining, production of coke and coal concentrate, iron-ore concentrate, pig iron, as well as metal powder production (high purity chrome products). The Group's manufacturing facilities are primarily based in the city of Kemerovo, Kemerovo Region, and in the city of Tula, Tula Region, the Russian Federation. Products are sold in Russia as well as in other countries.

As at 31 December 2012 and 2011 85.9% of total issued shares of the Company were ultimately owned by members of the Zubitskiy family: Mr B.D. Zubitskiy, Mr E.B. Zubitskiy and Mr A.B. Zubitskiy.

The Group's main subsidiaries are:

Name	Country of incorporation	Type of activity	Note	Percentage of voting shares	
				31 December 2012	31 December 2011
OAO Mill Berezovskaya	Russia	Production of coal concentrate		98%	98%
OOO Trade House Kemerovo-Koks	Russia	Sales activities		100%	100%
OOO Uchastok Koksoviy	Russia	Coal mining		100%	100%
OOO Gornyak	Russia	Coal mining		100%	100%
ZAO Sibirskie Resursy	Russia	Coal mining		100%	100%
OOO Butovskaya mine	Russia	Coal mining		100%	100%
OOO Tikhova mine	Russia	Coal mining		100%	100%
ZAO Inertnik	Russia	Production of limestone dust		100%	100%
OAO Tulachermet	Russia	Pig-iron production		95%	95%
OAO Kombinat KMA Ruda	Russia	Mining and concentration of iron-ore		100%	100%
OAO Polema	Russia	Production of chrome		100%	100%
ZAO Krontif-Centre	Russia	Production of cast-iron ware		100%	100%
Polema S.A.	Switzerland	Sales activities	(1.1)	-	100%
PTW Ltd.	China	Sales activities	(1.2)	100%	-
Industrial Metallurgical Trading, S.A.	Switzerland	Sales activities		100%	100%
OOO Consultinvest 2000	Russia	Lease of property		100%	100%
OOO Management Company Industrial Metallurgical Holding	Russia	Management services		100%	100%
OOO BKF Gorizont	Russia	Transactions with securities		100%	100%
OOO Koks-Mining	Russia	Management services for coal mines		100%	100%
Koks Finance Limited	Ireland	Special purpose entity	(1.3)	-	-

1.1. In June 2012 the Group sold a 100% interest in Polema S.A. for EUR 10,000 (RR 410 thousand) (see Note 29).

1.2. In June 2012 the Group finalized the establishment of PTW Ltd (China) by contributing NTD 7,000,000 (RR 7 million) in the share capital of this company.

1.3. In April 2011 Koks Finance Limited was registered in Dublin. Koks Finance Limited issued an aggregate principal amount of USD 350 million 7.75 per cent. loan participation notes due 2016 for the sole purpose of financing a loan to the Company (see Note 19).

2 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the measurement of financial instruments including available-for-sale financial assets and derivative financial instruments based on fair value.

Each company of the Group registered in Russia maintains its own accounting records and prepares financial statements in accordance with the Russian accounting standards ("RAS"). The consolidated financial statements have been prepared using RAS records and reports that have been adjusted and re-classified to ensure accurate presentation in compliance with IFRS.

Each company of the Group registered outside Russia maintains its own accounting records and prepares financial statements in accordance with the local GAAP. The financial statements of companies outside Russia have been adjusted and reclassified to ensure accurate presentation and compliance with IFRS.

As at 31 December 2012 the official exchange rate set by the Central Bank of the Russian Federation (the "Central Bank") for transactions denominated in foreign currencies was RR 30.3727 per 1 US dollar ("USD") (as at 31 December 2011: RR 32.1961 per 1 USD) and RR 40.2286 per 1 euro ("EUR") (as at 31 December 2011: RR 41.6714 per 1 EUR).

As at 31 December 2012, the Group's current liabilities exceeded current assets by RR 3,618 million principally due to a significant decrease in revenues, and a resulting decrease in receivables and inventory. Additionally, payables and short-term borrowings increased. As the Group has undrawn borrowing facilities in the amount of RR 49,274 million (see note 19) as at 31 December 2012, management believes the Group can meet its liquidity requirements.

3 Summary of significant accounting policies

3.1 Consolidated financial statements

(a) Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The Group applies IAS 27 and IFRS 3. In accordance with these standards acquisition-related costs are to be expensed as incurred. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. The excess of the acquirer's interest in the fair value of the identifiable net assets acquired over the consideration transferred is recognised immediately in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

3 Summary of significant accounting policies (continued)

(b) Transactions with non-controlling shareholders

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

3.2 Foreign currency transactions

(a) Functional and presentation currency

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of Russia, the Russian rouble ("RR").

(b) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated into each entity's functional currency at the official exchange rate of the Central Bank at the respective reporting dates. Foreign exchange gains and losses resulting from transaction settlements and from the translation of monetary assets and liabilities into each entity's functional currency at the Central Bank's official year-end exchange rates are recognised in the consolidated income statement. Translation at year-end rates does not apply for non-monetary items, including equity investments.

(c) Foreign operations

The assets, liabilities and financial results of Group's companies (none of which operates in a hyperinflationary economy) whose functional currency differs from the Group's presentation currency are translated into the presentation currency in the following way:

i. Assets and liabilities are translated into the Group's presentation currency using the exchange rate as at the reporting date;

ii. Income and expenses are translated to the Group's presentation currency using the exchange rate at the date of transaction or average exchange rate for a reporting period if not materially different; and

iii. Exchange differences calculated as a result of translations described in points (i) and (ii) shall be recognised initially in other comprehensive income and subsequently recognised in profit or loss upon disposal of the net investment.

Goodwill related to acquisitions of foreign operation is translated into Russian roubles at the closing exchange rate, with a corresponding adjustment in other comprehensive income.

3.3 Property, plant and equipment

Property, plant and equipment are recorded at cost, less accumulated depreciation and impairment, if any. Cost includes expenditures that are directly attributable to an item's acquisition. Subsequent costs, including overhaul expenses, are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Group and the value of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Mining assets consist of mine development and construction costs, which represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, and etc. Mining assets are included within Buildings, Installations and Plant and equipment.

At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated income statement. An impairment loss recognised for

(in RR, tabular amounts in million RR unless stated otherwise)

3 Summary of significant accounting policies (continued)

an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amount are recognised in the consolidated income statement.

Depreciation. Land and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method (except for mining assets) to allocate their depreciable amounts (cost less residual values) over their estimated useful lives:

	Useful lives in years
Buildings	20-80
Installations	8-60
Plant and equipment	2-30
Transport vehicles	2-20
Other	2-25

Depletion of mining assets is calculated using the units-of-production method based upon mineral reserves.

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

3.4 Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

3.5 Other intangible assets

All of the Group's other intangible assets have definite useful lives and primarily include production licences. Acquired licences are capitalised on the basis of the costs incurred to acquire them.

All groups of intangible assets with definite useful lives are amortised using the straight-line method over their remaining useful lives (see Notes 8 and 32). If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell.

3.6 Investments

The Group has the following categories of investments: a) loans and receivables, b) available-for-sale financial assets and c) financial assets at fair value through profit and loss. The classification depends on the purpose for which the financial assets were acquired and the nature of the assets. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

3 Summary of significant accounting policies (continued)

(a) Loans and accounts receivable

Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They arise when the Group grants cash, goods or services to the borrower with no intention of selling the resulting accounts receivable. They are included in current assets unless their repayment period exceeds 12 months of the reporting date. If their repayment period exceeds 12 months of the reporting date, they are recorded as non-current assets.

(b) Available-for-sale financial assets

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

Purchases and sales of available-for-sale assets are initially measured at fair value and recognised at the settlement date, which is the date that the investment is delivered to customer. Cost of purchases includes transaction costs. Available-for-sale assets are carried at fair value. Unrealised gains and losses arising from changes in the fair value of these assets are recognised in other comprehensive income in the period in which they arise. Gains and losses from the disposal of available-for-sale investments are included in the consolidated income statement in the period in which they arise.

Available-for-sale assets mainly include securities which are not quoted or traded on any exchange market. The fair value of these investments is determined using discounted future cash flow method. Management makes assumptions based on an analysis of the market situation at each reporting date to determine the fair value.

3.7 Inventories

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

3.8 Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect amounts due according to the original terms. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate corresponding to the initial financing conditions. The amount of the provision is recognised in the consolidated income statement.

3.9 Value added tax

Value added tax (“VAT”) related to sales is payable to the federal tax authorities at the earlier of two dates: the date of dispatch (transfer) of goods (services, works, property rights), or the date of collection of receivables from customers for the future supply of goods (works, services, property rights). VAT included in the cost of purchased goods (works, services, property rights) generally can be reclaimed by offsetting it against VAT on sales once the goods (works, services, property rights) have been accounted for, except for VAT on export sales, which is reclaimable once export transactions have been confirmed.

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

3.10 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using

3 Summary of significant accounting policies (continued)

the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the consolidated statement of cash flows and consolidated statement of financial position. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date are included in other non-current assets.

Bank overdrafts are an integral part of the Group’s cash management and considered cash equivalents for the purposes of consolidated statement of cash flows preparation.

3.11 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

3.12 Dividends

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorised for issue.

3.13 Borrowings

Borrowings are carried at amortised cost using the effective interest method.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

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

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.14 Derivative financial instruments

Derivative financial instruments include currency and interest rate swaps. Initially and subsequently derivative financial instruments are measured at fair value. They are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are recognized in profit or loss in the period in which they are incurred.

3.15 Income tax

Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or in a different period, in other comprehensive income or directly in equity.

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

Deferred income tax is accrued using the balance sheet liability method for tax loss carry forwards and for temporary differences arising between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the reporting date, which are

3 Summary of significant accounting policies (continued)

expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

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

Recognition of deferred tax asset. The net deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the consolidated statement of financial position. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

In determining future taxable profits and the amount of tax benefits that are probable in the future, management makes judgements and applies estimates based on taxable profits of the previous three years and expectations of future income that are believed to be reasonable under the circumstances.

3.16 Employee benefits

Wages, salaries, contributions to state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group.

3.17 Provisions for liabilities and charges

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. Provisions are reassessed annually and changes in provisions resulting from the passage of time are reflected in the consolidated income statement each year within interest expense. Other changes in provisions related to a change in the expected repayment plan, in the estimated amount of the obligation or in the discount rates, are treated as a change in an accounting estimate in the period of the change and, with the exception of provision for restoration liabilities, reflected in the consolidated income statement.

Provisions for restoration liability are recognised when the Group has a present legal or constructive obligation to dismantle, remove and restore items of property, plant and equipment. The amount of the provision is the present value of the estimated expenditures expected to be required to settle the liability, determined using pre-tax risk free discount rates adjusted for risks specific to the liability. Changes in the provision resulting from the passage of time are recognised as interest expense. Changes in the provision, which is reassessed at each reporting date, related to a change in the expected pattern of settlement of the liability, or in the estimated amount of the provision or in the discount rates, are treated as a change in an accounting estimate in the period of change. Such changes are reflected as adjustments to the carrying value of property, plant and equipment and the corresponding liability.

3.18 Uncertain tax positions

Uncertain tax positions of the Group are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are deemed by management to be unlikely to be sustained if challenged by the tax authorities, based on its interpretation of tax laws that have been enacted or substantively enacted at the reporting date. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

3 Summary of significant accounting policies (continued)

3.19 Revenue recognition

Revenue from the sale of goods (primarily coke products, pig iron, chrome and powder metallurgy products) is measured at the fair value of the consideration received or to be received, net of value-added tax, custom duties, rebates and discounts. Amounts billed to customers in respect of shipping and handling costs are included in revenue where the Group is responsible for carriage, insurance and freight. All shipping and handling costs incurred by the Group are recognised as distribution costs. A significant portion of products is sold under one year contracts with prices determined for each shipment. Revenues are recognised on individual sales when pervasive evidence exists that all of the following criteria are met:

- the significant risks and rewards of ownership of the product have been transferred to the buyer;
- neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, has been retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sale will flow to the Group; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

These conditions are generally satisfied when title passes to the customer. In most cases this is when the product is dispatched to the customer.

3.20 Share capital and reserves

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

Treasury shares
Own shares reacquired by the Company (treasury shares) are deducted from equity in the amount of consideration paid until further cancellation or reissue. Where such shares are subsequently reissued or resold the consideration received is recognized directly in equity. Any gain or loss arising from these transactions is recognized in the consolidated statement of changes in equity.

Revaluation reserve
Revaluation reserve includes the fair value adjustments of available-for-sale financial assets. Also, prior to adoption of IFRS 3(R), revaluation of assets held by associates where control was subsequently obtained and fair value adjustments were performed as of the date of obtaining control, was recorded in revaluation reserve. During the period of control the Group transfers the revaluation reserve directly to retained earnings in proportion to the depreciation of property, plant and equipment of the subsidiary. When control over the subsidiary is lost, the Group transfers the remaining revaluation surplus related to the subsidiary directly to retained earnings.

Currency translation reserve
The currency translation reserve is due to the consolidation of entities, whose functional currency is not the Russian Rouble.

3.21 Segment reporting

An operating segment is a component of the Group:
(a) engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with any of the Group's other components; (b) whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available.

4 New accounting pronouncements

The following new standards and amendments to standards which may have an impact on the Group's consolidated financial statements are not yet effective and have not been applied in preparing the consolidated financial statements. The Group is currently evaluating what the effect these new standards and amendments to standards will have on disclosures in its consolidated financial statements:

– IFRS 9, Financial Instruments: Classification and Measurement. IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures;

– IFRS 10, Consolidated financial statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance;

– IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities.

– IFRS 13, Fair value measurement, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013), aims to improve consistency and reduce complexity by providing a precise definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs;

– Amendments to IAS 1, Presentation of financial statements (issued in June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income (OCI). The amendments require entities to separate items presented in OCI into two groups, based on whether or not they may be recycled to profit or loss in the future. The suggested title used by IAS 1 has changed to "statement of profit or loss and other comprehensive income";

– IFRIC 20, "Stripping Costs in the Production Phase of a Surface Mine" (issued in October 2011 and effective for annual periods beginning on or after 1 January 2013), which considers when and how to account for the benefits arising from the stripping activity in mining industry. Management expects that application of IFRIC 20 in 2013 may have a material effect of the consolidated financial statements.

5 Critical accounting estimates and judgements in applying accounting policies

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

5.1 Estimated useful lives of property, plant and equipment

The Group applies a range of useful lives to buildings, installations, plant and equipment, transport vehicles and other assets classified as property, plant and equipment. Significant judgement is required in estimating the useful life of such assets. If management's estimates of useful lives were to decrease by 10%, profit before income tax for the year ended 31 December 2012 would decrease by RR 269 million (2011: profit before income tax would decrease by RR 242 million). An increase in useful lives by 10% would result in an increase of profit before income tax for the year ended 31 December 2012 by RR 220 million (2011: increase of profit before income tax by RR 198 million).

(in RR, tabular amounts in million RR unless stated otherwise)

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

5.2 Available-for-sale financial assets

As of 31 December 2012 (31 December 2011) the Group classified its ownership share of 17% in SIJ – Slovenska industrija jekla, d.d. (Slovenia) as an available-for-sale financial assets and retained neither control nor significant influence over this company. In accordance with IFRS the Group estimated the fair value of this available-for-sale financial asset. There is no quoted share price for SIJ d.d. and its subsidiaries and thus management estimated a fair value based on cash flow projections that management could obtain as of the reporting date. Management have estimated fair value of this holding equal to RR 2,816 million as at 31 December 2012 (31 December 2011: RR 2,868 million). In the calculation of fair value the following major inputs have been used: discount rate of 8.52–9.58% and long-term growth of 2%. The most sensitive estimates used by management in assessing of fair value were revenue and EBITDA. If EBITDA was to increase/(reduce) by 1% then the fair value would be increased/(reduced) by RR 57 million. If prices for steel were to grow/(fall) by 1% then the fair value would be increased/(reduced) by RR 642 million.

5.3 Derivative financial instruments

In July 2011 the Group entered into currency and interest rate swap contract which was not designated as a hedging instrument. This currency and interest rate swap was measured at fair value using valuation technique.

6 Segment information

The Group operates as a vertically integrated business. Chief Executive Officer of OOO Managing company “Industrial Metallurgical Holding” is considered to be the Chief Operating Decision Maker (“CODM”). The CODM is responsible for decision-making, results estimation and resources distribution, relying on internal financial information, prepared in compliance with IFRS accounting policy and organizational structure of the Group, among the segments listed below:

- Coal – coal mining;
- Coke – coke production;
- Ore & Pig iron – production of iron ore concentrate, pig iron, crushed pig iron and cast iron ware;
- Polema – production of powder metallurgy articles (chrome articles);
- IMT – sale of Group’s products (mainly coke and pig iron);
- Other – other segments.

Inter-segment sales are generally composed of:

- Sales of coal to the “Coke” segment;
- Sales of coke to the “Ore & Pig iron” segment;
- Management services rendered to the segments “Coke”, “Ore & Pig iron” and “Polema”.

Segment revenue and segment results include transfers between business segments. Analyses of revenue generated from external sales by the products and services are included in Note 22.

The CODM reviews sales and profit/(loss) before income tax by the segments:

	Coal	Coke	Ore & Pig iron	Polema	IMT	Other	Total
Year ended 31 December 2012							
Inter-segment revenue	6,540	13,017	1,905	3	6	872	**22,343**
External revenue	1,734	11,638	25,469	1,350	5,503	10	**45,704**
Segment revenue, total	**8,274**	**24,655**	**27,374**	**1,353**	**5,509**	**882**	**68,047**
Segment profit before income tax	**224**	**1,060**	**1,018**	**109**	**112**	**80**	**2,603**
Year ended 31 December 2011							
Inter-segment revenue	10,415	17,982	19,899	6	12	782	**49,096**
External revenue	266	17,901	10,885	1,700	24,748	89	**55,589**
Segment revenue, total	**10,681**	**35,883**	**30,784**	**1,706**	**24,760**	**871**	**104,685**
Segment profit/(loss) before income tax	**954**	**(837)**	**1,992**	**110**	**(100)**	**(333)**	**1,786**

(in RR, tabular amounts in million RR unless stated otherwise)

6 Segment information (continued)

Revenue from the largest customer of the Group's "Coke", "Ore & Pig iron" and "IMT" segments, which is the related party, represents RR 23,350 million of the Group's total revenues for the year ended 31 December 2012 (2011:RR 7,194 million).

The reconciliation between financial result of the reporting segments and profit before income tax for the year:

	Year ended 31 December 2012	Year ended 31 December 2011
Segment profit before income tax	**2,603**	**1,786**
Impairment of available-for-sale financial asset	-	(58)
Profit before income tax	**2,603**	**1,728**

Other material items of the segments in consolidated income statement are the following:

	Coal	Coke	Ore & Pig iron	Polema	IMT	Other	Total
Year ended 31 December 2012							
Amortization and depreciation	(971)	(310)	(1,346)	(56)	(2)	(40)	**(2,725)**
Finance income	2	45	45	-	2	1	**95**
Inter-segment interest income	1	93	94	-	-	-	**188**
Interest expense	(40)	(1,397)	(209)	-	(16)	-	**(1,662)**
Inter-segment interest expense	(90)	(86)	-	-	(3)	(9)	**(188)**
Gain arising on revaluation of derivative financial instruments, net	-	141	-	-	-	-	**141**
Exchange gain/(loss), net	12	586	146	(8)	(89)	-	**647**
Year ended 31 December 2011							
Amortization and depreciation	(740)	(293)	(1,353)	(54)	(1)	(41)	**(2,482)**
Finance income	1	57	61	-	1	1	**121**
Inter-segment interest income	25	128	416	-	-	-	**569**
Interest expense	(49)	(1,368)	(538)	(2)	(108)	-	**(2,065)**
Inter-segment interest expense	(109)	(403)	-	(9)	(17)	(31)	**(569)**
Loss arising on revaluation of derivative financial instruments, net	-	(125)	-	-	-	-	**(125)**
Exchange gain/(loss), net	6	(1,396)	(239)	1	(318)	-	**(1,946)**

Additional information

To provide a further insight into the Group's profit measurements, additional information on earnings before income tax, finance income, interest expense, depreciation, amortization and impairments and exchange gain/loss (adjusted EBITDA) analyzed by CODM for each operating segment is presented below. This information is not required by *IFRS 8, Operating Segments* and is provided on a voluntary basis.

Adjusted EBITDA	Coal	Coke	Ore & Pig iron	Polema	IMT	Other	Total
2012	1,310	1,988	2,288	173	220	128	**6,107**
2011	1,820	2,563	3,645	174	343	(262)	**8,283**

(in RR, tabular amounts in million RR unless stated otherwise)

6 Segment information (continued)

The reconciliation between profit before income tax and total Group's adjusted EBITDA:

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax	**2,603**	**1,728**
Finance income	(95)	(121)
Interest expenses	1,662	2,065
Exchange (gain)/loss, net	(647)	1,946
Amortization and depreciation	2,725	2,482
Impairment of available-for-sale financial asset	-	58
(Gain)/Loss arising on revaluation of derivative financial instruments, net	(141)	125
Total Group's adjusted EBITDA	**6,107**	**8,283**

Segment assets and liabilities

Segment assets consist primarily of property, plant and equipment, other intangible assets, inventories, trade and other receivables, advances issued, loans issued, VAT recoverable, cash and cash equivalents.

In 2012 the Group reassessed the allocation of intercompany debt between "Coal" and "Coke" segments; the 2011 comparative period was restated accordingly.

Segment liabilities include accounts payable arising during operating activities, borrowings and interest payable.

Capital expenditures comprise additions to property, plant and equipment and intangible assets, including acquisitions resulting from business combinations.

Segment assets and liabilities as at 31 December 2012 and 2011 and capital expenditures for the years ended 31 December 2012 and 2011 are presented below:

	Coal	Coke	Ore & Pig iron	Polema	IMT	Other	Total
At 31 December 2012							
Segment assets	18,333	16,621	22,231	1,020	693	989	**59,887**
Segment liabilities	12,801	20,161	8,790	127	317	340	**42,536**
Capital expenditures for the year ended 31 December 2012	5,773	274	2,264	65	-	400	**8,776**
At 31 December 2011							
Segment assets	13,604	20,059	25,515	1,172	1,648	749	**62,747**
Segment liabilities	8,052	22,568	12,455	413	1,554	657	**45,699**
Capital expenditures for the year ended 31 December 2011	3,961	702	1,898	66	4	131	**6,762**

The reconciliation between operational segments assets and total assets in the consolidated statement of financial position is presented below:

	At 31 December 2012	At 31 December 2011
Segment assets	**59,887**	**62,747**
Items not included in segment assets		
Goodwill	4,586	4,600
Deferred income tax asset	653	562
Other non-current assets (see Note 10)	6	6
Available-for-sale financial assets	2,877	2,929
Financial assets at fair value through profit and loss	-	3
Elimination of intersegment balances	(8,833)	(14,229)
Total assets	**59,176**	**56,618**

(in RR, tabular amounts in million RR unless stated otherwise)

6 Segment information (continued)

The reconciliation between operational segments liabilities and total liabilities in the consolidated statement of financial position is presented below:

	At 31 December 2012	At 31 December 2011
Segment liabilities	**42,536**	**45,699**
Items not included in segment liabilities		
Provision for restoration liability	152	143
Deferred income tax liability	2,395	2,608
Taxes payable	689	812
Elimination of intersegment balances	(8,833)	(14,229)
Total liabilities	**36,939**	**35,033**

The reconciliation between operational segments capital expenditures and total additions of property, plant and equipment in the Note 7 is presented below:

	Year ended 31 December 2012	Year ended 31 December 2011
Segment capital expenditures	**8,776**	**6,762**
Additions of intangible assets (Note 8)	1	-
Additions of property, plant and equipment (Note 7)	8,775	6,762

Information about geographical areas

Revenue analysis from external Russian and foreign customers based on customer's geographical location is disclosed in Note 22.

The following table presents export revenues from external customers attributed to foreign countries:

	Year ended	
	31 December 2012	31 December 2011
Export sales:	**30,592**	**35,064**
including:		
Switzerland	23,457	9,136
USA	1,065	7,247

The following table presents information about non-current assets of the Group (different from financial instruments and deferred income tax asset) located in the Russian Federation and abroad:

	At 31 December 2012	At 31 December 2011
Russian Federation	**44,428**	**39,136**
Foreign countries	**8**	**16**
including :		
Switzerland	2	16
China	6	-
Total non-current assets	**44,436**	**39,152**

(in RR, tabular amounts in million RR unless stated otherwise)

7 Property, plant and equipment

	Land	Buildings	Installations	Plant and equipment	Transport vehicles	Construction in progress	Other	Total
Cost at 31 December 2011	**607**	**4,540**	**12,521**	**8,792**	**1,829**	**9,300**	**171**	**37,760**
Additions	49	39	263	1,048	321	6,819	12	**8,551**
Transfers	-	445	1,126	466	-	(2,037)	-	-
Disposals	-	(110)	(18)	(141)	(61)	(88)	(8)	**426)**
Disposal through sale of subsidiary	-	-	-	(21)	-	-	-	**(21)**
Effect of changes in exchange rates	-	1	-	2	-	-	-	**3**
Cost at 31 December 2012	**656**	**4,915**	**13,892**	**10,146**	**2,089**	**13,994**	**175**	**45,867**
Accumulated depreciation at 31 December 2011	**-**	**(722)**	**(4,369)**	**(3,541)**	**(695)**	**-**	**(96)**	**(9,423)**
Depreciation charges	-	(199)	(1,097)	(1,236)	(233)	-	(20)	**(2,785)**
Accumulated depreciation related to disposals	-	51	16	118	50	-	7	**242**
Accumulated depreciation related to sale of subsidiary	-	-	-	15	-	-	-	**15**
Effect of changes in exchange rates	-	-	-	(1)	-	-	-	**(1)**
Accumulated depreciation at 31 December 2012	**-**	**(870)**	**(5,450)**	**(4,645)**	**(878)**	**-**	**(109)**	**(11,952)**
Net book value at 31 December 2011	**607**	**3,818**	**8,152**	**5,251**	**1,134**	**9,300**	**75**	**28,337**
Net book value at 31 December 2012	**656**	**4,045**	**8,442**	**5,501**	**1,211**	**13,994**	**66**	**33,915**

	Land	Buildings	Installations	Plant and equipment	Transport vehicles	Construction in progress	Other	Total
Cost at 31 December 2010	**492**	**4,295**	**11,532**	**7,622**	**1,634**	**5,818**	**174**	**31,567**
Additions	113	135	559	863	272	4,804	16	**6,762**
Transfers	2	122	680	519	1	(1,312)	(12)	-
Disposals	-	(11)	(250)	(211)	(78)	(10)	(7)	**(567)**
Effect of changes in exchange rates	-	(1)	-	(1)	-	-	-	**(2)**
Cost at 31 December 2011	**607**	**4,540**	**12,521**	**8,792**	**1,829**	**9,300**	**171**	**37,760**
Accumulated depreciation at 31 December 2010	**-**	**(524)**	**(3,508)**	**(2,617)**	**(538)**	**-**	**(81)**	**(7,268)**
Depreciation charges	-	(208)	(900)	(1,108)	(211)	-	(22)	**(2,449)**
Accumulated depreciation related to disposals	-	10	39	184	54	-	7	**294**
Accumulated depreciation at 31 December 2011	**-**	**(722)**	**(4,369)**	**(3,541)**	**(695)**	**-**	**(96)**	**(9,423)**
Net book value at 31 December 2010	**492**	**3,771**	**8,024**	**5,005**	**1,096**	**5,818**	**93**	**24,299**
Net book value at 31 December 2011	**607**	**3,818**	**8,152**	**5,251**	**1,134**	**9,300**	**75**	**28,337**

(in RR, tabular amounts in million RR unless stated otherwise)

7 Property, plant and equipment (continued)

During the year ended 31 December 2012 a depreciation expense of RR 2,302 million (2011: RR 2,073 million) was included in the cost of products sold, a depreciation expense of RR 142 million (2011: RR 129 million) was included in general and administrative expenses and depreciation expense of RR 341 million (2011: RR 247 million) was capitalized.

Additions of property, plant and equipment during the year ended 31 December 2012 include capitalised interest of RR 427 million (2011: RR 157 million) directly attributable to the qualifying assets. The capitalisation rate used to determine the amount of capitalised interest for 2012 was 9.1% (2011: 10.9%).

8 Other intangible assets

Movements of other intangible assets are provided below:

	Year ended 31 December 2012	Year ended 31 December 2011
Cost as at the beginning of the year	7,486	7,486
Accumulated amortisation and impairment	(1,271)	(991)
Net book value as at the beginning of the year	**6,215**	**6,495**
Additions	1	-
Amortization charge	(281)	(280)
Net book value at the end of the year	**5,935**	**6,215**
Cost as at the end of the year	7,487	7,486
Accumulated amortisation and impairment	(1,552)	(1,271)

Information on the carrying amount of each significant individual intangible asset is provided below:

	Carrying amount	
	At 31 December 2012	**At 31 December 2011**
Licence to produce ferruginous quartzite from Korobkovsky mine	3,563	3,838
Coal mining licence at Nikitinsky coal area-2	2,041	2,041
Licence for underground coal mining at Abramovsky area of Glushinsky coal field (Romanovskaya-1 mine)	56	62
Licence for underground coal mining at Kedrovsko-Krohalevskoe coal field (Vladimirskaya-2 mine)	135	135
Other	140	139
Total	**5,935**	**6,215**

The coal mining licence at coal area Nikitinsky-2 is not being amortised as the area is not ready for use and mining at the area has not commenced. Impairment testing of the licence was performed as of 31 December 2012 and 2011.

Testing coal mining licence for impairment

The licence at coal area Nikitinsky-2 is intended to be used ultimately for coal mining and supply to the Group. However, due to the fact that an active market exists for coal, which will be produced under the licence terms, for the purpose of impairment testing the licence was included in a group of mining assets under construction on Nilkitinsky-2, which is not ready yet for use or sale.

The recoverable amount of the group of mining assets under construction was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period from 2014 year (when mining is planned to commence). Cash flows beyond 2019 year are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy.

(in RR, tabular amounts in million RR unless stated otherwise)

8 Other intangible assets (continued)

Assumptions used in the value-in-use calculations include:

	31 December 2012	31 December 2011
Long-term growth rate	3% p.a.	3% p.a.
Pre-tax discount rate	18.1% p.a.	17% p.a.

Management determined cash operating return based on past performance and its market expectations. The weighted average growth rates used are consistent with forecasts in industry reports.

Value-in-use calculated as of 31 December 2012 (as well as of 31 December 2011) on the basis of the above assumptions for the group of mining assets under construction exceeds its book value. Consequently, there are no grounds to recognise any impairment for 2012 and 2011 years.

The most sensitive estimate used by management in assessing the amount of impairment for 2012 and 2011 years was EBITDA margin as a percentage of revenue, influenced by future market prices and production quantities. Reasonable change in key assumptions does not lead to an excess of the asset book value over its value-in-use.

9 Goodwill

Movement of goodwill arising on acquisition of subsidiaries is provided below:

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Gross book value at the beginning of the year		6,236	6,236
Accumulated impairment		(1,636)	(1,636)
Net book value as at the beginning of the year		**4,600**	**4,600**
Disposals through sale of subsidiaries	29	(14)	-
Net book value at the end of the year		**4,586**	**4,600**
Gross book value at the end of the year		6,222	6,236
Accumulated impairment		(1,636)	(1,636)

Testing goodwill for impairment

Goodwill is allocated to the following cash-generating units ("CGUs"), which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than a segment:

	At 31 December 2012	At 31 December 2011
OAO Kombinat KMA Ruda	2,223	2,223
OAO Tulachermet	1,248	1,248
OAO Polema (2011: OAO Polema and Polema S.A.)	980	994
ZAO Sibirskie Resursy	89	89
ZAO Krontif-Centre	46	46
Total net book value of goodwill	**4,586**	**4,600**

The recoverable amount of each CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period through 2017 inclusive (2011: a five-year period through 2016 inclusive). Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rates do not exceed the long-term average growth rate for the business sector of the economy in which the CGU operates.

(in RR, tabular amounts in million RR unless stated otherwise)

9 Goodwill (continued)

Assumptions used in the value-in-use calculations include:

	31 December 2012	**31 December 2011**
Long-term growth rate	3% p.a.	3% p.a.
Pre-tax discount rate, Russia	15.0-18.3% p.a.	12.9-13.8% p.a.

Management determined cash operating return based on past performance and its market expectations. The weighted average growth rates used are consistent with forecasts in industry reports.

Value-in-use calculated as of 31 December 2012 (as well as of 31 December 2011) on the basis of the above assumptions for all CGUs exceeds the book value of assets (including allocated goodwill). Consequently, there are no grounds to recognise any goodwill impairment for 2012 and 2011 years. Management believes that a reasonable change in the pre-tax discount rate in 2012 and 2011 would not impair goodwill.

10 Other non-current assets

	At 31 December 2012	**At 31 December 2011**
Financial assets		
Long-term interest receivable on loans issued to related parties	356	326
Restricted cash (long-term letter of credit)	-	96
Other long-term accounts receivable	84	91
Total financial assets	**440**	**513**
Non-financial assets		
Other	6	6
Total non-financial assets	**6**	**6**
Total other non-current assets	**446**	**519**

11 Inventories

	At 31 December 2012	**At 31 December 2011**
Raw materials, materials and supplies held for production purposes	3,178	3,848
Work in progress	273	321
Finished goods	799	1,373
Total inventories	**4,250**	**5,542**

Materials and supplies held for production purposes are recorded at net realisable value, net of provision for impairment, which amounted to RR 50 million as at 31 December 2012 (31 December 2011: RR 58 million).

12 Other current assets

	At 31 December 2012	**At 31 December 2011**
Loans issued	28	710
Financial assets at fair value through profit and loss	-	3
Total other current assets	**28**	**713**

(in RR, tabular amounts in million RR unless stated otherwise)

12 Other current assets (continued)

	At 31 December 2012	Interest rate	At 31 December 2011	Interest rate
Loans issued to related parties and denominated in Russian roubles (Note 30)	28	0.0%-7.8%	20	0.0%-7.8%
Loans issued to related parties and denominated in USD (Note 30)	-	-	161	6.0%
Loans issued to related parties and denominated in euro (Note 30)	-	-	529	5.0%
Total current loans issued	**28**		**710**	

13 Non-current loans issued

	At 31 December 2012	Interest rate	At 31 December 2011	Interest rate
Loans issued to related parties and denominated in Euros with maturity in 2018 (Note 30)	1,408	2.7%	1,459	3.6%
Total non-current loans issued	**1,408**		**1,459**	

14 Trade and other receivables and advances issued

	At 31 December 2012	At 31 December 2011
Trade receivables (net of impairment amounting to RR 28 million as at 31 December 2012; RR 54 million as at 31 December 2011)	1,066	1,537
Trade receivables from related parties	221	537
Taxes receivable	68	470
Other accounts receivable (net of impairment amounting to RR 49 million as at 31 December 2012; RR 7 million as at 31 December 2011)	152	162
Other accounts receivable from related parties	20	20
Interest on loans issued to related parties	10	6
Total trade and other receivables	**1,537**	**2,732**
Advances issued	488	410
Less impairment	(5)	(2)
Total advances issued	**483**	**408**

15 Cash, cash equivalents and restricted cash

	At 31 December 2012	At 31 December 2011
RR bank deposits	6	3
RR denominated cash in hand and bank balances	51	68
Bank balances denominated in foreign currencies	280	89
Restricted cash	556	18
Other cash	1	2
Total cash, cash equivalents and restricted cash	**894**	**180**

As at 31 December 2012 restricted cash represents an irrevocable letter of credit in favour of a supplier of equipment.

16 Share capital

As of 31 December 2012 and 2011 share capital authorised, issued and paid in totalled RR 213 million. The share capital consisted of 330,046,400 ordinary shares with nominal value of RR 0.1 per share as of 31 December 2012 and 31 December 2011. As of 31 December 2012 and 31 December 2011 share capital includes hyperinflation adjustment totaling RR 180 million, which was calculated in accordance with requirements of IAS 29 “Financial Reporting in Hyperinflationary Economies” and relates to the reporting periods prior to 1 January 2003.

(in RR, tabular amounts in million RR unless stated otherwise)

16 Share capital (continued)

In June 2010 the Group's subsidiary bought 26,000,278 of the Company's shares from its shareholders for RR 5,928 million. These shares are classified as treasury shares and deducted from equity at cost. RR 5,522 million was paid in cash and RR 46 million was offset during 2010 with respect to the resultant obligation. The closing obligation of RR 360 million (31 December 2011: RR 581 million) is classified as current as the Company does not have the right to defer payment for more than twelve months after the year end.

17 Retained earnings

The Russian statutory financial statements is the basis for the Company's profit distribution and other appropriations. The basis of distribution is defined by Russian legislation as a company's net profit. The net profit recognised in the Company's published Russian statutory financial statements for the year ended 31 December 2012 was RR 611 million (2011: net loss - RR 1,037 million) and the accumulated profit after dividends as at 31 December 2012 was equal to RR 10,970 million (31 December 2011: RR 11,712 million). However, legislation and other statutory laws and regulations dealing with profit distribution are open to legal interpretation and, accordingly, management believes that at present it would not be appropriate to disclose the amount for distributable reserves in these consolidated financial statements.

During 2012 dividends were declared in the amount of RR 1,432 million including dividend for treasury shares of RR 112 million. During 2011 years no dividends were declared. Dividends in the amount of RR 43 million were paid during 2012 (2011: RR 543 million).

18 Provision for restoration liability

The table below summarises movements in the provision for restoration liability:

	Year ended 31 December 2012	Year ended 31 December 2011
Balance at the beginning of the year	**143**	**138**
Restoration costs during the year	(1)	(2)
Accretion of restoration liability	11	11
Decrease in provision for restoration labiliy due to change of estimates	(1)	(4)
Balance at the end of the year	**152**	**143**
Less current part of the provision	(18)	(15)
Long-term part of the provision for restoration liability as at the end of the year	**134**	**128**

A provision for restoration liability in the amount of RR 152 million as of 31 December 2012 (RR 143 million as of 31 December 2011) was recorded for the net present value of the estimated future obligation to restore land around the Vakhrusheva, the Vladimirskaya and the Romanovskaya coal mines.

Management has estimated the restoration liability through 2022 based on their interpretation of the licence agreements and environmental legislation and in accordance with IAS 37, *Provisions, Contingent Liabilities And Contingent Assets*. The real discount rate used to calculate the net present value of the restoration liability at 31 December 2012 was 8% (31 December 2011: 8%), which is a pre-tax real discount rate at the reporting date. The related asset of RR 137 million as of 31 December 2012 (31 December 2011: RR 148 million) was recorded as installations within property, plant and equipment at the net book value.

(in RR, tabular amounts in million RR unless stated otherwise)

19 Borrowings

Short-term borrowings and current portion of long-term borrowings

Loans and borrowings by type may be analysed as follows:

	At 31 December 2012	Interest rate	At 31 December 2011	Interest rate
RR denominated bank loans, fixed	-	-	134	7.4%-9.0%
RR denominated bank overdraft, fixed	236	7.8%-9.0%	265	7.8%-7.9%
Other RR denominated borrowings, fixed	9	1.0%-8.5%	-	-
Other RR denominated borrowings, variable	-	-	5	8.5%
Other EUR denominated borrowings, fixed	-	-	250	9.0%
USD denominated bank loans, fixed	2,924	3.5%-6.4%	404	1.3%-5.0%
USD denominated bank loans, variable	2,561	4.8%-4.9%	2,833	2.0%-5.7%
USD denominated bank overdraft, variable	-	-	680	2.3%-5.8%
Total short-term borrowings and current portion of long-term borrowings	**5,730**		**4,571**	

As at 31 December 2012 short-term borrowings of RR nil (as at 31 December 2011: RR 2,654 million) were secured by assets of the Group. As separate loan agreements do not specify individual pledged assets, the carrying amount of pledged assets is not disclosed in these consolidated financial statements.

Long-term borrowings

	At 31 December 2012	Interest rate	At 31 December 2011	Interest rate
RR denominated bank loans, fixed	6,635	2.5-11.8%	2,941	3.0%-9.3%
Other RR denominated borrowings, fixed	-	-	4	1.0%
USD denominated bank loans, fixed	-	-	1,610	5.0%
USD denominated bank loans, variable	228	4.8%	966	4.9%
Other USD denominated borrowings, fixed	-	-	251	0.0%
EUR denomiated bank loans, variable	92	4.9%	-	-
Total long-term borrowings	**6,955**		**5,772**	

As at 31 December 2012 long-term borrowings of RR 6,635 million (as at 31 December 2011: RR 3,540 million) were secured by assets of the Group. As separate loan agreements do not specify individual pledged assets, the carrying amount of pledged assets is not disclosed in these consolidated financial statements.

Borrowings of the Group are due for repayment as follows:

	At 31 December 2012	At 31 December 2011
Borrowings to be repaid - within one year	5,730	4,571
- between one and five years	3,085	3,447
- after five years	3,870	2,325
Total borrowings	**12,685**	**10,343**

The Group is subject to certain covenants related to its borrowings, including covenants which require it to maintain certain financial ratios. As at 31 December 2012 the Group's debt / EBITDA ratio exceeded the maximum level set by certain debt agreements. However before the year-end the lender waived its right to request early payment. In February 2013, these covenants were amended to increase the debt / EBITDA ratio. The Group will record additional finance costs in connection with the covenant amendment estimated to be RR 31 million.

As at 31 December 2012 the Group has the undrawn borrowing facilities in the amount of RR 49,274 million (as at 31 December 2011: RR 57,617 million).

(in RR, tabular amounts in million RR unless stated otherwise)

19 Borrowings (continued)

Movements in borrowings are analysed as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Short-term borrowings:		
Balance at the beginning of the year	**4,571**	**5,275**
Borrowings received	33,043	19,430
Borrowings repaid	(35,682)	(22,569)
Disposal of borrowings through disposal of subsidiairies	(4)	-
Reclassification of borrowings	4,579	1,610
Bank overdrafts received	37,718	51,268
Bank overdrafts repaid	(38,402)	(50,698)
Effect of changes in exchange rates	(93)	255
Balance at the end of the year	**5,730**	**4,571**
Long-term borrowings:		
Balance at the beginning of the year	**5,772**	**10,970**
Borrowings received	6,591	4,927
Borrowings repaid	(574)	(8,583)
Disposal of borrowings through disposal of subsidiairies	(256)	-
Effect of changes in exchange rates	1	68
Reclassification of borrowings	(4,579)	(1,610)
Balance at the end of the year	**6,955**	**5,772**

5 billion (series 02 bonds):

In 2007 the Group issued five year maturity bonds with a value of RR 5 billion (series 02 bonds). These bonds have an annual interest rate of 8.7%, payable every six months for the 1st - 6th coupon periods. On 19 March 2010 the Group set the 7th - 10th coupon rates on series 02 bonds at 12%.

On 01 June 2011 the Group repurchased 4,793,394 bonds for 103.95 % of nominal value RR 1 thousand per each with the total amount of transaction RR 4,983.

In March 2012 the Group redeemed series 02 bonds with a total nominal value RR 207 million at the date of their maturity. As at 31 December 2012 the carrying value of the bonds amounts to RR nil (as at 31 December 2011: RR 207 million).

5 billion (series BO-02 bonds):

On 01 June 2011 the Group issued three year maturity bonds with a value of RR 5 billion (series BO-02 bonds). These bonds have an annual interest rate of 8.7%, payable every six months. As at 31 December 2012 the carrying value of the bonds amounts to RR 5,029 million (including the current portion of the bonds, which is equal to RR 50 million), net of transaction costs of RR 21 million.

Eurobonds:

On 23 June 2011 the Group issued 350,000,000 eurobonds in the amount of USD 350 million at a coupon rate of 7.75% through its special purpose entity, Koks Finance Ltd. The coupons are payable semi-annually. In November-December 2011 the Group repurchased 34,000,000 eurobonds for the total amount of USD 31 million. As at 31 December 2012, the carrying value of the eurobonds amounts to RR 9,466 million (including the current portion of the bonds, which is equal to RR 67 million), net of transaction costs of USD 7.7 million.

(in RR, tabular amounts in million RR unless stated otherwise)

20 Trade and other payables

	At 31 December 2012	At 31 December 2011
Financial liabilities		
Trade accounts payable	3,556	2,608
Bank interest payable	19	18
Dividends payable	1,277	79
Other accounts payable	35	85
Total financial liabilities	**4,887**	**2,790**
Non-financial liabilities		
Wages and salaries payable	794	711
Advances received	379	1,663
Total non-financial liabilities	**1,173**	**2,374**
Total trade and other payables	**6,060**	**5,164**

21 Other taxes payable

	At 31 December 2012	At 31 December 2011
VAT	311	467
Individual income tax	55	51
Contributions to the state pension and social insurance funds	119	124
Property tax	68	67
Other taxes	28	37
Total taxes other than income tax payable	**581**	**746**

22 Revenue

	Year ended 31 December 2012	Year ended 31 December 2011
Sales in Russia:		
Sales of coke and coking products	7,217	11,295
Sales of pig iron	1,776	2,425
Sales of coal and coal concentrate	2,732	3,299
Sales of cast-iron ware	1,363	1,346
Sales of powder metallurgy products	582	554
Sales of crushed pig iron and other pig iron products	356	325
Sales of services	505	537
Other sales	581	744
Total sales in Russia	**15,112**	**20,525**
Sales to other countries:		
Sales of pig iron	24,802	29,813
Sales of coke and coking products	4,715	4,093
Sales of chrome	286	375
Sales of powder metallurgy products	162	428
Sales of cast-iron ware	225	258
Sales of coal and coal concentrate	316	74
Other sales	86	23
Total sales to other countries	**30,592**	**35,064**
Total revenue	**45,704**	**55,589**

(in RR, tabular amounts in million RR unless stated otherwise)

23 Cost of sales

	Year ended 31 December 2012	Year ended 31 December 2011
Raw materials and supplies	24,114	30,759
Wages and salaries including associated taxes	5,105	4,711
Depreciation of property, plant and equipment	2,302	2,073
Energy	1,167	1,058
Other expenses	630	645
Other services	660	502
Changes in finished goods and work in progress	506	(458)
Amortisation of intangible assets	281	280
Total of cost of sales	**34,765**	**39,570**

24 Taxes other than income tax

	Year ended 31 December 2012	Year ended 31 December 2011
Property tax	260	241
Mineral resources extraction tax	122	136
Land tax	187	243
Other taxes	(22)	108
Total taxes other than income tax	**547**	**728**

25 Distribution costs

	Year ended 31 December 2012	Year ended 31 December 2011
Transportation services	3,924	5,276
Other selling expenses	196	727
Total distribution costs	**4,120**	**6,003**

26 General and administrative expenses

	Year ended 31 December 2012	Year ended 31 December 2011
Wages and salaries including associated taxes	2,086	2,301
Other purchased services	288	343
Depreciation of property, plant and equipment	142	129
Materials	86	83
Other	153	181
Total general and administrative expenses	**2,755**	**3,037**

(in RR, tabular amounts in million RR unless stated otherwise)

27 Other operating expenses, net

	Year ended 31 December 2012	Year ended 31 December 2011
Charity payments	110	103
Losses on disposal of property, plant and equipment	76	192
Impairment of available-for-sale financial asset	-	58
Accrual of bad debt provision	78	24
Gain on sale of available-for-sale financial asset	-	(33)
Other	(17)	164
Other operating expenses, net	**247**	**508**

28 Income tax expense

Income tax expense recorded in the consolidated income statement comprises the following:

	Year ended 31 December 2012	Year ended 31 December 2011
Current income tax expense	881	1,001
Withholding tax	19	1
Reversal of income tax provision	-	(2)
Deferred income tax benefit	(294)	(499)
Income tax expense	**606**	**501**

The income tax rate applicable to the Group's subsidiaries registered in Russia is 20% (2011: 20%). The reconciliation between the expected and the actual taxation charge is provided below.

	Year ended 31 December 2012	Year ended 31 December 2011
Profit before income tax	**2,603**	**1,728**
Theoretical tax charge at statutory rate	521	346
Tax effect of items which are not tax deductible/exempt:		
Premium over nominal value of bonds redeemed	-	38
Investments	(23)	30
Charity payments	22	21
Interest expenses	20	16
Profits taxed at different rates	(4)	12
Other non-deductible expenses, net	51	37
Withholding tax	19	1
Total income tax expense	**606**	**501**

(in RR, tabular amounts in million RR unless stated otherwise)

28 Income tax expense (continued)

	As of 31 December 2011	Charged to consolidated income statement	Charged to other comprehensive income	Effect of changes in exchange rates	Disposal through sale of investment in subsidiary	As of 31 December 2012
Deferred income tax liabilities						
Property, plant and equipment	1,808	160	-	-	-	1,968
Capital repair tax provision	96	(96)	-	-	-	-
Accounts payable	3	-	-	-	-	3
Intangible assets	1,095	(28)	-	-	-	1,067
Inventories	45	(18)	-	-	-	27
Borrowings	48	(18)	-	(2)	-	28
Accounts receivable	40	(40)	-	-	-	-
Available-for-sale financial assets	124	-	(10)	-	-	114
Other	3	(1)	-	-	-	2
Gross deferred income tax liabilities	**3,262**	**(41)**	**(10)**	**(2)**	**-**	**3,209**
Deferred income tax assets						
Provision for restoration liability	(35)	9	-	-	-	(26)
Property, plant and equipment	(179)	(8)	-	-	-	(187)
Losses carried forward	(779)	(271)	-	-	-	(1,050)
Inventories	(103)	29	-	-	-	(74)
Accounts receivable	(7)	5	-	-	-	(2)
Derivative financial instruments	(32)	11	-	-	-	(21)
Accounts payable	(61)	(25)	-	-	-	(86)
Available-for-sale financial assets	(1)	-	-	-	-	(1)
Other	(19)	(3)	-	1	1	(20)
Gross deferred income tax assets	**(1,216)**	**(253)**	**-**	**1**	**1**	**(1,467)**
Net deferred income tax liabilities	**2,046**	**(294)**	**(10)**	**(1)**	**1**	**1,742**

(in RR, tabular amounts in million RR unless stated otherwise)

28 Income tax expense (continued)

	As of 31 December 2010	Charged to consolidated income statement	Charged to other comprehensive income	Effect of changes in exchange rates	As of 31 December 2011
Deferred income tax liabilities					
Property, plant and equipment	1,872	(64)	-	-	1,808
Capital repair tax provision	165	(69)	-	-	96
Accounts payable	2	1	-	-	3
Intangible assets	1,150	(55)	-	-	1,095
Inventories	61	(16)	-	-	45
Borrowings	-	44	-	4	48
Accounts receivable	-	40	-	-	40
Available-for-sale financial assets	47	-	77	-	124
Other	6	(3)	-	-	3
Gross deferred income tax liabilities	**3,303**	**(122)**	**77**	**4**	**3,262**
Deferred income tax assets					
Provision for restoration liability	(27)	(8)	-	-	(35)
Property, plant and equipment	(206)	27	-	-	(179)
Losses carried forward	(371)	(408)	-	-	(779)
Inventories	(57)	(46)	-	-	(103)
Accounts receivable	(116)	109	-	-	(7)
Derivative financial instruments	-	(32)	-	-	(32)
Accounts payable	(52)	(9)	-	-	(61)
Available-for-sale financial assets	(7)	6	-	-	(1)
Other	(1)	(16)	-	(2)	(19)
Gross deferred income tax assets	**(837)**	**(377)**	**-**	**(2)**	**(1,216)**
Net deferred income tax liabilities	**2,466**	**(499)**	**77**	**2**	**2,046**

	31 December 2012	31 December 2011
Deferred income tax asset	(653)	(562)
Deferred income tax liability	2,395	2,608
Net deferred income tax liability	**1,742**	**2,046**

As of 31 December 2012 the Group did not record deferred tax liabilities for taxable temporary differences of RR 256 million (31 December 2011: RR 268 million) related to investments in subsidiaries, as the Company is able to control the reversal of temporary differences and does not intend to realise them in foreseeable future.

Tax benefit/(expense) relating to components of other compehensive income for the years ended 31 December 2012 and 2011 is as follows:

	Year ended 31 December 2012			Year ended 31 December 2011		
	Before tax	**Tax benefit**	**Net of tax**	**Before tax**	**Tax expense**	**Net of tax**
Exchange differences on translating foreign operations	15	1	16	3	(2)	1
(Loss)/Gain arising on revaluation of available-for-sale financial assets during the year, net	(52)	10	(42)	386	(77)	309
Other comprehensive income/(loss)	**(37)**	**11**	**(26)**	**389**	**(79)**	**310**

(in RR, tabular amounts in million RR unless stated otherwise)

29 Disposal of investment in subsidiary

On 20 June 2012 the Group sold a 100% interest in Polema S.A. for a cash consideration of EUR 10,000 (RR 410 thousand). Polema S.A. was not a discontinued operation according to IFRS 5 as it did not represent a major line of business.

The table below includes information on assets and liabilities of the disposed subsidiary:

Cash, cash equivalents and restricted cash	60
Trade and other receivables	80
Inventories	34
Property, plant and equipment	6
Deferred tax asset	1
Trade and other payables	(79)
Taxes payable	(3)
Borrowings	(260)
Net assets of Polema S.A.	**(161)**
Goodwill	14
Total book value of net assets disposed of	**(147)**
Currency translation reserve in respect of the net assets of the disposed subsidiary reclassified from other comprehensive income to loss	35
Gain on disposal of investment in subsidiary	112
Total compensation for the assets disposed of	-
Less: cash and cash equivalents held by the subsidiary disposed of	(57)
Proceeds from disposal	**(57)**

30 Balances and transactions with related parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. Information about the parties who ultimately own and control the Company is disclosed in Note 1.

Accounts receivable and accounts payable – related parties, as at 31 December 2012:

	Companies under common control	**Ultimate shareholders**	**Total**
Trade and other receivables	221	-	221
Advances issued	70	-	70
Other accounts receivable	20	-	20
Loans issued (Notes 12,13)	1,436	-	1,436
Interest on loans issued (including long-term)	366	-	366
Loans received	(9)	-	(9)
Dividends payable	-	(1,201)	(1,201)
Payables on treasury shares	-	(360)	(360)
Interest payable	(2)	-	(2)

(in RR, tabular amounts in million RR unless stated otherwise)

30 Balances and transactions with related parties (continued)

Accounts receivable and accounts payable – related parties, as at 31 December 2011:

	Companies under common control	Ultimate shareholders	Total
Trade and other receivables	537	-	537
Advances issued	23	-	23
Other accounts receivable	20	-	20
Loans issued (Notes 12,13)	2,169	-	2,169
Interest on loans issued (including long-term)	332	-	332
Loans received	(259)	-	(259)
Trade and other payables	(1)	-	(1)
Advances received	(1,436)	-	(1,436)
Payables on treasury shares	-	(581)	(581)
Interest payable	(2)	-	(2)

Related party transactions for the year ended 31 December 2012

	Companies under common control	Ultimate shareholders	Total
Sales in Russia:			
Sales of services	282	-	282
Other sales	6	-	6
Sales to other countries:			
Sales of pig iron	20,658	-	20,658
Sales of coke and coking products	2,693	-	2,693
Other income:			
Interest income	81	-	81
Purchase of goods and services:			
Purchase of raw materials and supplies	(400)	-	(400)
Purchase of other services	(8)	-	(8)
Interest expense	(2)	-	(2)
Other operating income, net	4	-	4

(in RR, tabular amounts in million RR unless stated otherwise)

30 Balances and transactions with related parties (continued)

Related party transactions for the year ended 31 December 2011

	Companies under common control	Ultimate shareholders	Total
Sales in Russia:			
Sales of coke and coking products	1,758	-	1,758
Sales of coal and coal concentrate	1	-	1
Sales of services	353	-	353
Other sales	10	-	10
Sales to other countries:			
Sales of pig iron	6,738	-	6,738
Sales of coke and coking products	736	-	736
Other income:			
Interest income	55	-	55
Purchase of goods and services:			
Purchase of raw materials and supplies	(423)	-	(423)
Raw materials and supplies (transport agent's services)	(3)	-	(3)
Purchase of other services and expenses	(1)	-	(1)
Interest expense	(23)	-	(23)
Other operating income, net	4	-	4

Payments to key management personnel

Payments to key management personnel included in general and administrative expenses in the consolidated income statement amounted to RR 386 million for the year ended 31 December 2012 (RR 756 million for the year ended 31 December 2011). All these payments are short-term employee benefits. The number of people to whom this compensation relates is 34 for the years ended 31 December 2012 and 31 December 2011.

31 Derivative financial instruments

As of 7 July 2011 the Group entered into a currency and interest rate swap contract that is to be settled net in cash maturing on 23 May 2014. The currency and interest rate swap was not designated as a hedging instrument. As of 31 December 2012 under currency and interest rate swap the Group is liable to USD denominated interest payments at the fixed rate 4.7% with the notional amount equal to USD 89,317,613 in exchange for RR denominated interest payments at the fixed rate 8.7% with the notional amount equal to RR 2,500 million. As of 31 December 2012 the fair value of currency and interest rate swap is equal to RR 103 million (31 December 2011: RR 159 million) and it is presented separately in the consolidated statement of financial position as a non-current liability.

32 Contingencies, commitments and operating risks

Capital commitments

The Group did not have capital commitments as at 31 December 2012 and 2011.

Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. 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.

32 Contingencies, commitments and operating risks (continued)

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. In particular, it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, it is possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities for three calendar years preceding the year of the tax audit. Under certain circumstances audits may cover longer periods.

Russian transfer pricing legislation was amended starting from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related party and some types of transactions with unrelated party), provided that the transaction price is not arm's length. Management exercises its judgement about whether or not the transfer pricing documentation that the entity has prepared, as required by the new legislation, provides sufficient evidence to support the entity's tax positions and related tax returns. Given that the practice of implementation of the new Russian transfer pricing rules has not yet developed, the impact of any challenge of the entity's transfer prices cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the entity.

Management of the Group believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group’s tax, currency and customs positions will be sustained. Management believes that no provison for tax claims should be accrued in these consolidated financial statements for the years ended 31 December 2012 and 31 December 2011.

Insurance policies

At 31 December 2012 and 2011 the Group held limited insurance policies on its assets and operations, or in respect of public liability or other insurable risks.

Environmental matters

The Group periodically evaluates its obligations under environmental regulations. As obligations are determined and reasonably estimated, they are recognised immediately. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or legislation cannot be estimated but could be material. In the current enforcement climate under the existing legislation, management believes that there are no significant liabilities for environmental damage in addition to those already reflected in the consolidated financial statements.

Legal proceedings

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

Licences

The Group is subject to periodic reviews of its activities by government authorities with respect to compliance with the requirements of its mining licences. Management responds promptly, provides reports based on the reviews results and, if necessary, cooperates with the government authorities to agree on remedial actions necessary to resolve any findings resulting from these reviews. Failure to comply with the terms of a licence could result in fines, penalties or licence limitation, suspension or revocation. Management believes any issues of non-compliance, including changes in the work plan or financial measures, will be resolved by negotiations, eliminating weaknesses or corrective actions without any adverse effect on the Group’s financial position, results of operations or cash flows. The Group may extend its licences beyond the original expiration date if meet the license agreements terms. Accordingly, depreciation of property, plant and equipment related to the licences areas takes into account that the licences will be prolonged in the future.

The Group’s coal fields are situated on land belonging to the Kemerovo Regional Administration; and ferruginous quartzite fields are in the territory of the Belgorod Regional Administration. Licences are issued by the Russian Ministry of Natural Resources, and the Group pays mineral resources extraction tax to explore and mine mineral resources from these fields.

(in RR, tabular amounts in million RR unless stated otherwise)

32 Contingencies, commitments and operating risks (continued)

Licence holder	Field	Expiry date
OOO Gornyak	Abramovsky area of Glushinsky coal field (Romanovskaya-1 mine)	April 2022
OOO Butovskaya mine	Butovskoe-Zapadnoe and Chesnokovskoe areas of Kemerovo coal field (Butovskaya mine)	January 2014
ZAO Sibirskie resursy	Kedrovsko-Krohalevskoe coal field (Vladimirskaya mine)	March 2021
ZAO Sibirskie resursy	Kedrovsko-Krohalevskoe coal field (Vladimirskaya-2 mine)	March 2030
OOO Uchastok Koksoviy	Koksoviy area (Vakhrusheva coal mine)	December 2020
OOO Tikhova Mine	Nikitinsky coal area-2	September 2025
OAO Kombinat KMA Ruda	Licence to produce ferruginous quartzite from Korobkovsky mine	January 2026

Financial guarantees

The table below presents financial guarantees issued to financial institutions for the loans issued to:

	Related party	Third party	Total
As at 31 December 2012	1,549	-	**1,549**
As at 31 December 2011	1,954	422	**2,376**

The Group expects that the probability of financial guarantees repayment is negligible. Therefore, no liability is expected to arise.

Operating environment of the Group

The Russian Federation’s economy continues to display certain characteristics of an emerging market.

The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretation and contribute to the challenges faced by companies operating in the Russian Federation.

The ongoing uncertainty and volatility of the financial markets, in particular in Europe, could have a negative effect on the financial and corporate sectors. Deteriorating economic conditions for customers may have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets.

Management believes it is taking all the necessary measures to support the sustainability and growth of the Group’s business in the current circumstances. Despite these efforts, management acknowledges that uncertainties over the direction of the market exist and does not discount the possibility of further future volatility. Consequently, management is unable to predict the impact of, if any, any further deterioration in the global and Russian financial markets.

33 Financial instruments and financial risk factors

The Group financial instruments are presented below:

	31 December 2012	31 December 2011
Assets		
Non-current:		
Loans issued	1,408	1,459
Available-for-sale financial assets	2,877	2,929
Restricted cash (long-term letter of credit)	-	96
Other non-current accounts receivable	440	417
Current:		
Trade and other accounts receivable	1,469	2,262
Other current assets	28	713
Cash, cash equivalents and restricted cash	894	180
Total carrying value	**7,116**	**8,056**

(in RR, tabular amounts in million RR unless stated otherwise)

33 Financial instruments and financial risk factors (continued)

Liabilities		
Long-term:		
Long-term borrowings	6,955	5,772
Long-term bonds	14,378	14,942
Derivative financial instruments	103	159
Short-term:		
Trade accounts payable	3,556	2,608
Bank interest payable	19	18
Dividends payable	1,277	79
Other accounts payable	35	85
Payables on treasury shares	360	581
Short-term borrowings and current portion of long-term borrowings	5,730	4,571
Short-term bonds	117	281
Total carrying value	**32,530**	**29,096**

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. Carrying amounts of trade and other financial receivables, loans issued approximate fair values.

Liabilities carried at amortised cost. Carrying amounts of bank overdrafts, bank interest, dividend, trade and other payables approximate fair values. The fair value of term loans, bonds were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair values of term loans, bonds are presented in the following table.

	31 December 2012		**31 December 2011**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Term loans	12,449	12,146	9,398	9,311
Bonds	14,495	14,004	15,223	13,943
Total borrowings	**26,944**	**26,150**	**24,621**	**23,254**

Financial instruments at fair value

At 31 December 2012 financial instruments measured at fair value are categorised into Levels 3 of fair value hierarchy (at 31 December 2011: Levels 1 and 3).

The reconciliation from the opening balances to closing balances of financial assets and liabilities measured based on fair value hierarchy for the periods ended 31 December 2012 and 31 December 2011 is provided below:

	Financial assets at fair value through profit and loss (Level 1)	**Available-for-sale financial assets (Level 3)**	**Derivative financial instruments – financial liability (Level 3)**
As at 31 December 2010	**-**	**2,532**	**-**
Gain/Loss in the consolidated income statement	3	-	125
Gain in the consolidated statement of comprehensive income	-	386	-
Proceeds from derivative financial instruments, net	-	-	34
Contribution into the share capital	-	11	-
As at 31 December 2011	**3**	**2,929**	**159**
Loss/Gain in the consolidated income statement	(3)	-	(141)
Gain in the consolidated statement of comprehensive income	-	(52)	-
Proceeds from derivative financial instruments, net	-	-	85
As at 31 December 2012	**-**	**2,877**	**103**

(in RR, tabular amounts in million RR unless stated otherwise)

33 Financial instruments and financial risk factors (continued)

The Group's risk management is based on determining risks to which the Group is exposed in the course of ordinary operations. The Group is exposed to the following major risks: (a) credit risk, (b) market risk, and (c) liquidity risk. Management works proactively to control and manage all opportunities, threats and risks arising in connection with the objectives of the Group's operations.

(a) Credit risk

Financial assets which subject Group companies to potential credit risk consist principally of trade and other receivables, loans issued, cash, cash equivalents and restricted cash, other non-current accounts receivable and amount to RR 4,239 million (RR 5,124 million as of 31 December 2011).

The maximum exposure to credit risk is represented by the book value of the aforementioned balances net of impairment provisions and financial guarantees issued for related parties (Note 32).

For securing financial assets and minimizing credit risk the Group takes the following procedures:

- interaction between the Group's structural divisions (commercial, legal, accounting, economic security divisions, and etc.) is regulated to ensure that credit risks are minimised;
- sales of products are made to customers with an appropriate credit history;
- the Group mostly sells products to customers that are major market players; and
- when expanding its presence in the sales markets, the Group performs stringent legal and financial reviews of potential customers.

The credit quality of neither past due nor impaired financial assets was assessed using historical data on counterparties' failure to pay and the length of the business relationship. The following categories are used by the Group:

- Group 1 – the length of business relationship with the counterparty is over a year, and the counterparty has never defaulted on its liabilities;
- Group 2 – the length of business relationship with the counterparty is over a year, and the counterparty has delayed payment but still fulfilled its liabilities; and
- Group 3 – the length of business relationship with the counterparty is less than a year.

Credit risk related to neither past due nor impaired financial assets (expected to be realised in full) as at 31 December 2012:

	Group 1	Group 2	Group 3	Total
Trade and other receivables	605	271	247	1,123
Loans issued	1,436	-	-	1,436
Other non-current accounts receivable	440	-	-	440
Cash, cash equivalents and restricted cash	894	-	-	894
Total	**3,375**	**271**	**247**	**3,893**

Credit risk related to neither past due nor impaired financial assets (expected to be realised in full) as at 31 December 2011:

	Group 1	Group 2	Group 3	Total
Trade and other receivables	1,302	678	236	2,216
Loans issued	2,169	-	-	2,169
Restricted cash (long-term letter of credit)	96	-	-	96
Other non-current accounts receivable	417	-	-	417
Cash, cash equivalents and restricted cash	180	-	-	180
Total	**4,164**	**678**	**236**	**5,078**

(in RR, tabular amounts in million RR unless stated otherwise)

33 Financial instruments and financial risk factors (continued)

In addition, the Group assesses the credit risk for financial assets which are overdue but not impaired (past-due financial assets for which the counterparty's payment is expected). The Group reviews past-due financial assets, and as a result an impairment provision is created, or terms and conditions of agreements with the specific counterparty are revised.

The amount of financial assets which are overdue but not impaired as of 31 December 2012:

	Overdue for the period:				
	Less than 3 months	**Between 3 months and 1 year**	**Between 1 and 3 years**	**More than 3 years**	**Total**
Trade and other accounts receivable	289	18	39	-	**346**
Total	**289**	**18**	**39**	**-**	**346**

The amount of financial assets which are overdue but not impaired as of 31 December 2011:

	Overdue for the period:				
	Less than 3 months	**Between 3 months and 1 year**	**Between 1 and 3 years**	**More than 3 years**	**Total**
Trade and other accounts receivable	24	22	-	-	**46**
Total	**24**	**22**	**-**	**-**	**46**

The Group sets up an impairment provision for impaired financial assets (overdue and unlikely to be realized). Although collectability of balances can be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions for impairment already recorded.

Movements in the bad debt provision for the year ended 31 December 2012 are given below:

	Trade accounts receivable	**Loans issued and accounts receivable on interest income**	**Other accounts receivable**	**Total**
As at 31 December 2011	**54**	**3**	**7**	**64**
Charged to consolidated income statement	28	-	50	**78**
Reversed through consolidated income statement	(2)	-	(1)	**(3)**
Used	(50)	-	(7)	**(57)**
Disposal within a sale of subsidiary	(2)	-	-	**(2)**
As at 31 December 2012	**28**	**3**	**49**	**80**

The table below presents movements in the bad debt provision for the year ended 31 December 2011:

	Trade accounts receivable	**Loans issued and accounts receivable on interest income**	**Other accounts receivable**	**Total**
As at 31 December 2010	**79**	**3**	**27**	**109**
Charged to consolidated income statement	32	-	96	**128**
Reversed through consolidated income statement	(55)	-	(16)	**(71)**
Used	(2)	-	(100)	**(102)**
As at 31 December 2011	**54**	**3**	**7**	**64**

33 Financial instruments and financial risk factors (continued)

Concentration of credit risk:

Management monitors concentrations of credit risk by obtaining reports listing exposures to counterparties with aggregated balances in excess of 5% of the Group's net assets. As of 31 December 2012 the Group has the concentration of credit risk due to the loan issued to related party equal to RR 1,408 million (31 December 2011: RR 1,988 million). At 31 December 2012 (as well as at 31 December 2011) there are no significant credit risk concentration, due to diversified structure of Group's counterparties and absence of significant exposure to particular customers.

At 31 December 2012 the Group's bank accounts are held only with major Russian banks, mainly Bank of Moscow, and major foreign banks, mainly BCV, Garanti Bank and BNP Paribas (2011: major Russian banks, mainly Sberbank, and major foreign banks, mainly BCV and UBS) thus exposing the Group to a concentration of credit risk.

(b) Market risk

Foreign currency risk

The Group has international operations and, therefore, is exposed to foreign currency risk arising due to changes in euro and US dollar exchange rates against the Russian rouble. Foreign currency risk is managed by making operating decisions depending on the current market situation.

The amounts of the Group's assets and liabilities denominated in a foreign currency other than the functional currency of the Group's companies as at 31 December 2012 are provided below:

	in thousand USD	**in thousand EUR**
Trade receivables	592	29
Cash	3,432	-
Loans issued including interest receivable	-	35,000
Trade accounts payable	(86)	(24)
Eurobonds	(316,000)	-
Borrowings and loans received	(188,063)	-
Interest payable	(560)	-
Net total, in foreign currency	**(500,685)**	**35,005**
Net total as at 31 December 2012, in RR million at the exchange rate as at the reporting date	**(15,207)**	**1,408**

The analysis of the effect of foreign currency risk on the Group's revenue and profit as at 31 December 2012 is given below:

The exchange rate of the US dollar as at 31 December 2012 was RR 30.3727 to USD 1. A 10% decrease/(increase) in the dollar exchange rate would have resulted in higher/(reduced) profit for the year of RR 1,521 million.

The exchange rate of the euro as at 31 December 2012 was RR 40.2286 to EUR 1. A 10% decrease/(increase) in the euro exchange rate would have resulted in reduced/(higher) profit for the year of RR 141 million.

33 Financial instruments and financial risk factors (continued)

The amounts of the Group's assets and liabilities denominated in a foreign currency other than the functional currency of the Group's companies as at 31 December 2011 are provided below:

	in thousand USD	in thousand EUR
Trade receivables	2,433	1,237
Cash	32	-
Loans issued including interest receivable	5,000	55,584
Trade accounts payable	(249)	(149)
Eurobonds	(316,000)	-
Borrowings and loans received	(164,504)	(6,000)
Interest payable	(545)	-
Net total, in foreign currency	**(473,833)**	**50,672**
Net total as at 31 December 2011, in RR million at the exchange rate as at the reporting date	**(15,256)**	**2,112**

The analysis of the effect of foreign currency risk on the Group's revenue and profit as at 31 December 2011 is given below:

The exchange rate of the US dollar as at 31 December 2011 was RR 32.1961 to USD 1. A 10% decrease/(increase) in the dollar exchange rate would have resulted in higher/(reduced) profit for the year of RR 1,526 million.

The exchange rate of the euro as at 31 December 2011 was RR 41.6714 to EUR 1. A 10% decrease/(increase) in the euro exchange rate would have resulted in reduced/(higher) profit for the year of RR 211 million.

Interest rate risk

The Group is exposed to interest rate risk on short-term and long-term loans. Loans issued at fixed interest rates expose the Group to fair value fluctuations due to changing interest rates.

The Group does the following to minimise interest rate risk:

- monitoring trends in the domestic RR and global USD/EUR currency markets;
- monitoring of analyst reviews and comments made by leading financial institutions and major global information agencies; and
- making decisions based on analyses of the interdependence of such parameters as currency, term, amount and interest rate type.

As at 31 December 2012, the following interest rates have significant influence on the interest expense on borrowings with variable rates:

1M LIBOR	0.209
3M LIBOR	0.306

As at 31 December 2012, a 100 basis point decrease/(increase) in these rates, assuming all other variables remain constant, would have resulted in higher/(reduced) profit for the year of RR 28 million.

As at 31 December 2011, the following interest rates have significant influence on the interest expense on borrowings with variable rates:

1M LIBOR	0.295
3M LIBOR	0.581

As at 31 December 2011, a 100 basis point decrease/(increase) in these rates, assuming all other variables remain constant, would have resulted in higher/(reduced) profit for the year of RR 39 million.

(in RR, tabular amounts in million RR unless stated otherwise)

33 Financial instruments and financial risk factors (continued)

(c) Liquidity risk

In order to minimise liquidity risks, the Group maintains committed credit facilities in major domestic and overseas banks. The Group determines the necessary credit limit on the basis of ten-year, five-year, annual and monthly financial plans for each entity of the Group and the Group as a whole.

The Group distinguishes between funds needed depending on what they will be used for.

Working capital needs to be mainly financed through unsecured short-term credit facilities at the minimal interest rate offered in the financial markets under the existing market situation.

Investment programmes to acquire new high-cost equipment, construct new production facilities, rebuild and modernise are financed through mid-term and long-term credit facilities (mainly special purpose ones).

The Group has raised a number of public and syndicated borrowings in the past and intends to further pursue these endeavours depending on market conditions.

Management monitors the correspondence of repayment periods for debts with the payback period for the respective assets on the strategic and operating levels. The Group uses both general ratios (EBITDA, EBITDA/Revenue, Debt/EBITDA, Debt/Equity, and etc.) and a number of special debt (liquidity) ratios in its decision making.

Management allocates available cash surpluses, based on the issuance of intra-group loans approved by the general shareholders' meeting, among the Group's entities to attain optimal and balanced availability of funds for each entity. Such allocation may be used to replenish working capital in each entity without the need to raise third-party borrowings and, when necessary, to refinance more costly bank facilities and other borrowings. Intra-group loans are issued at market rates.

The table below provides the analysis of non-discounted cash flows related to the Group's contract obligations as at 31 December 2012:

	Payable in the period							
	Within 3 months	**3-12 months**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Beyond 5 years**	**Total**
Trade accounts payable	3,506	50	-	-	-	-	-	**3,556**
Other accounts payable	1,668	4	-	-	-	-	-	**1,672**
Borrowings:								
- Principal	868	4,862	229	1,176	805	875	3,870	**12,685**
-Bank interest payable as of 31 December 2012	18	1	-	-	-	-	-	**19**
*- Bank interest to be accrued in future periods**	210	638	587	585	576	529	1,124	**4,249**
Bonds:								
- Principal	-	-	5,000	-	-	9,598	-	**14,598**
-Interest payable as of 31 December 2012	-	744	-	-	-	-	-	**744**
*- Interest to be accrued in future periods***	293	886	920	744	362	-	-	**3,205**
Derivative financial instruments - currency and interest rate swap	-	(90)	169	-	-	-	-	**79**
Total	**6,563**	**7,095**	**6,905**	**2,505**	**1,743**	**11,002**	**4,994**	**40,807**

*) bank interest to be accrued in future periods was estimated based on terms and conditions of loans and borrowings agreements effective as at the reporting date

**) interest to be accrued in future periods was estimated based on coupon rates effective as at the reporting date.

The liabilities due within 12 months are to be paid by cash received from operating activities and external financing received subsequent to the reporting date (Note 36).

33 Financial instruments and financial risk factors (continued)

The table below provides the analysis of non-discounted cash flows related to the Group's contract obligations as at 31 December 2011:

	Payable in the period							
	Within 3 months	**3-12 months**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**Beyond 5 years**	**Total**
Trade accounts payable	2,531	77	-	-	-	-	-	**2,608**
Other accounts payable	727	18	-	-	-	-	-	**745**
Borrowings:								
- Principal	1,766	2,805	2,580	-	369	498	2,325	**10,343**
-Bank interest payable as of 31 December 2011	17	1	-	-	-	-	-	**18**
*- Bank interest to be accrued in future periods**	137	353	335	263	259	218	376	**1,941**
Bonds:								
- Principal	207	-	-	5,000	-	10,174	-	**15,381**
-Interest payable as of 31 December 2011	7	56	-	-	-	-	-	**63**
*- Interest to be accrued in future periods***	310	918	1, 223	965	788	383	-	**4,587**
Derivative financial instruments - currency and interest rate swap	(40)	(42)	(82)	336	-	-	-	**172**
Total	**5,662**	**4,186**	**4,056**	**6,564**	**1,416**	**11,273**	**2,701**	**35,858**

*) bank interest to be accrued in future periods was estimated based on terms and conditions of loans and borrowings agreements effective as at the reporting date

**) interest to be accrued in future periods was estimated based on coupon rates effective as at the reporting date.

34 Capital risk management

The capital structure of the Group consists of net debt (short-term and long-term borrowings and bonds offset by cash and cash equivalents) and equity of the Group.

Every year the Group plans and realizes investment programs to maintain a high technical and technological level of the Group's property, plant and equipment, avoidance of business interruptions, maintenance of high life and health standards, preservation of the environment as well as the introducing new production facilities that ensure the Group's profitability in the future.

Following the results of 2009 the Group has decided to reconsider and renew financing of investment programs, which have been suspended due to financial crisis, in the volume which is necessary and sufficient for their realization.

The Group has defined new criteria of requirements (payback period – no more than 5 years, revenue rate – not less than 20%, NPV and other indicators) for both the suspended and new investment projects under consideration.

35 Earnings/ (Loss) per share

Basic earnings/(loss) per share are calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding treasury shares.

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings/(loss) per share equals the basic earnings/(loss) per share.

Earnings per share are calculated as follows:

	Note	**Year ended 31 December 2012**	**Year ended 31 December 2011**
Profit for the year		2,059	1,274
Weighted average number of ordinary shares in issue (millions of shares)	16	304.05	304.05
Basic and diluted earnings per ordinary share (in RR per share)		6.77	4.19

36 Events after the reporting period

Borrowings

Subsequent to 31 December 2012, the Group raised RR 944 million under existing credit facilities related to the construction of Tikhova and Butovskaya mines.

Eurobonds

In February 2013 the Group sold 18,000,000 of repurchased eurobonds on the open market for the total amount of RR 535 million (USD 17.6 million).

In March 2013 the Group amended the consolidated leverage ratio, which is the covenant relating to the Eurobonds. In connection with this amendment the Group will record additional interest expense estimated to be RR 153 million.