EVRAZ plc

Consolidated Financial Statements

Year Ended 31 December 2012

EVRAZ plc

Consolidated Financial Statements

Year ended 31 December 2012

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EVRAZ plc
Consolidated Statement of Operations
(in millions of US dollars, except for per share information)

	Notes	Year ended 31 December 2012	2011	2010
Revenue				
Sale of goods	**3**	**$ 14,367**	$ 16,077	$ 13,144
Rendering of services	**3**	**359**	323	250
		14,726	16,400	13,394
Cost of revenue	**7**	**(11,797)**	(12,473)	(10,319)
Gross profit		**2,929**	3,927	3,075
Selling and distribution costs	**7**	**(1,211)**	(1,154)	(807)
General and administrative expenses	**7**	**(860)**	(921)	(732)
Social and social infrastructure maintenance expenses		**(51)**	(61)	(64)
Loss on disposal of property, plant and equipment		**(56)**	(50)	(52)
Impairment of assets	**6**	**(413)**	(104)	(147)
Foreign exchange gains/(losses), net		**(41)**	269	104
Other operating income		**75**	50	63
Other operating expenses	**7**	**(129)**	(96)	(110)
Profit from operations		**243**	1,860	1,330
Interest income	**7**	**23**	17	13
Interest expense	**7**	**(645)**	(708)	(728)
Share of profits/(losses) of joint ventures and associates	**11**	**1**	55	21
Gain/(loss) on financial assets and liabilities, net	**7**	**164**	(355)	8
Gain/(loss) on disposal groups classified as held for sale, net	**12**	**114**	8	(14)
Gain on bargain purchases	**4**	**–**	–	4
Other non-operating gains/(losses), net		**(6)**	(4)	(1)
Profit/(loss) before tax		**(106)**	873	633
Income tax benefit/(expense)	**8**	**(229)**	(420)	(163)
Net profit/(loss)		**$ (335)**	$ 453	$ 470
Attributable to:				
Equity holders of the parent entity		**$ (308)**	$ 461	$ 486
Non-controlling interests		**(27)**	(8)	(16)
		$ (335)	$ 453	$ 470
Earnings/(losses) per share:				
basic, for profit/(loss) attributable to equity holders of the parent entity, US dollars	**20**	**$ (0.23)**	$ 0.36	$ 0.39
diluted, for profit/(loss) attributable to equity holders of the parent entity, US dollars	**20**	**$ (0.23)**	$ 0.36	$ 0.39

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

EVRAZ plc
Consolidated Statement of Comprehensive Income
(in millions of US dollars)

	Notes	Year ended 31 December 2012	2011	2010
Net profit/(loss)		**$ (335)**	$ 453	$ 470
Other comprehensive income/(loss)				
Effect of translation to presentation currency		**286**	(620)	64
Net gains/(losses) on available-for-sale financial assets	**13**	**4**	(20)	(8)
Net (gains)/losses on available-for-sale financial assets reclassified to profit or loss	**13**	**–**	20	4
Income tax effect		**–**	–	–
		4	–	(4)
Decrease in revaluation surplus in connection with the impairment of property, plant and equipment	**9**	**–**	(1)	(7)
Income tax effect	**8**	**–**	–	1
		–	(1)	(6)
Net gains/(losses) on available-for-sale financial assets of the Group's joint ventures and associates	**11**	**1**	–	–
Effect of translation to presentation currency of the Group's joint ventures and associates	**11**	**44**	(35)	(9)
Share of other comprehensive income/(loss) of joint ventures and associates accounted for using the equity method		**45**	(35)	(9)
Total other comprehensive income/(loss)		**335**	(656)	45
Total comprehensive income/(loss), net of tax		**$ –**	$ (203)	$ 515
Attributable to:				
Equity holders of the parent entity		**$ 28**	$ (177)	$ 522
Non-controlling interests		**(28)**	(26)	(7)
		$ –	$ (203)	$ 515

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

EVRAZ plc
Consolidated Statement of Financial Position
(in millions of US dollars)

	Notes	31 December 2012	31 December 2011	31 December 2010
ASSETS				
Non-current assets				
Property, plant and equipment	**9**	**$ 7,792**	$ 8,306	$ 8,607
Intangible assets other than goodwill	**10**	**586**	838	1,004
Goodwill	**5**	**2,180**	2,180	2,219
Investments in joint ventures and associates	**11**	**561**	663	688
Deferred income tax assets	**8**	**66**	79	100
Other non-current financial assets	**13**	**92**	53	118
Other non-current assets	**13**	**103**	107	103
		11,380	12,226	12,839
Current assets				
Inventories	**14**	**1,978**	2,188	2,070
Trade and other receivables	**15**	**895**	971	1,213
Prepayments		**143**	176	192
Loans receivable		**19**	44	1
Receivables from related parties	**16**	**12**	8	80
Income tax receivable		**59**	83	54
Other taxes recoverable	**17**	**329**	412	353
Other current financial assets	**18**	**712**	57	52
Cash and cash equivalents	**19**	**1,320**	801	683
		5,467	4,740	4,698
Assets of disposal groups classified as held for sale	**12**	**930**	9	2
		6,397	4,749	4,700
Total assets		**$ 17,777**	$ 16,975	$ 17,539
EQUITY AND LIABILITIES				
Equity				
Equity attributable to equity holders of the parent entity				
Issued capital	**20**	**$ 1,340**	$ 1,338	$ 375
Treasury shares	**20**	**(1)**	(8)	–
Additional paid-in capital	**20**	**1,820**	2,289	1,742
Revaluation surplus		**173**	171	180
Legal reserve	**20**	**–**	–	36
Unrealised gains and losses	**11,13**	**5**	–	–
Accumulated profits		**3,356**	3,606	4,570
Translation difference		**(1,520)**	(1,851)	(1,214)
		5,173	5,545	5,689
Non-controlling interests		**200**	236	247
		5,373	5,781	5,936
Non-current liabilities				
Long-term loans	**21**	**6,373**	6,593	7,097
Deferred income tax liabilities	**8**	**927**	1,020	1,072
Finance lease liabilities	**22**	**11**	26	38
Employee benefits	**23**	**294**	296	315
Provisions	**25**	**257**	285	279
Other long-term liabilities	**26**	**170**	285	143
		8,032	8,505	8,944
Current liabilities				
Trade and other payables	**27**	**1,412**	1,460	1,173
Advances from customers		**157**	154	205
Short-term loans and current portion of long-term loans	**21**	**1,783**	613	714
Payables to related parties	**16**	**257**	98	217
Income tax payable		**48**	92	78
Other taxes payable	**28**	**195**	188	180
Current portion of finance lease liabilities	**22**	**2**	13	19
Provisions	**25**	**32**	53	54
Amounts payable under put options for shares of subsidiaries		**–**	9	6
Dividends payable by the Group's subsidiaries to non-controlling shareholders		**8**	9	13
		3,894	2,689	2,659
Liabilities directly associated with disposal groups classified as held for sale	**12**	**478**	–	–
		4,372	2,689	2,659
Total equity and liabilities		**$ 17,777**	$ 16,975	$ 17,539

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

EVRAZ plc
Consolidated Statement of Cash Flows
(in millions of US dollars)

	Year ended 31 December		
	2012	**2011**	**2010**
Cash flows from operating activities			
Net profit/(loss)	**$ (335)**	$ 453	$ 470
Adjustments to reconcile net profit/(loss) to net cash flows from operating activities:			
Deferred income tax (benefit)/expense *(Note 8)*	**(38)**	12	(186)
Depreciation, depletion and amortisation *(Note 7)*	**1,259**	1,153	925
Loss on disposal of property, plant and equipment	**56**	50	52
Impairment of assets	**413**	104	147
Foreign exchange (gains)/losses, net	**41**	(269)	(104)
Interest income	**(23)**	(17)	(13)
Interest expense	**645**	708	728
Share of (profits)/losses of associates and joint ventures	**(1)**	(55)	(21)
(Gain)/loss on financial assets and liabilities, net	**(164)**	355	(8)
(Gain)/loss on disposal groups classified as held for sale, net	**(114)**	(8)	14
Gain on bargain purchases	**–**	–	(4)
Other non-operating (gains)/losses, net	**6**	4	1
Bad debt expense	**12**	49	48
Changes in provisions, employee benefits and other long-term assets and liabilities	**(40)**	(29)	(15)
Expense arising from equity-settled awards (*Note 24)*	**22**	23	2
Share-based payments under cash-settled awards *(Note 24)*	**–**	(1)	(3)
Other	**(6)**	(4)	(3)
	1,733	2,528	2,030
Changes in working capital:			
Inventories	**121**	(204)	(191)
Trade and other receivables	**(78)**	167	(239)
Prepayments	**37**	(2)	(44)
Receivables from/payables to related parties	**141**	(61)	(34)
Taxes recoverable	**120**	(123)	(91)
Other assets	**18**	(3)	38
Trade and other payables	**96**	367	107
Advances from customers	**(1)**	(44)	80
Taxes payable	**(43)**	44	5
Other liabillities	**(1)**	(22)	1
Net cash flows from operating activities	**2,143**	2,647	1,662
Cash flows from investing activities			
Issuance of loans receivable to related parties	**(5)**	(3)	(46)
Proceeds from repayment of loans issued to related parties, including interest	**1**	46	5
Issuance of loans receivable	**–**	(4)	(1)
Proceeds from repayment of loans receivable, including interest	**4**	4	2
Return of capital by a joint venture *(Note 11)*	**38**	–	–
Purchases of subsidiaries, net of cash acquired *(Note 4)*	**(12)**	(36)	(27)
Purchases of interest in associates/joint ventures	**–**	–	(9)
Restricted deposits at banks in respect of investing activities	**–**	(1)	17
Short-term deposits at banks, including interest	**(656)**	5	29
Purchases of property, plant and equipment and intangible assets	**(1,261)**	(1,281)	(832)
Proceeds from disposal of property, plant and equipment	**9**	23	21
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs *(Note 12)*	**311**	5	42
Dividends received	**88**	54	1
Other investing activities, net	**(61)**	–	54
Net cash flows used in investing activities	**(1,544)**	(1,188)	(744)

Continued on the next page

EVRAZ plc
Consolidated Statement of Cash Flows (continued)
(in millions of US dollars)

	Year ended 31 December		
	2012	**2011**	**2010**
Cash flows from financing activities			
Purchase of treasury shares in the course of the Group's reorganisation *(Note 20)*	**$ (4)**	$ –	$ –
Purchase of treasury shares *(Note 20)*	**–**	(22)	–
Sale of treasury shares *(Note 20)*	**–**	3	–
Payments relating to conversion of bonds into shares *(Note 21)*	**–**	(161)	–
Proceeds from issue of shares by a subsidiary to non-controlling shareholders	**–**	1	–
Purchases of non-controlling interests *(Note 4)*	**(1)**	(51)	(13)
Dividends paid by the parent entity to its shareholders *(Note 20)*	**(375)**	(491)	–
Dividends paid by the Group's subsidiaries to non-controlling shareholders	**(1)**	(1)	(1)
Proceeds from bank loans and notes	**2,706**	3,507	3,172
Repayment of bank loans and notes, including interest	**(2,716)**	(3,815)	(4,142)
Net proceeds from/(repayment of) bank overdrafts and credit lines, including interest	**292**	(283)	106
Payments under covenants reset *(Note 21)*	**(7)**	–	(29)
Gain on derivatives not designated as hedging instruments *(Note 26)*	**81**	66	31
Collateral under swap contracts *(Note 18)*	**10**	(10)	–
Restricted deposits at banks in respect of financing activities	**2**	(1)	–
Payments under finance leases, including interest	**(29)**	(24)	(23)
Net cash flows used in financing activities	**(42)**	(1,282)	(899)
Effect of foreign exchange rate changes on cash and cash equivalents	**32**	(59)	(7)
Net increase in cash and cash equivalents	**589**	118	12
Cash and cash equivalents at the beginning of the year	**801**	683	671
Cash of disposal groups classified as assets held for sale *(Note 12)*	**(70)**	–	–
Cash and cash equivalents at the end of the year	**$ 1,320**	$ 801	$ 683
Supplementary cash flow information:			
Cash flows during the year:			
Interest paid	**$ (559)**	$ (586)	$ (594)
Interest received	**7**	8	11
Income taxes paid by the Group	**(298)**	(443)	(341)

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

EVRAZ plc
Consolidated Statement of Changes in Equity
(in millions of US dollars)

	Attributable to equity holders of the parent entity										
	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Unrealised gains and losses	Accumulated profits	Translation difference	Total	Non-controlling interests	Total equity
At 31 December 2011	**$ 1,338**	**$ (8)**	**$ 2,289**	**$ 171**	**$ –**	**$ –**	**$ 3,606**	**$ (1,851)**	**$ 5,545**	**$ 236**	**$ 5,781**
Net loss	**–**	**–**	**–**	**–**	**–**	**–**	**(308)**		**(308)**	**(27)**	**(335)**
Other comprehensive income/(loss)	**–**	**–**	**–**	**–**	**–**	**5**	**–**	**331**	**336**	**(1)**	**335**
Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment	**–**	**–**	**–**	**2**	**–**	**–**	**(2)**	**–**	**–**	**–**	**–**
Total comprehensive income/(loss) for the period	**–**	**–**	**–**	**2**	**–**	**5**	**(310)**	**331**	**28**	**(28)**	**–**
Issue of shares in the course of the Group's reorganisation *(Note 20)*	**2**	**–**	**–**	**–**	**–**	**–**	**8**	**–**	**10**	**(10)**	**–**
Acquisition of non-controlling interests in subsidiaries *(Note 4)*	**–**	**–**	**–**	**–**	**–**	**–**	**(31)**	**–**	**(31)**	**(6)**	**(37)**
Derecognition of non-controlling interests on sale of subsidiaries *(Note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Contribution of a non-controlling shareholder to share capital of the Group's subsidiary *(Note 20)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7**	**7**
Buyback of own shares by a joint venture's subsidiary *(Note 11)*	**–**	**–**	**–**	**–**	**–**	**–**	**(22)**	**–**	**(22)**	**–**	**(22)**
Purchase of treasury shares *(Note 20)*	**–**	**(4)**	**–**	**–**	**–**	**–**	**–**	**–**	**(4)**	**–**	**(4)**
Transfer of treasury shares to participants of the Incentive Plan *(Notes 20 and 24)*	**–**	**11**	**–**	**–**	**–**	**–**	**(11)**	**–**	**–**	**–**	**–**
Share-based payments *(Note 24)*	**–**	**–**	**22**	**–**	**–**	**–**	**–**	**–**	**22**	**–**	**22**
Reclassification of distributed dividends to share premium account *(Note 20)*	**–**	**–**	**(491)**	**–**	**–**	**–**	**491**	**–**	**–**	**–**	**–**
Dividends declared by the parent entity to its shareholders *(Note 20)*	**–**	**–**	**–**	**–**	**–**	**–**	**(375)**	**–**	**(375)**	**–**	**(375)**
Dividends declared by the Group's subsidiaries to non-controlling shareholders *(Note 20)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
At 31 December 2012	**$ 1,340**	**$ (1)**	**$ 1,820**	**$ 173**	**$ –**	**$ 5**	**$ 3,356**	**$ (1,520)**	**$ 5,173**	**$ 200**	**$ 5,373**

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

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EVRAZ plc
Consolidated Statement of Changes in Equity (continued)
(in millions of US dollars)

	Attributable to equity holders of the parent entity										
	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Unrealised gains and losses	Accumulated profits	Translation difference	Total	Non-controlling interests	Total equity
At 31 December 2010	$ 375	$ –	$ 1,742	$ 180	$ 36	$ –	$ 4,570	$ (1,214)	$ 5,689	$ 247	$ 5,936
Net profit	–	–	–	–	–	–	461	–	461	(8)	453
Other comprehensive income/(loss)	–	–	–	(1)	–	–	–	(637)	(638)	(18)	(656)
Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment	–	–	–	(8)	–	–	8	–	–	–	–
Total comprehensive income/(loss) for the period	–	–	–	(9)	–	–	469	(637)	(177)	(26)	(203)
Conversion of bonds *(Notes 20 and 21)*	29	–	524	–	–	–	–	–	553	–	553
Appropriation of net profit to legal reserve	–	–	–	–	3	–	(3)	–	–	–	–
Group's reorganisation *(Notes 1 and 20)*	2,247	–	–	–	(39)	–	(2,219)	–	(11)	11	–
Reduction in par value of shares of EVRAZ plc *(Note 20)*	(1,313)	–	–	–	–	–	1,313	–	–	–	–
Acquisition of non-controlling interests in subsidiaries *(Note 4)*	–	–	–	–	–	–	(18)	–	(18)	(33)	(51)
Sale of non-controlling interests in subsidiaries *(Note 20)*	–	–	–	–	–	–	–	–	–	34	34
Non-controlling interests arising on establishment of subsidiaries	–	–	–	–	–	–	(4)	–	(4)	4	–
Purchase of treasury shares *(Note 20)*	–	(22)	–	–	–	–	–	–	(22)	–	(22)
Transfer of treasury shares to participants of the Incentive Plan *(Notes 20 and 24)*	–	11	–	–	–	–	(11)	–	–	–	–
Sale of treasury shares *(Note 20)*	–	3	–	–	–	–	–	–	3	–	3
Share-based payments *(Note 24)*	–	–	23	–	–	–	–	–	23	–	23
Dividends declared by the parent entity to its shareholders *(Note 20)*	–	–	–	–	–	–	(491)	–	(491)	–	(491)
Dividends declared by the Group's subsidiaries to non-controlling shareholders *(Note 20)*	–	–	–	–	–	–	–	–	–	(1)	(1)
At 31 December 2011	$ 1,338	$ (8)	$ 2,289	$ 171	$ –	$ –	$ 3,606	$ (1,851)	$ 5,545	$ 236	$ 5,781

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

EVRAZ plc
Consolidated Statement of Changes in Equity (continued)
(in millions of US dollars)

	Attributable to equity holders of the parent entity										
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Revaluation surplus**	**Legal reserve**	**Unrealised gains and losses**	**Accumulated profits**	**Translation difference**	**Total**	**Non-controlling interests**	**Total equity**
At 31 December 2009	$ 375	$ –	$ 1,739	$ 208	$ 36	$ 4	$ 4,065	$ (1,260)	$ 5,167	$ 275	$ 5,442
Net profit	–	–	–	–	–	–	486	–	486	(16)	470
Other comprehensive income/(loss)	–	–	–	(6)	–	(4)	–	46	36	9	45
Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment	–	–	–	(22)	–	–	22	–	–	–	–
Total comprehensive income/(loss) for the period	–	–	–	(28)	–	(4)	508	46	522	(7)	515
Acquisition of non-controlling interests in existing subsidiaries *(Note 4)*	–	–	1	–	–	–	(3)	–	(2)	(14)	(16)
Derecognition of non-controlling interests in subsidiaries *(Note 20)*	–	–	–	–	–	–	–	–	–	(6)	(6)
Share-based payments *(Note 24)*	–	–	2	–	–	–	–	–	2	–	2
Dividends declared by the Group's subsidiaries to non-controlling shareholders *(Note 20)*	–	–	–	–	–	–	–	–	–	(1)	(1)
At 31 December 2010	$ 375	$ –	$ 1,742	$ 180	$ 36	$ –	$ 4,570	$ (1,214)	$ 5,689	$ 247	$ 5,936

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

1. Corporate Information

These consolidated financial statements were authorised for issue by the Board of Directors of EVRAZ plc on 10 April 2013.

EVRAZ plc ("EVRAZ plc" or "the Company") was incorporated on 23 September 2011 as a public company under the laws of the United Kingdom with the registered number 7784342. The Company's registered office is at 5th Floor, 6 St. Andrew Street, London, EC4A 3AE, United Kingdom.

As a result of the reorganisation implemented by way of the share exchange offer made by the Company for the shares of Evraz Group S.A. in November 2011 (Note 20), the Company became a new parent entity of Evraz Group S.A. (Luxembourg), a holding company which owns steel production, mining and trading companies.

The Company, together with its subsidiaries (the "Group"), is involved in the production and distribution of steel and related products and coal and iron ore mining. In addition, the Group produces vanadium products. The Group is one of the largest steel producers globally. Lanebrook Limited (Cyprus) is the ultimate controlling party of the Group.

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

	Effective ownership interest, %				
Subsidiary	**2012**	**2011**	**2010**	**Business activity**	**Location**
EVRAZ Nizhny Tagil Iron & Steel Plant	100.00	100.00	100.00	Steel production	Russia
EVRAZ United West-Siberian Iron & Steel Plant	100.00	100.00	100.00	Steel production	Russia
Novokuznetsk Iron & Steel Plant (in 2011 merged with West-Siberian Iron & Steel Plant)	–	–	100.00	Steel production	Russia
EVRAZ Vitkovice Steel a.s.	100.00	100.00	100.00	Steel production	Czech Republic
EVRAZ Highveld Steel and Vanadium Limited	85.12	85.12	85.12	Steel production	South Africa
EVRAZ Dnepropetrovsk Iron and Steel Works	96.78	96.77	96.04	Steel production	Ukraine
EVRAZ Inc. NA	100.00	100.00	100.00	Steel mill	USA
EVRAZ Inc. NA Canada	100.00	100.00	100.00	Steel mill	Canada
Yuzhkuzbassugol	100.00	100.00	100.00	Coal mining	Russia
EVRAZ Kachkanarsky Mining-and-Processing Integrated Works	100.00	100.00	100.00	Ore mining and processing	Russia
Evrazruda	100.00	100.00	100.00	Ore mining	Russia
EVRAZ Sukha Balka	99.42	99.42	99.42	Ore mining	Ukraine

1. Corporate Information (continued)

Going Concern

These consolidated financial statements have been prepared on a going concern basis.

The Group's activities in all of its operating segments continue to be affected by the uncertainty and instability of the current economic environment. According to management's current forecasts, at 30 June 2013 the Group may not be in compliance with financial covenants under certain bank loans, which, if not resolved, may trigger a cross default under other debt instruments. Such an event would permit the Group's lenders to demand immediate payment of the outstanding borrowings under the relevant debt instruments.

Directors and management have considered a number of alternatives to proactively address this situation, including, if and when necessary, a refinancing of certain borrowings, a financial covenant reset and a waiver from its lenders. The Group may incur additional costs related to these alternatives.

Based on the analysis of available alternatives, management's track record of resolving similar matters and the probabilities of their successful implementation, directors and management concluded that there is no material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Consequently, directors and management have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

2. Significant Accounting Policies

Basis of Preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

International Financial Reporting Standards are issued by the International Accounting Standard Board ("IASB"). IFRSs that are mandatory for application as of 31 December 2012, but not adopted by the European Union, do not have any impact on the Group's consolidated financial statements.

These consolidated financial statements have been prepared on a going concern basis as the directors believe there are no material uncertainties that lead to significant doubt that the entity can continue as a going concern in the foreseeable future.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

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

Group Reorganisation in 2011

As the Group has been formed through a reorganisation in which EVRAZ plc became a new parent entity of the Group (Note 20), these consolidated financial statements have been prepared as a continuation of the existing group using the pooling of interests method.

Changes in Accounting Policies

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of 1 January 2012.

New/Revised Standards and Interpretations Adopted in 2012

- IFRS 7 - Disclosures - Transfers of Financial Assets (Amendment)

The amendment to IFRS 7 enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment had no effect on the Group's financial statements.

- IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment had no effect on the Group's financial position, performance or its disclosures.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

Standards Issued But Not Yet Effective in the European Union

Standards not yet effective for the financial statements for the year ended 31 December 2012	Effective for annual periods beginning on or after
▪ Amendments to IAS 1 "Presentation of Financial Statements" – Changes to the Presentation of Other Comprehensive Income	1 July 2012
▪ IFRS 13 "Fair Value Measurement"	1 January 2013
▪ Amendments to IAS 19 "Employee Benefits"	1 January 2013
▪ Amendments to IFRS 7 "Financial Instruments: Disclosures" – Offsetting Financial Assets and Financial Liabilities	1 January 2013
▪ IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"	1 January 2013
▪ Amendments to standards following the May 2012 "improvements to IFRS" project	1 January 2013
▪ IFRS 10 "Consolidated Financial Statements"	1 January 2014
▪ IFRS 11 "Joint Arrangements"	1 January 2014
▪ IFRS 12 "Disclosure of Interests in Other Entities"	1 January 2014
▪ IAS 27 "Separate Financial Statements"	1 January 2014
▪ IAS 28 "Investments in Associates and Joint Ventures"	1 January 2014
▪ Amendments to IAS 32 "Financial Instruments: Presentation" – Offsetting Financial Assets and Financial Liabilities	1 January 2014
▪ IFRS 9 "Financial Instruments"	1 January 2015

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.
Amended IAS 19 "Employee Benefits" introduced recognition of actuarial gains and losses in other comprehensive income in the period they occur. This amendment is required to be applied retrospectively. At 31 December 2012 and 2011, the Group had $332 million and $261 million actuarial losses, respectively (Note 23), they will increase the Group's liabilities under defined benefit plans.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates

Accounting Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- The Group determined that it obtained control over Corber on 16 January 2013 (Note 11). As of 31 December 2012, certain conditions relating to acquisition of an additional 50% ownership interest in Corber were not met. As such, the Group did not consolidate Corber in 2012.

- The Group determined that the future sale of EVRAZ Highveld Steel and Vanadium Limited and EVRAZ Vitkovice Steel does not constitute a discontinued operation as the expected disposal will not lead to the Group abandoning any geographical area of operation or any product line (Note 12).

Estimation Uncertainty

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

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2012, 2011 and 2010, the Group recognised an impairment loss of $404 million, $105 million and $109 million, respectively (Note 9).

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate that impairment exists.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Impairment of Property, Plant and Equipment (continued)

The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the value in use and, ultimately, the amount of any impairment.

Useful Lives of Items of Property, Plant and Equipment

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

In 2012 and 2010, the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately $5 million and $10 million, respectively. In 2011, the Group changed its estimation of useful lives of property, plant and equipment, which resulted in a $16 million decrease in depreciation expense as compared to the amounts that would have been charged had no change in estimate occurred.

Fair Values of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Impairment of Goodwill (continued)

The carrying amount of goodwill at 31 December 2012, 2011 and 2010 was $2,180 million, $2,180 million and $2,219 million, respectively. In 2012, 2011 and 2010, the Group recognised an impairment loss in respect of goodwill in the amount of $Nil, $Nil and $16 million, respectively. More details of the assumptions used in estimating the value in use of the cash-generating units to which goodwill is allocated are provided in Note 5.

Mineral Reserves

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

Site Restoration Provisions

The Group reviews site restoration provisions at each reporting date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities".

The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the end of the reporting period based on the requirements of the current legislation of the country where the respective operating assets are located. The carrying amount of a provision is the present value of the expected expenditures, i.e. cash outflows discounted using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the liability.

The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgement is required in forecasting future site restoration costs.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Post-Employment Benefits

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

Allowances

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of 31 December 2012, 2011 and 2010, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of $101 million, $108 million and $117 million, respectively (Note 29).

The Group makes an allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realisable value (Note 14). Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

Litigations

The Group exercises judgement in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. More details are provided in Note 31.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Current Taxes

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed for additional taxes, penalties and interest, which can be significant. In Russia and Ukraine the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details are provided in Note 31.

Deferred Income Tax Assets

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

Foreign Currency Transactions

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

The functional currencies of the Group's subsidiaries are the Russian rouble, US dollar, euro, Czech koruna, South African rand, Canadian dollar and Ukrainian hryvnia. As at the reporting date, the assets and liabilities of the subsidiaries with functional currencies other than the US dollar are translated into the presentation currency at the rate of exchange ruling at the end of the reporting period, and their statements of operations are translated at the exchange rates that approximate the exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary with functional currency other than the US dollar, the deferred cumulative amount recognised in equity relating to that particular subsidiary is recognised in the statement of operations.

2. Significant Accounting Policies (continued)

Foreign Currency Transactions (continued)

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Basis of Consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the parent's shareholders' equity.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Acquisition of Subsidiaries

Business combinations are accounted for using the acquisition method.

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

Acquisition costs incurred are expensed and included in administrative expenses.

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Acquisition of Subsidiaries (continued)

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

Comparative information presented for the periods before the completion of initial accounting for the acquisition is presented as if the initial accounting had been completed from the acquisition date.

Increases in Ownership Interests in Subsidiaries

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

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the "Predecessor"). Related goodwill inherent in the Predecessor's original acquisition is also recorded in the financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control (continued)

These financial statements, including corresponding figures, are presented as if a subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Put Options over Non-controlling Interests

The Group derecognises non-controlling interests if non-controlling shareholders have a put option over their holdings. The difference between the amount of the liability recognised in the statement of financial position over the carrying value of the derecognised non-controlling interests is charged to accumulated profits.

Investments in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost including goodwill. Subsequent changes in the carrying value reflect the post-acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any.

The Group's share of its associates' profits or losses is recognised in the statement of operations and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has legal or constructive obligations to make payments to, or on behalf of, the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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

Interests in Joint Ventures

The Group's interest in its joint ventures is accounted for under the equity method of accounting whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of joint ventures. The statement of operations reflects the Group's share of the results of operations of joint ventures.

2. Significant Accounting Policies (continued)

Property, Plant and Equipment

The Group's property, plant and equipment is stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred and recognition criteria are met.

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

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

Land is not depreciated. Depreciation of property, plant and equipment, except for mining assets, is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives of items of property, plant and equipment and methods of their depreciation are reviewed, and adjusted as appropriate, at each fiscal year end. The table below presents the useful lives of items of property, plant and equipment.

	Useful lives (years)	**Weighted average remaining useful life (years)**
Buildings and constructions	15–60	19
Machinery and equipment	4–45	11
Transport and motor vehicles	7–20	10
Other assets	3–15	6

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

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

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

The Group has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which are carried at their recoverable amount of zero. The costs to maintain such assets are expensed as incurred.

Exploration and Evaluation Expenditures

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

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

Leases

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

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

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

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

2. Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred for an acquisition of a subsidiary or an associte and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the acquiree, the difference is recognised in the consolidated statement of operations.

Goodwill on acquisition of a subsidiary is included in intangible assets. Goodwill on acquisition of an associate is included in the carrying amount of the investments in associates.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit, or the group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Intangible Assets Other Than Goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditures on internally generated intangible assets, excluding capitalised development costs, are expensed as incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash-generating unit level.

2. Significant Accounting Policies (continued)

Intangible Assets Other Than Goodwill (continued)

The table below presents the useful lives of intangible assets.

	Useful lives (years)	Weighted average remaining useful life (years)
Customer relationships	1–15	11
Trade names and trademarks	5	–
Water rights and environmental permits with definite lives	5	2
Patented and unpatented technology	18	13
Contract terms	1–49	–
Other	5–10	6

Certain water rights and environmental permits are considered to have indefinite lives as management believes that these rights will continue indefinitely.

The most part of the Group's intangible assets represents customer relationships arising on business combinations (Note 10).

Emission Rights

One of the Group's subsidiaries participates in the programme for emission reduction established by the Kyoto protocol. Emission rights (allowances) for each compliance period (one year) are issued at the beginning of the year, actual emissions are verified after the end of the year.

Allowances, whether issued by government or purchased, are accounted for as intangible assets in accordance with IAS 38 "Intangible Assets". Allowances that are issued for less than fair value are measured initially at their fair value.

When allowances are issued for less than fair value, the difference between the amount paid and fair value is recognised as a government grant. Initially the grant is recognised as deferred income in the statement of financial position and subsequently recognised as income on a systematic basis over the compliance period for which the allowances were issued, regardless of whether the allowances are held or sold.

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability is a provision that is within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and it is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period being the present market price of the number of allowances required to cover emissions made up to the end of the reporting period.

2. Significant Accounting Policies (continued)

Financial Assets

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

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

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

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

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the end of the reporting period or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of operations. Reversals of impairment losses in respect of equity instruments are not recognised in the statement of operations. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of operations.

2. Significant Accounting Policies (continued)

Financial Assets (continued)

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

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

Accounts Receivable

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

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

Inventories

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

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

2. Significant Accounting Policies (continued)

Value Added Tax

The tax authorities permit the settlement of sales and purchases value added tax ("VAT") on a net basis.

The Group's subsidiaries apply the accrual method for VAT recognition, under which VAT becomes payable upon invoicing and delivery of goods or rendering services as well upon receipt of prepayments from customers. VAT on purchases, even if not settled at the end of the reporting period, is deducted from the amount of VAT payable.

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

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand and deposits with an original maturity of three months or less.

Borrowings

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

Borrowing costs relating to qualifying assets are capitalised (Note 9).

Financial Guarantee Liabilities

Financial guarantee liabilities issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period and the amount initially recognised.

Equity

Share Capital

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

2. Significant Accounting Policies (continued)

Equity (continued)

Treasury Shares

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

Dividends

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

Provisions

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

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

Provisions for site restoration costs are capitalised within property, plant and equipment.

Employee Benefits

Social and Pension Contributions

Defined contributions are made by the Group to the Russian and Ukrainian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 34%), based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

Defined Benefit Plans

The Group companies provide pensions and other benefits to their employees (Note 23). The entitlement to these benefits is usually conditional on the completion of a minimum service period. Certain benefit plans require the employee to remain in service up to retirement age. Other employee benefits consist of various compensations and non-monetary benefits. The amounts of benefits are stipulated in the collective bargaining agreements and/or in the plan documents.

The Group involves independent qualified actuaries in the measurement of employee benefit obligations.

The liability recognised in the statement of financial position in respect of post-employment benefits is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligations.

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

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

The Group includes expected return on plan assets in the interest expense caption of the consolidated statement of operations.

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

Other Costs

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

Share-based Payments

The Group has management compensation schemes (Note 24), under which certain senior executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with grantees is measured by reference to the fair value of the Company's shares at the date on which they are granted. The fair value is determined using the Black-Scholes-Merton model. In valuing equity-settled transactions, no account is taken of any conditions, other than market conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity (additional paid-in capital), over the period in which service conditions are fulfilled, ending on the date on which the relevant persons become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in the statement of operations for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest. Once a share-settled transaction is vested, no further accounting entries are made to reverse the cost already charged, even if the instruments that are the subject of the transaction are subsequently forfeited. In this case, the Group makes a transfer between different components of equity.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2. Significant Accounting Policies (continued)

Share-based Payments (continued)

Cash-settled share-based payments represent transactions in which the Group acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of the Group's shares or other equity instruments.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes-Merton model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of operations.

The dilutive effect of outstanding share-based awards is reflected as additional share dilution in the computation of earnings per share (Note 20).

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

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

Sale of Goods

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

Rendering of Services

The Group’s revenues from rendering of services include electricity, transportation, port and other services. Revenue is recognised when services are rendered.

Interest

Interest is recognised using the effective interest method.

2. Significant Accounting Policies (continued)

Revenue (continued)

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Rental Income

Rental income is accounted for on a straight-line basis over the lease term on ongoing leases.

Current Income Tax

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

Current income tax relating to items recognised outside profit or loss is recognised in other comprehensive income or equity and not in the statement of operations.

Deferred Income Tax

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

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

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

3. Segment Information

For management purposes, the Group is organised into business units based on their products and services, and has four reportable operating segments:

- *Steel production* segment includes production of steel and related products at eleven steel mills.
- *Mining* segment includes iron ore and coal mining and enrichment.
- *Vanadium products* segment includes extraction of vanadium ore and production of vanadium products. Vanadium slag arising in the steel-making process is also allocated to the vanadium segment.
- *Other operations* include energy-generating companies, seaports, shipping and railway transportation companies.

Management and investment companies are not allocated to any of the segments.

No operating segments have been aggregated to form the above reportable segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Management monitors the results of the operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA. This performance indicator is calculated based on management accounts that differ from the IFRS consolidated financial statements for the following reasons:

1) for the last month of the reporting period, the statement of operations for each operating segment is prepared using a forecast for that month;
2) the statement of operations is based on local GAAP figures with the exception of depreciation expense which approximates the amount under IFRS.

Segment revenue is revenue reported in the Group's statement of operations that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated on a reasonable basis to a segment, whether from sales to external customers or from transactions with other segments.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to external counterparties and expenses relating to transactions with other segments.

Segment result is segment revenue less segment expense that is equal to earnings before interest, tax, depreciation and amortisation ("EBITDA").

Segment EBITDA is determined as a segment's profit/(loss) from operations adjusted for impairment of assets, profit/(loss) on disposal of property, plant and equipment and intangible assets, foreign exchange gains/(losses) and depreciation, depletion and amortisation expense.

3. Segment Information (continued)

The following tables present measures of segment profit or loss based on management accounts.

Year ended 31 December 2012

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	**$ 13,884**	**$ 258**	**$ 192**	**$ 200**	**$ –**	**$ 14,534**
Inter-segment sales	**324**	**2,261**	**317**	**606**	**(3,508)**	**–**
Total revenue	**14,208**	**2,519**	**509**	**806**	**(3,508)**	**14,534**
Segment result – EBITDA	**$ 1,096**	**$ 569**	**$ 54**	**$ 180**	**$ 87**	**$ 1,986**

Year ended 31 December 2011

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 15,622	$ 420	$ 269	$ 166	$ –	$ 16,477
Inter-segment sales	422	3,092	364	656	(4,534)	–
Total revenue	16,044	3,512	633	822	(4,534)	16,477
Segment result – EBITDA	$ 1,120	$ 1,529	$ 111	$ 176	$ 17	$ 2,953

Year ended 31 December 2010

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 12,592	$ 322	$ 280	$ 140	$ –	$ 13,334
Inter-segment sales	359	2,056	257	536	(3,208)	–
Total revenue	12,951	2,378	537	676	(3,208)	13,334
Segment result – EBITDA	$ 1,445	$ 898	$ 90	$ 122	$ (155)	$ 2,400

3. Segment Information (continued)

The following table shows a reconciliation of revenue and EBITDA used by management for decision making and revenue and profit or loss before tax per the consolidated financial statements prepared under IFRS.

Year ended 31 December 2012

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue	**$ 14,208**	**$ 2,519**	**$ 509**	**$ 806**	**$ (3,508)**	**$ 14,534**
Forecasted vs. actual revenue	**96**	**2**	**(3)**	**14**	**–**	**109**
Reclassifications and other adjustments	**(761)**	**129**	**14**	**226**	**475**	**83**
Revenue per IFRS financial statements	**$ 13,543**	**$ 2,650**	**$ 520**	**$ 1,046**	**$ (3,033)**	**$ 14,726**
EBITDA	**$ 1,096**	**$ 569**	**$ 54**	**$ 180**	**$ 87**	**$ 1,986**
Forecasted vs. actual EBITDA	**(1)**	**3**	**7**	**(12)**	**–**	**(3)**
Exclusion of management services from segment result	**103**	**49**	**3**	**4**	**–**	**159**
Unrealised profits adjustment	**(6)**	**–**		**–**	**6**	**–**
Reclassifications and other adjustments	**134**	**1**	**(83)**	**17**	**–**	**69**
	230	**53**	**(73)**	**9**	**6**	**225**
EBITDA based on IFRS financial statements	**$ 1,326**	**$ 622**	**$ (19)**	**$ 189**	**$ 93**	**$ 2,211**
Unallocated subsidiaries						**(199)**
						$ 2,012
Depreciation, depletion and amortisation expense	**(556)**	**(611)**	**(47)**	**(38)**	**–**	**(1,252)**
Impairment of assets	**(58)**	**(354)**	**–**	**(1)**	**–**	**(413)**
Gain/(loss) on disposal of property, plant and equipment and intangible assets	**(38)**	**(17)**	**(1)**	**–**	**–**	**(56)**
Foreign exchange gains/(losses), net	**171**	**(95)**	**–**	**–**	**–**	**76**
	$ 845	**$ (455)**	**$ (67)**	**$ 150**	**$ 93**	**$ 367**
Unallocated income/(expenses), net						**(124)**
Profit/(loss) from operations						**$ 243**
Interest income/(expense), net						**$ (622)**
Share of profits/(losses) of joint ventures and associates						**1**
Gain/(loss) on financial assets and liabilities						**164**
Gain/(loss) on disposal groups classified as held for sale						**114**
Other non-operating gains/(losses), net						**(6)**
Profit/(loss) before tax						**$ (106)**

3. Segment Information (continued)

Year ended 31 December 2011

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue	$ 16,044	$ 3,512	$ 633	$ 822	$ (4,534)	$ 16,477
Forecasted vs. actual revenue	134	(1)	(5)	(4)	–	124
Reclassifications and other adjustments	(1,461)	273	37	148	802	(201)
Revenue per IFRS financial statements	$ 14,717	$ 3,784	$ 665	$ 966	$ (3,732)	$ 16,400
EBITDA	$ 1,120	$ 1,529	$ 111	$ 176	$ 17	$ 2,953
Forecasted vs. actual EBITDA	(63)	(10)	(5)	(1)	–	(79)
Exclusion of management services from segment result	91	43	3	2	–	139
Unrealised profits adjustment	(5)	–	(3)	–	15	7
Reclassifications and other adjustments	119	66	(84)	20	–	121
	142	99	(89)	21	15	188
EBITDA based on IFRS financial statements	$ 1,262	$ 1,628	$ 22	$ 197	$ 32	$ 3,141
Unallocated subsidiaries						(243)
						$ 2,898
Depreciation, depletion and amortisation expense	(546)	(530)	(34)	(40)	–	(1,150)
Impairment of assets	(78)	(31)	–	5	–	(104)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	(29)	(20)	–	(1)	–	(50)
Foreign exchange gains/(losses), net	(29)	103	(1)	1	–	74
	$ 580	$ 1,150	$ (13)	$ 162	$ 32	$ 1,668
Unallocated income/(expenses), net						192
Profit/(loss) from operations						$ 1,860
Interest income/(expense), net						$ (691)
Share of profits/(losses) of joint ventures and associates						55
Gain/(loss) on financial assets and liabilities						(355)
Gain/(loss) on disposal groups classified as held for sale						8
Other non-operating gains/(losses), net						(4)
Profit/(loss) before tax						$ 873

3. Segment Information (continued)

Year ended 31 December 2010

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue	$ 12,951	$ 2,378	$ 537	$ 676	$ (3,208)	$ 13,334
Forecasted vs. actual revenue	112	(7)	(4)	(1)	–	100
Reclassifications and other adjustments	(940)	136	33	148	583	(40)
Revenue per IFRS financial statements	$ 12,123	$ 2,507	$ 566	$ 823	$ (2,625)	$ 13,394
EBITDA	$ 1,445	$ 898	$ 90	$ 122	$ (155)	$ 2,400
Forecasted vs. actual EBITDA	(24)	(14)	(1)	–	–	(39)
Exclusion of management services from segment result	62	32	2	2	–	98
Unrealised profits adjustment	(33)	–	3	–	45	15
Reclassifications and other adjustments	35	19	(41)	20	–	33
	40	37	(37)	22	45	107
EBITDA based on IFRS financial statements	$ 1,485	$ 935	$ 53	$ 144	$ (110)	$ 2,507
Unallocated subsidiaries						(157)
						$ 2,350
Depreciation, depletion and amortisation expense	(558)	(282)	(47)	(37)	–	(924)
Impairment of goodwill	–	–	(16)	–	–	(16)
Impairment of assets	(81)	(20)	–	(30)	–	(131)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	(33)	(18)	–	(1)	–	(52)
Foreign exchange gains/(losses), net	65	(2)	–	1	–	64
	$ 878	$ 613	$ (10)	$ 77	$ (110)	$ 1,291
Unallocated income/(expenses), net						39
Profit/(loss) from operations						$ 1,330
Interest income/(expense), net						(715)
Share of profits/(losses) of joint ventures and associates						21
Gain/(loss) on financial assets and liabilities						8
Gain/(loss) on disposal groups classified as held for sale						(14)
Gain on bargain purchases						4
Other non-operating gains/(losses), net						(1)
Profit/(loss) before tax						$ 633

3. Segment Information (continued)

The revenues from external customers for each group of similar products and services are presented in the following table:

US$ million	2012	2011	2010
Steel production			
Construction products	**$ 4,322**	$ 4,423	$ 3,331
Flat-rolled products	**2,265**	2,760	2,005
Railway products	**1,737**	1,964	1,466
Tubular products	**1,288**	1,321	1,309
Semi-finished products	**2,066**	2,235	2,340
Other steel products	**459**	554	383
Other products	**1,109**	1,165	1,064
Rendering of services	**87**	101	77
	13,333	14,523	11,975
Mining			
Iron ore	**347**	586	330
Coal	**211**	392	355
Other products	**62**	39	26
Rendering of services	**15**	20	25
	635	1,037	736
Vanadium products			
Vanadium in slag	**31**	76	39
Vanadium in alloys and chemicals	**465**	558	493
Other products	**5**	4	3
Rendering of services	**4**	3	2
	505	641	537
Other operations			
Rendering of services	**253**	199	146
	253	199	146
	$ 14,726	$ 16,400	$ 13,394

3. Segment Information (continued)

Distribution of the Group's revenues by geographical area based on the location of customers for the years ended 31 December was as follows:

US$ million	**2012**	2011	2010
CIS			
Russia	**$ 6,191**	$ 6,632	$ 4,692
Ukraine	**473**	623	471
Kazakhstan	**355**	401	342
Others	**168**	163	147
	7,187	7,819	5,652
America			
USA	**2,293**	2,172	1,674
Canada	**1,234**	1,478	1,451
Others	**44**	91	37
	3,571	3,741	3,162
Asia			
Taiwan	**492**	360	459
Thailand	**451**	708	550
Indonesia	**355**	212	113
China	**178**	252	367
Korea	**118**	111	126
United Arab Emirates	**87**	315	410
Philippines	**87**	84	285
Mongolia	**67**	43	7
Jordan	**64**	6	29
Japan	**59**	81	71
Vietnam	**27**	33	93
Syria	**10**	51	65
Others	**120**	94	96
	2,115	2,350	2,671
Europe			
Italy	**224**	267	205
Germany	**204**	368	219
Austria	**160**	224	188
Czech Republic	**155**	205	189
Poland	**131**	221	139
Slovakia	**96**	94	64
Other members of the European Union	**261**	348	265
Turkey	**182**	145	118
Others	**37**	69	35
	1,450	1,941	1,422
Africa			
South Africa	**323**	472	407
Others	**74**	72	78
	397	544	485
Other countries	**6**	5	2
	$ 14,726	$ 16,400	$ 13,394

None of the Group's customers amounts to 10% or more of the consolidated revenues.

3. Segment Information (continued)

Non-current assets other than financial instruments, deferred tax assets and post-employment benefit assets were located in the following countries at 31 December:

US$ million	**2012**	2011	2010
Russia	**$ 6,072**	$ 6,153	$ 6,200
USA	**2,014**	2,047	2,119
Canada	**2,046**	2,069	2,166
Ukraine	**668**	759	892
South Africa	**43**	567	723
Czech Republic	**42**	213	241
Italy	**204**	206	221
Other countries	**94**	52	40
	$ 11,183	$ 12,066	$ 12,602

4. Acquisition of Subsidiaries

Acquisitions of Controlling Interests

Inprom Group

On 22 December 2010, the Group acquired 100% in a holding entity owning steel dealers throughout Russia (known as Inprom Group). The purchase consideration consisted of cash amounting to $19 million plus the fair value of a deferred consideration of $21 million.

The financial position and the results of operations of Inprom were included in the Group's consolidated financial statements beginning 22 December 2010.

The table below sets forth the fair values of consolidated identifiable assets, liabilities and contingent liabilities of the acquiree at the date of business combination:

US$ million	**22 December 2010**
Property, plant and equipment	$ 123
Other non-current assets	26
Inventories	31
Accounts and notes receivable	24
Cash	8
Total assets	**212**
Non-current liabilities	8
Current liabilities	161
Total liabilities	**169**
Non-controlling interests	**(1)**
Net assets	**$ 44**
Purchase consideration	**$ 40**
Gain on bargain purchase	**$ 4**

4. Acquisition of Subsidiaries (continued)

Acquisitions of Controlling Interests (continued)

Inprom Group (continued)

In 2010, cash flow on acquisition was as follows:

US$ million		
Net cash acquired with the subsidiary	$	8
Cash paid		(18)
Net cash outflow	**$**	**(10)**

In 2011, the Group made a final payment of $1 million for the acquisition of Inprom Group.

For the period from 22 December to 31 December 2010, Inprom Group reported net loss amounting to $1 million.

Acquisition of Other Controlling Interests

On 1 January 2012, the Group obtained control over the operating activities of Kachkanar Heat and Power Plant (Russia), for which the Group paid $20 million in 2011. This payment was included in other non-current assets as of 31 December 2011 (Note 13). Goodwill arising on this business combination amounted to $3 million.

In 2012, the Group paid $12 million for the scrap yards located in the USA. Goodwill arising on this acquisition amounted to $1 million.

Disclosure of Other Information in Respect of Business Combinations

As the acquired subsidiaries either did not prepare financial statements in accordance with IFRS before the business combinations or applied accounting policies that are significantly different from the Group's accounting policies, it is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

Other Payments for Acquisition of Subsidiaries

In 2011, the Group purchased a 100% ownership interest in an entity whose assets comprise only land to be used for construction of a rolling mill in Russia. The cash consideration amounted to $11 million. This purchase did not qualify for a business combination, as the acquired company does not constitute a business.

In 2010, the Group fully settled a $16 million liability under earn-out payments for the acquisition of Stratcor in 2006. In 2011, the Group paid $3 million of synergy payments related to the same acquisition (Note 26).

4. Acquisition of Subsidiaries (continued)

Acquisitions of Non-controlling Interests

Evraz Group S.A.

On 17 February 2012, the Group purchased the remaining global depository receipts, representing 96,607.67 shares of Evraz Group S.A., for $4 million and exchanged them for the newly issued shares of EVRAZ plc. Since that date Evraz Group S.A. became a wholly-owned subsidiary of EVRAZ plc and a non-controlling interest amounting to $10 million was derecognised.

Mezhegey Project

In June 2012, the Group acquired an additional 9.996% ownership interest in Actionfield Limited, which holds and operates the Mezhegey coal field project (Note 20). As a result, the Group increased its share in the project to approximately 60.016%.

The fair value of the consideration amounted to $36 million. It was agreed to settle the liabilities for the purchase by an offset with a loan receivable by the Group. The excess of the consideration over the carrying value of the acquired non-controlling interest amounting to $30 million was charged to accumulated profits.

Evraztrans

In 2011, the Group acquired an additional non-controlling interest of 24% in Evraztrans (Note 12), a subsidiary, which renders railway transportation services. The cash consideration amounted to $51 million. The excess of the amounts of consideration over the carrying values of non-controlling interests acquired amounting to $18 million was charged to accumulated profits.

Stratcor

In 2010, the Group acquired an additional non-controlling interest of 5.92% in Strategic Minerals Corporation (“Stratcor”) for a cash consideration of $8 million paid in 2009. The excess of the amount of consideration paid over the carrying value of acquired non-controlling interest amounting to $3 million was charged to accumulated profits.

LDPP

In 2010, the Group acquired an additional non-controlling interest of 25% in OAO Large Diameter Pipe Plant (“LDPP”) for a cash consideration of $8 million. The excess of the carrying value of acquired non-controlling interest over the amount of consideration paid amounting to $1 million was recorded in additional paid-in capital.

5. Goodwill

The table below presents movements in the carrying amount of goodwill.

US$ million	Gross amount	Impairment losses	Carrying amount
At 31 December 2009	**3,081**	**(895)**	**2,186**
Adjustment to contingent consideration	8	–	8
Impairment	–	(16)	(16)
Stratcor, Inc.	–	*(16)*	*(16)*
Translation difference	43	(2)	41
At 31 December 2010	**3,132**	**(913)**	**2,219**
Adjustment to contingent consideration	(6)	–	(6)
Translation difference	(35)	2	(33)
At 31 December 2011	**3,091**	**(911)**	**2,180**
Goodwill recognised on acquisition of subsidiaries (Note 4)	4	–	4
Adjustment to contingent consideration	(5)	–	(5)
Goodwill allocated to disposal groups classified as held for sale (Note 12)	(23)	–	(23)
Translation difference	24	–	24
At 31 December 2012	**$ 3,091**	**$ (911)**	**$ 2,180**

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group. The carrying amount of goodwill was allocated among cash-generating units as follows at 31 December:

US$ million	2012	2011	2010
EVRAZ Inc. NA	**$ 1,131**	$ 1,130	$ 1,130
Oregon Steel Portland Mill	***412***	*412*	*412*
Rocky Mountain Steel Mills	***410***	*410*	*410*
OSM Tubular – Camrose Mills	***157***	*157*	*157*
Claymont Steel	***135***	*135*	*135*
General Scrap	***16***	*16*	*16*
Others	***1***	–	–
EVRAZ Inc. NA Canada	**845**	827	845
Calgary	***232***	*227*	*232*
Red Deer	***56***	*55*	*57*
Regina Steel	***397***	*389*	*397*
Regina Tubular	***137***	*134*	*137*
Others	***23***	*22*	*22*
EVRAZ Palini e Bertoli	**76**	74	78
EVRAZ Vanady-Tula	**66**	63	66
Strategic Minerals Corporation	**20**	25	31
EVRAZ Nikom, a.s.	**39**	37	40
EVRAZ Highveld Steel and Vanadium Limited (Note 12)	**–**	24	29
EVRAZ Kachkanar Heat and Power Plant	**3**	–	–
	$ 2,180	$ 2,180	$ 2,219

6. Impairment of Goodwill and Other Non-current Assets

For the purpose of the impairment testing as of 31 December 2012 the Group assessed the recoverable amount of each cash-generating unit ("CGU") to which the goodwill was allocated or where indicators of impairment were identified.

The recoverable amount has been determined based on a value-in-use calculation using cash flow projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash-generating units. For the periods not covered by management business plans, cash flow projections have been estimated by extrapolating the respective business plans results using a zero real growth rate.

The key assumptions used by management in the value-in-use calculations with respect to the cash-generating units to which the goodwill was allocated are presented in the table below.

	Period of forecast, years	Pre-tax discount rate, %	Commodity	Average price of commodity per tonne in 2013	Recoverable amount of CGU, US$ million	Carrying amount of CGU, US$ million
EVRAZ Inc. NA	5	10.80-12.03	steel products	$901	3,916	2,157
EVRAZ Inc. NA Canada	5	11.32-11.76	steel products	$1,066	2,546	1,851
EVRAZ Palini e Bertoli	5	14.20	steel plates	€608	220	193
EVRAZ Vanady-Tula	5	13.26	vanadium products	$23,756	172	112
Vametco	5	13.73	ferrovanadium products	$24,246	105	43
EVRAZ Nikom, a.s.	5	12.44	ferrovanadium products	$22,733	170	42
EVRAZ Highveld Steel and Vanadium Limited	5	13.28	ferrovanadium products steel products	$23,928 $769	612	443

6. Impairment of Goodwill and Other Non-current Assets (continued)

In addition, the Group determined that there were indicators of impairment in other cash generating units and tested them for impairment using the following assumptions.

	Period of forecast, years	Pre-tax discount rate, %	Commodity	Average price of commodity per tonne in 2013
EVRAZ Dnepropetrovsk Iron and Steel Works	5	13.85	steel products	$619
EVRAZ Nizhny Tagil Iron & Steel Plant	5	13.26	steel products	$698
EVRAZ United West-Siberian Iron & Steel Plant	5	13.26	steel products	$536
EVRAZ Vitkovice Steel a.s.	5	11.03	steel products	$838
EVRAZ Caspian Steel	5	12	steel mill under construction	$601
EVRAZ Yuzhny Stan	5	12	steel mill under construction	$640
EVRAZ Bagleykoks	5	15.64	coke	$227
Strategic Minerals Corporation	5	13.24	ferrovanadium products	$37,234
Yuzhkuzbassugol	17	14.49	coal	$88
Mezhegeyugol	29	14	undeveloped coal field	$133
EVRAZ Kachkanarsky Mining-and-Processing Integrated Works	7	14.83	ore	$74
EVRAZ Sukha Balka	21	16.91	ore	$60
EVRAZ Vysokogorsky Mining-and-Processing Integrated Works	17	14.83	ore	$86
Evrazruda	5	14.83	ore	$93
EVRAZ Nakhodka Trade Seaport	5	13.26	port services	$12

The major drivers that led to impairment were the changes in expectations of long-term prices for iron ore and steel products and the increase in the forecasted costs.

6. Impairment of Goodwill and Other Non-current Assets (continued)

The calculations of value in use are most sensitive to the following assumptions:

Discount Rates

Discount rates reflect the current market assessment of the risks specific to each cash-generating unit. The discount rates have been determined using the Capital Asset Pricing Model and analysis of industry peers. Reasonably possible changes in discount rates could lead to an additional impairment at EVRAZ United West-Siberian Iron & Steel Plant, EVRAZ Dnepropetrovsk Iron and Steel Works, EVRAZ Sukha Balka, EVRAZ Palini e Bertoli and EVRAZ Inc. NA cash-generating units. If discount rates were 10% higher, this would lead to an additional impairment of $284 million.

Sales Prices

The prices of the products sold by the Group were estimated using industry research. The Group expects that the nominal prices will grow with a compound annual growth rate of 0%-6.5% in 2013 – 2017, 3.0% in 2018 and thereafter. Reasonably possible changes in sales prices could lead to an additional impairment at EVRAZ United West-Siberian Iron & Steel Plant, EVRAZ Dnepropetrovsk Iron and Steel Works, EVRAZ Sukha Balka and EVRAZ Inc. NA cash-generating units. If the prices assumed for 2013 and 2014 in the impairment test were 10% lower, this would lead to an additional impairment of $411 million.

Sales Volumes

Management assumed that the sales volumes of steel products would increase by 7% in 2013 and would grow evenly during the following four years to reach normal asset capacity utilisation thereafter. Reasonably possible changes in sales volumes could lead to an additional impairment at EVRAZ United West-Siberian Iron & Steel Plant, EVRAZ Dnepropetrovsk Iron and Steel Works, and EVRAZ Sukha Balka cash-generating units. If the sales volumes were 10% lower than those assumed for 2013 and 2014 in the impairment test, this would lead to an additional impairment of $119 million.

Cost Control Measures

The recoverable amounts of cash-generating units are based on the business plans approved by management. A reasonably possible deviation of cost from these plans could lead to an additional impairment at EVRAZ United West-Siberian Iron & Steel Plant, EVRAZ Dnepropetrovsk Iron and Steel Works, EVRAZ Bagleykoks, EVRAZ Sukha Balka, EVRAZ Palini e Bertoli and EVRAZ Inc. NA cash-generating units. If the actual costs were 10% higher than those assumed for 2013 and 2014 in the impairment test, this would lead to an additional impairment of $1,048 million.

The unit's recoverable amount would become equal to its carrying amount if the assumptions used to measure the recoverable amount changed as follows:

	Discount rates	**Sales prices**	**Sales volumes**	**Cost control measures**
EVRAZ United West-Siberian Iron & Steel Plant	0.09%	(0.05)%	(0.19)%	0.02%
EVRAZ Sukha Balka	3%	(3)%	(5)%	4%
EVRAZ Palini e Bertoli	6%	–	–	5%
EVRAZ Claymont Steel	2%	(6)%	–	3%
EVRAZ Bagleykoks	–	–	–	4%

6. Impairment of Goodwill and Other Non-current Assets (continued)

In addition to the impairment losses recognised as a result of the impairment testing at the level of cash-generating units, the Group made a write-off of certain functionally obsolete items of property, plant and equipment and recorded an impairment relating to the VAT with a long-term recovery.

The summary of impairment losses recognition and reversals is presented below.

Year ended 31 December 2012

US$ million	**Goodwill and intangible assets**	**Property, plant and equipment**	**Taxes receivable**	**Total**
Evrazruda	$ (1)	$ (355)	$ –	$ (356)
EVRAZ Dnepropetrovsk Iron and Steel Works	–	(47)	(4)	(51)
Others, net	–	(2)	(4)	(6)
	$ (1)	$ (404)	$ (8)	$ (413)

Year ended 31 December 2011

US$ million	**Goodwill and intangible assets**	**Property, plant and equipment**	**Taxes receivable**	**Total**
EVRAZ Dneprodzerzhinsky Coke-chemical Plant	$ –	$ (59)	$ (9)	$ (68)
Yuzhkuzbassugol	–	(31)	–	(31)
Others, net	9	(15)	–	(6)
	$ 9	$ (105)	$ (9)	$ (105)

Year ended 31 December 2010

US$ million	**Goodwill and intangible assets**	**Property, plant and equipment**	**Taxes receivable**	**Total**
Velcast	$ –	$ (38)	$ –	$ (38)
Evraz Highveld Steel and Vanadium Limited	–	(31)	–	(31)
Frotora Holdings Ltd. (Note 12)	(30)	–	–	(30)
Stratcor, Inc. (Note 5)	(16)	–	–	(16)
Yuzhkuzbassugol	–	(19)	–	(19)
Others, net	1	(21)	–	(20)
	$ (45)	$ (109)	$ –	$ (154)

7. Income and Expenses

Cost of revenues, selling and distribution costs, general and administrative expenses include the following for the years ended 31 December:

US$ million		2012		2011		2010
Cost of inventories recognised as expense	**$**	**(6,266)**	$	(7,106)	$	(5,241)
Staff costs, including social security taxes		**(2,404)**		(2,228)		(1,743)
Depreciation, depletion and amortisation		**(1,259)**		(1,153)		(925)

In 2012, 2011 and 2010, the Group made a net reversal of the allowance for net realisable value in the amount of $2 million, $14 million and $35 million, respectively.

Staff costs include the following:

US$ million		2012		2011		2010
Wages and salaries	**$**	**1,766**	$	1,662	$	1,347
Social security costs		**412**		404		257
Post-employment benefit expense		**83**		59		59
Share-based awards		**22**		23		2
Other compensations		**121**		80		78
	$	**2,404**	$	2,228	$	1,743

The average number of staff employed under contracts of service was as follows:

	2012	2011	2010
Steel production	**63,054**	63,414	61,858
Mining	**38,878**	37,490	38,336
Vanadium products	**1,240**	1,212	1,178
Other operations	**3,884**	3,583	3,855
Unallocated	**3,404**	3,362	3,279
	110,460	109,061	108,506

The major components of other operating expenses were as follows:

US$ million		2012		2011		2010
Idling, reduction and stoppage of production, including termination benefits	**$**	**(77)**	$	(40)	$	(45)
Restoration works and casualty compensations in connection with accidents		**(8)**		(4)		(17)
Site restoration provision accrued with respect to Kazankovskaya (Note 11)		**–**		(6)		–
Other		**(44)**		(46)		(48)
	$	**(129)**	$	(96)	$	(110)

7. Income and Expenses (continued)

Interest expense consisted of the following for the years ended 31 December:

US$ million	**2012**	2011	2010
Bank interest	**$ (103)**	$ (154)	$ (241)
Interest on bonds and notes	**(485)**	(495)	(423)
Finance charges payable under finance leases	**(3)**	(5)	(6)
Interest on liabilities relating to employee benefits and expected return on plan assets (Note 23)	**(28)**	(28)	(32)
Discount adjustment on provisions (Note 25)	**(19)**	(19)	(15)
Interest on contingent consideration	**(1)**	(1)	(1)
Other	**(6)**	(6)	(10)
	$ (645)	$ (708)	$ (728)

Interest income consisted of the following for the years ended 31 December:

US$ million	**2012**	2011	2010
Interest on bank accounts and deposits	**$ 13**	$ 6	$ 9
Interest on loans receivable	**6**	4	1
Interest on loans receivable from related parties	–	3	2
Interest on accounts receivable	–	–	1
Other	**4**	4	–
	$ 23	$ 17	$ 13

Gain/(loss) on financial assets and liabilities included the following for the years ended 31 December:

US$ million	**2012**	2011	2010
Impairment of available-for-sale financial assets (Note 13)	**$ –**	$ (20)	$ (2)
Loss on extinguishment of debts (Note 21)	**–**	(71)	–
Loss on conversion of bonds (Note 21)	**–**	(161)	–
Change in the fair value of derivatives (Note 26)	**177**	(110)	4
Other	**(13)**	7	6
	$ 164	$ (355)	$ 8

8. Income Taxes

The Group's income was subject to tax at the following tax rates:

	2012	2011	2010
Russia	**20.00%**	20.00%	20.00%
Canada	**25.54%**	26.50%	28.00%
Cyprus	**10.00%**	10.00%	10.00%
Czech Republic	**19.00%**	19.00%	19.00%
Italy	**31.40%**	31.40%	31.40%
South Africa	**28.00%**	28.00%	28.00%
Switzerland	**9.82%**	10.09%	10.09%
Ukraine	**21.00%**	23.00% and 25.00%	25.00%
USA	**38.20%**	37.95%	38.32%

In 2010, a new Tax Code was adopted in Ukraine, which introduced a gradual reduction in income tax rates from 25% in 2010 to 16% in 2014. In addition, in accordance with the new Tax Code the carrying values of property, plant and equipment per statutory books as of 1 April 2011 became a new tax base of these assets for income tax calculations. The Group's subsidiaries in Ukraine measured the respective deferred tax assets and liabilities at 31 December 2010 based on the new tax bases using the announced tax rates and a forecast of temporary differences reversal and realisation.

Major components of income tax expense for the years ended 31 December were as follows:

US$ million	2012	2011	2010
Current income tax expense	**$ (336)**	$ (537)	$ (415)
Adjustment in respect of income tax of previous years	**69**	129	(8)
Deferred income tax benefit/(expense) relating to origination and reversal of temporary differences	**38**	(12)	260
Income tax expense reported in the consolidated statement of operations	**$ (229)**	$ (420)	$ (163)

8. Income Taxes (continued)

The major part of income taxes is paid in the Russian Federation. A reconciliation of income tax expense applicable to profit before income tax using the Russian statutory tax rate to income tax expense as reported in the Group's consolidated financial statements for the years ended 31 December is as follows:

US$ million	**2012**	2011	2010
Profit/(loss) before income tax	**$ (106)**	$ 873	$ 633
At the Russian statutory income tax rate of 20%	**21**	(175)	(127)
Adjustment in respect of income tax of previous years	**69**	129	(8)
Deferred income tax expense arising on the adjustment to current income tax of prior periods and the change in tax base of underlying assets	**(53)**	(116)	–
Deferred income tax benefit resulting from reduction in tax rate	**–**	–	17
Deferred income tax benefit relating to changes in tax regulations other than tax rates	**–**	–	125
Effect of non-deductible expenses and other non-temporary differences	**(118)**	(282)	(261)
Unrecognised temporary differences recognition/reversal	**(165)**	(52)	5
Effect of the difference in tax rates in countries other than the Russian Federation	**31**	65	82
Tax on dividends distributed by the Group's subsidiaries to parent company	**(14)**	–	–
Share of profits in joint ventures and associates	**–**	11	4
Income tax expense reported in the consolidated statement of operations	**$ (229)**	$ (420)	$ (163)

8. Income Taxes (continued)

Deferred income tax assets and liabilities and their movements for the years ended 31 December were as follows:

Year ended 31 December 2012

US$ million	2012	Change recognised in statement of operations	Received from tax authorities	Change recognised in other comprehen-sive income	Change due to business combina tions	Change due to disposal of subsidiaries	Trasfer to disposal groups classifies as held for sale	Translation difference	2011
Deferred income tax liabilities:									
Valuation and depreciation of property, plant and equipment	$ 900	(64)	–	–	(1)	(13)	(72)	29	$ 1,021
Valuation and amortisation of intangible assets	153	(30)	–	–	–	–	(39)	1	221
Other	83	(9)	–	–	–	(4)	–	3	93
	1,136	(103)	–	–	(1)	(17)	(111)	33	1,335
Deferred income tax assets:									
Tax losses available for offset	101	(37)	–	–	–	–	(17)	4	151
Accrued liabilities	112	26	–	–	–	(12)	(28)	3	123
Impairment of accounts receivable	32	(2)	–	–	–	(1)	–	2	33
Other	30	(52)	–	–	–	–	(7)	2	87
	275	(65)	–	–	–	(13)	(52)	11	394
Net deferred income tax asset	66	(5)	–	–	–	–	(13)	5	79
Net deferred income tax liability	$ 927	(43)	–	–	(1)	(4)	(72)	27	$ 1,020

Year ended 31 December 2011

US$ million	2011	Change recognised in statement of operations	Received from tax authorities	Change recognised in other comprehen-sive income	Change due to business combina tions	Change due to disposal of subsidiaries	Trasfer to disposal groups classifies as held for sale	Translation difference	2010
Deferred income tax liabilities:									
Valuation and depreciation of property, plant and equipment	$ 1,021	(1)	–	–	–	–	–	(52)	$ 1,074
Valuation and amortisation of intangible assets	221	(38)	–	–	–	–	–	(15)	274
Other	93	11	–	–	–	–	–	(7)	89
	1,335	(28)	–	–	–	–	–	(74)	1,437
Deferred income tax assets:									
Tax losses available for offset	151	14	–	–	–	–	–	(13)	150
Accrued liabilities	123	(17)	–	–	–	–	–	(13)	153
Impairment of accounts receivable	33	3	–	–	–	–	–	(3)	33
Other	87	(40)	–	–	–	–	–	(2)	129
	394	(40)	–	–	–	–	–	(31)	465
Net deferred income tax asset	79	(17)	–	–	–	–	–	(4)	100
Net deferred income tax liability	$ 1,020	(5)	–	–	–	–	–	(47)	$ 1,072

8. Income Taxes (continued)

Year ended 31 December 2010

US$ million	2010	Change recognised in statement of operations	Received from tax authorities	Change recognised in other comprehen-sive income	Change due to business combina tions	Change due to disposal of subsidiaries	Trasfer to disposal groups classifies as held for sale	Translation difference	2009
Deferred income tax liabilities:									
Valuation and depreciation of property, plant and equipment	$ 1,074	(184)	–	(1)	5	(13)	–	10	$ 1,257
Valuation and amortisation of intangible assets	274	(38)	–	–	–	–	–	15	297
Other	89	(7)	–	–	–	–	–	4	92
	1,437	(229)	–	(1)	5	(13)	–	29	1,646
Deferred income tax assets:									
Tax losses available for offset	150	5	(74)	–	11	–	–	5	203
Accrued liabilities	153	23	–	–	–	–	–	2	128
Impairment of accounts receivable	33	6	–	–	5	–	–	–	22
Other	129	(3)	–	–	1	–	–	(1)	132
	465	31	(74)	–	17	–	–	6	485
Net deferred income tax asset	100	24	–	–	10	–	–	(4)	70
Net deferred income tax liability	$ 1,072	(236)	74	(1)	(2)	(13)	–	19	$ 1,231

As of 31 December 2012, 2011 and 2010, deferred income taxes in respect of undistributed earnings of the Group's subsidiaries have not been provided for, as management does not intend to distribute accumulated earnings in the foreseeable future. The current tax rate on intra-group dividend income varies from 0% to 10%. At 31 December 2012, the Group has not recognised a deferred tax liability and deferred tax asset in respect of temporary differences of $4,985 million and $8,975 million, respectively (2011: $5,686 million and $3,478 million, 2010: $5,764 million and $2,831 million, respectively). These differences are associated with investments in subsidiaries and were not recognised as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies, except for the companies registered in Cyprus and the United Kingdom where group relief can be applied. As of 31 December 2012, the unused tax losses carry forward approximated $3,398 million (2011: $3,481 million, 2010: $3,365 million). The Group recognised deferred tax asset of $101 million (2011: $151 million, 2010: $150 million) in respect of unused tax losses. Deferred tax asset in the amount of $728 million (2011: $694 million, 2010: $655 million) has not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Tax losses of $2,603 million (2011: $2,568 million, 2010: $2,555 million) for which deferred tax asset was not recognised arose in companies registered in Luxembourg, Cyprus, Russia and Ukraine. Losses in the amount of $2,414 million (2011: $2,479 million, 2010: $2,535 million) are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $189 million will expire during 2013–2022 (2011: $89 million, 2010: $20 million).

9. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of 31 December:

US$ million	**2012**	2011	2010
Cost:			
Land	**$ 181**	$ 187	$ 177
Buildings and constructions	**2,825**	2,594	2,536
Machinery and equipment	**5,894**	5,798	5,734
Transport and motor vehicles	**402**	508	483
Mining assets	**3,074**	2,631	2,656
Other assets	**51**	75	84
Assets under construction	**1,177**	1,027	702
	13,604	12,820	12,372
Accumulated depreciation, depletion and impairment losses:			
Buildings and constructions	**(1,218)**	(954)	(854)
Machinery and equipment	**(2,706)**	(2,358)	(2,046)
Transport and motor vehicles	**(225)**	(227)	(203)
Mining assets	**(1,628)**	(923)	(607)
Other assets	**(35)**	(52)	(55)
	(5,812)	(4,514)	(3,765)
	$ 7,792	$ 8,306	$ 8,607

The movement in property, plant and equipment for the year ended 31 December 2012 was as follows:

US$ million	**Land**	**Buildings and constructions**	**Machinery and equipment**	**Transport and motor vehicles**	**Mining assets**	**Other assets**	**Assets under construction**	**Total**
At 31 December 2011, cost, net of accumulated depreciation	**$ 187**	**$ 1,640**	**$ 3,440**	**$ 281**	**$ 1,708**	**$ 23**	**$ 1,027**	**$ 8,306**
Assets acquired in business combination	**3**	**7**	**14**	**–**	**–**	**–**	**–**	**24**
Additions	**–**	**2**	**4**	**8**	**35**	**1**	**1,269**	**1,319**
Assets put into operation	**1**	**210**	**590**	**59**	**254**	**4**	**(1,118)**	**–**
Disposals	**(1)**	**(12)**	**(43)**	**(3)**	**(3)**	**–**	**(5)**	**(67)**
Depreciation and depletion charge	**–**	**(152)**	**(534)**	**(42)**	**(467)**	**(7)**	**–**	**(1,202)**
Impairment losses recognised in statement of operations	**(3)**	**(96)**	**(81)**	**(15)**	**(199)**	**–**	**(28)**	**(422)**
Impairment losses reversed through statement of operations	**–**	**2**	**10**	**–**	**6**	**–**	**–**	**18**
Transfer to assets held for sale	**(10)**	**(72)**	**(318)**	**(125)**	**(16)**	**(5)**	**(21)**	**(567)**
Change in site restoration and decommissioning provision	**–**	**4**	**(3)**	**–**	**52**	**–**	**–**	**53**
Translation difference	**4**	**74**	**109**	**14**	**76**	**–**	**53**	**330**
At 31 December 2012, cost, net of accumulated depreciation	**$ 181**	**$ 1,607**	**$ 3,188**	**$ 177**	**$ 1,446**	**$ 16**	**$ 1,177**	**$ 7,792**

9. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended 31 December 2011 was as follows:

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At 31 December 2010, cost, net of accumulated depreciation	$ 177	$ 1,682	$ 3,688	$ 280	$ 2,049	$ 29	$ 702	$ 8,607
Reclassifications between categories	–	16	(25)	(1)	–	(5)	15	–
Additions	12	7	5	–	28	3	1,297	1,352
Assets put into operation	4	193	522	66	101	7	(893)	–
Disposals	–	(17)	(44)	(4)	(3)	(1)	(3)	(72)
Depreciation and depletion charge	–	(151)	(485)	(43)	(379)	(6)	–	(1,064)
Impairment losses recognised in statement of operations	–	(14)	(47)	(3)	(29)	–	(21)	(114)
Impairment losses reversed through statement of operations	–	6	3	–	–	–	1	10
Impairment losses recognised or reversed through other comprehensive income	–	–	(1)	–	–	–	–	(1)
Transfer to assets held for sale	–	(4)	–	–	–	–	(5)	(9)
Change in site restoration and decommissioning provision	–	(3)	4	–	16	–	–	17
Translation difference	(6)	(75)	(180)	(14)	(75)	(4)	(66)	(420)
At 31 December 2011, cost, net of accumulated depreciation	$ 187	$ 1,640	$ 3,440	$ 281	$ 1,708	$ 23	$ 1,027	$ 8,306

The movement in property, plant and equipment for the year ended 31 December 2010 was as follows:

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At 31 December 2009, cost, net of accumulated depreciation	$ 164	$ 1,745	$ 3,706	$ 272	$ 2,132	$ 27	$ 539	$ 8,585
Reclassifications between categories	–	1	(4)	1	3	(1)	–	–
Additions	–	2	4	6	25	–	840	877
Assets acquired in business combination	11	47	55	2	–	3	5	123
Assets put into operation	1	54	423	45	70	11	(604)	–
Disposals	(1)	(9)	(39)	(3)	(12)	(2)	(10)	(76)
Depreciation and depletion charge	–	(149)	(453)	(40)	(151)	(10)	–	(803)
Impairment losses recognised in statement of operations	–	(4)	(40)	–	(8)	–	(65)	(117)
Impairment losses reversed through statement of operations	–	3	8	–	1	–	3	15
Impairment losses recognised or reversed through other comprehensive income	–	(4)	(1)	–	(2)	–	–	(7)
Transfer to assets held for sale	–	(6)	(9)	–	(75)	–	–	(90)
Change in site restoration and decommissioning provision	–	2	–	–	71	–	–	73
Translation difference	2	–	38	(3)	(5)	1	(6)	27
At 31 December 2010, cost, net of accumulated depreciation	$ 177	$ 1,682	$ 3,688	$ 280	$ 2,049	$ 29	$ 702	$ 8,607

9. Property, Plant and Equipment (continued)

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $92 million, $287 million and $250 million as of 31 December 2012, 2011 and 2010, respectively.

On 1 April 2012, the Group updated its mining plans relating mostly to the extraction of coking coal reserves. Consequently, the depreciation and depletion charge in 2012 is lower by $276 million compared to the amount that would have been charged in accordance with the previous mining plans.

Impairment losses were identified in respect of certain items of property, plant and equipment that were recognised as functionally obsolete or as a result of the testing at the level of cash-generating units (Note 6).

The amount of borrowing costs capitalised during the year ended 31 December 2012 was $16 million (2011: $13 million, 2010: $5 million). In 2012, the rate used to determine the amount of borrowing costs eligible for capitalisation was 4.8% (2011: 4.6%, 2010: 6.3%), which is the effective interest rate of borrowings that were outstanding during the period, other than borrowings made specifically for the purpose of obtaining qualifying assets.

10. Intangible Assets Other Than Goodwill

Intangible assets consisted of the following as of 31 December:

US$ million	**2012**	2011	2010
Cost:			
Customer relationships	**$ 878**	$ 1,230	$ 1,353
Trade names and trademarks	**28**	31	31
Water rights and environmental permits	**57**	64	64
Patented and unpatented technology	**9**	9	10
Contract terms	**–**	16	11
Other	**63**	55	53
	1,035	1,405	1,522
Accumulated amortisation:			
Customer relationships	**(373)**	(480)	(441)
Trade names and trademarks	**(28)**	(31)	(25)
Water rights and environmental permits	**–**	(7)	(6)
Patented and unpatented technology	**(8)**	(8)	(8)
Contract terms	**–**	(4)	(3)
Other	**(40)**	(37)	(35)
	(449)	(567)	(518)
	$ 586	$ 838	$ 1,004

As of 31 December 2012, 2011 and 2010, water rights and environmental permits with a carrying value of $56 million had an indefinite useful life.

10. Intangible Assets Other Than Goodwill (continued)

The movement in intangible assets for the year ended 31 December 2012 was as follows:

US$ million	**Customer relation-ships**	**Trade names and trademarks**	**Water rights and environ-mental permits**	**Patented and unpatented technology**	**Contract terms**	**Other**	**Total**
At 31 December 2011, cost, net of accumulated amortisation	**$ 750**	**$ –**	**$ 57**	**$ 1**	**$ 12**	**$ 18**	**$ 838**
Assets acquired in business combination	**1**	**–**	**–**	**–**	**–**	**–**	**1**
Additions	**–**	**–**	**–**	**–**	**–**	**13**	**13**
Amortisation charge	**(99)**	**–**	**–**	**–**	**–**	**(4)**	**(103)**
Emission allowances granted	**–**	**–**	**–**	**–**	**–**	**4**	**4**
Emission allowances used/sold/purchased for the period	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Impairment loss recognised in statement of operations	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Transfer to assets held for sale	**(149)**	**–**	**–**	**–**	**(12)**	**–**	**(161)**
Translation difference	**2**	**–**	**–**	**–**	**–**	**–**	**2**
At 31 December 2012, cost, net of accumulated amortisation	**$ 505**	**$ –**	**$ 57**	**$ 1**	**$ –**	**$ 23**	**$ 586**

The movement in intangible assets for the year ended 31 December 2011 was as follows:

US$ million	**Customer relation-ships**	**Trade names and trademarks**	**Water rights and environ-mental permits**	**Patented and unpatented technology**	**Contract terms**	**Other**	**Total**
At 31 December 2010, cost, net of accumulated amortisation	$ 912	$ 6	$ 58	$ 2	$ 8	$ 18	$ 1,004
Additions	–	–	–	–	–	4	4
Amortisation charge	(111)	(6)	(1)	–	–	(5)	(123)
Emission allowances granted	–	–	–	–	–	7	7
Emission allowances used/sold/purchased for the period	–	–	–	–	–	(4)	(4)
Impairment loss recognised in statement of operations	–	–	–	–	–	(2)	(2)
Impairment losses reversed through statement of operations	6	–	–	–	5	–	11
Translation difference	(57)	–	–	(1)	(1)	–	(59)
At 31 December 2011, cost, net of accumulated amortisation	$ 750	$ –	$ 57	$ 1	$ 12	$ 18	$ 838

The movement in intangible assets for the year ended 31 December 2010 was as follows:

US$ million	**Customer relation-ships**	**Trade names and trademarks**	**Water rights and environ-mental permits**	**Patented and unpatented technology**	**Contract terms**	**Other**	**Total**
At 31 December 2009, cost, net of accumulated amortisation	$ 969	$ 12	$ 59	$ 3	$ 40	$ 15	$ 1,098
Additions	–	–	–	–	–	7	7
Amortisation charge	(113)	(6)	(1)	(2)	(1)	(4)	(127)
Emission allowances granted	–	–	–	–	–	6	6
Emission allowances used/sold/purchased for the period	–	–	–	–	–	(5)	(5)
Impairment loss recognised in statement of operations	–	–	–	–	(30)	–	(30)
Impairment losses reversed through statement of operations	1	–	–	–	–	–	1
Translation difference	55	–	–	1	(1)	(1)	54
At 31 December 2010, cost, net of accumulated amortisation	$ 912	$ 6	$ 58	$ 2	$ 8	$ 18	$ 1,004

11. Investments in Joint Ventures and Associates

The Group accounted for investments in joint ventures and associates under the equity method.

The movement in investments in joint ventures and associates was as follows:

US$ million	Corber	Streamcore	Kazankov-skaya	Other associates	Total
Investment at 31 December 2009	**$ 569**	**$ 44**	**$ –**	**$ 21**	**$ 634**
Share of profit/(loss)	95	–	–	1	96
Impairment of investments	–	(23)	–	(10)	(33)
Translation difference	(8)	–	–	(1)	(9)
Investment at 31 December 2010	**656**	**21**	**–**	**11**	**688**
Additional investments	–	–	3	9	12
Write-off of loan receivable	–	–	(3)	–	(3)
Share of profit/(loss)	50	–	–	1	51
Reversal of impairment of investments	–	4	–	–	4
Dividends paid	(52)	–	–	(2)	(54)
Translation difference	(33)	(1)	–	(1)	(35)
Investment at 31 December 2011	**$ 621**	**$ 24**	**$ –**	**$ 18**	**$ 663**
Additional investments	–	–	5	–	5
Write-off of loan receivable (Note 16)	–	–	(5)	–	(5)
Share of profit/(loss)	(11)	7	–	–	(4)
Reversal of impairment of investments	–	5	–	–	5
Dividends paid	(86)	(2)	–	–	(88)
Acquisition of non-controlling interests	(22)	–	–	–	(22)
Return of capital	(38)	–	–	–	(38)
Unrealised gains on financial assets	1	–	–	–	1
Translation difference	42	2	–	–	44
Investment at 31 December 2012	**$ 507**	**$ 36**	**$ –**	**$ 18**	**$ 561**

Share of profit/(loss) of joint ventures and associates which is reported in the statement of operations comprised the following:

US$ million	2012	2011	2010
Share of profit/(loss), net	**$ (4)**	$ 51	$ 96
Reversal of impairment/(impairment) of investments	**5**	4	(33)
Group's share in excess of net assets of ZAO Koksovaya transferred to Raspadskaya over consideration received (Note 12)	**–**	–	(42)
Share of profits/(losses) of joint ventures and associates recognised in the consolidated statement of operations	**$ 1**	$ 55	$ 21

11. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited

Corber Enterprises Limited ("Corber") is a joint venture established in 2004 for the purpose of exercising joint control over economic activities of Raspadskaya Mining Group. Corber is registered in Cyprus. The Group had a 50% share in the joint venture, i.e. at 31 December 2012 it effectively owned approximately 41% in JSC Raspadskaya (2011 and 2010: 40%).

The table below sets forth Corber's assets and liabilities as of 31 December:

US$ million	**2012**	2011	2010
Mineral reserves	**$ 742**	$ 733	$ 798
Other property, plant and equipment	**924**	901	920
Other non-current assets	**70**	54	27
Inventories	**111**	84	77
Accounts and notes receivable	**252**	198	275
Cash	**8**	180	165
Total assets	**2,107**	2,150	2,262
Non-current liabilities	**593**	38	338
Deferred income tax liabilities	**172**	174	188
Current liabilities	**106**	455	82
Total liabilities	**871**	667	608
Non-controlling interests	**227**	243	335
Net assets	**$ 1,009**	$ 1,240	$ 1,319
Group's share of net assets	**505**	620	659
Add: cost of guarantee	**2**	2	2
Less: unrealised profits in inventory balance	**–**	(1)	(5)
Investment	**$ 507**	$ 621	$ 656

The table below sets forth Corber's income and expenses:

US$ million	**2012**	2011	2010
Revenue	**$ 542**	$ 726	$ 706
Cost of revenue	**(460)**	(361)	(323)
Other expenses, including income taxes	**(112)**	(246)	(139)
Net profit/(loss)	**$ (30)**	$ 119	$ 244
Attributable to:			
Equity holders of the parent entity	**$ (23)**	$ 93	$ 194
Non-controlling interests	**(7)**	26	50
Net profit/(loss)	**$ (30)**	$ 119	$ 244
50% of unrealised profits on transactions with the joint venture	**1**	4	(2)
Group's share of profits/(losses) of the joint venture	**$ (11)**	$ 50	$ 95

11. Investments in Joint Ventures and Associates (continued)

Buyback of Shares by Raspadskaya

In 2012, Raspadskaya, a subsidiary of Corber, the Group's joint venture, made a buyback of 9.94% of its shares from shareholders. At the end of February 2012, Corber sold 48,351,712 shares back to Raspadskaya for $248 million. As a result of the buyback, Corber effectively acquired an additional 1.95% share in Raspadskaya and its ownership interest increased to 81.95%.

The Group's share in the excess of the amounts of consideration over the carrying values of non-controlling interests acquired amounting to $22 million was charged to accumulated profits of the Group.

Return of Capital

In September 2012, the Board of directors of Corber decided to reduce its additional paid-in capital by $76 million by the return of funds to its shareholders. The Group received $38 million in cash.

Acquisition of a Controlling Interest in Corber

In October 2012, EVRAZ plc concluded a preliminary agreement with Adrolive Investments Limited for an acquisition of a 50% ownership interest in Corber subject to the receipt of regulatory approvals and fulfillment of certain other conditions. On 16 January 2013, all the conditions were met and the Group obtained control over the entity. As a result, Corber became a wholly owned subsidiary of the Group in 2013.

Management believes that this acquisition will increase the Group's coking coal self-coverage and generate substantial operational synergies to the Group, including the optimal use of various coal grades.

The purchase consideration includes 132,653,006 shares of EVRAZ plc issued on 16 January 2013, warrants to subscribe for additional 33,944,928 EVRAZ plc shares exercisable at zero price in the period from 17 January to 17 April 2014 and a cash consideration of $202 million to be paid in equal quarterly installments through 15 January 2014. Fair value of the consideration transferred totalled to $964 million and was determined by reference to the market value of EVRAZ plc shares at the date of acquisition.

The fair value of the equity interest in the acquiree held by the Group immediately before the acquisition approximated $650 million. If this business combination had occurred as of the beginning of 2012, the revenue of the combined entity would have been $15,133 million.

In addition to the information disclosed in respect of this acquisition, IFRS 3 "Business Combinations" requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities and profit or loss of the combined entity as if this acquisition had occurred as of the beginning of the annual reporting period. It is impracticable to disclose this information because the Group has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations.

11. Investments in Joint Ventures and Associates (continued)

Kazankovskaya

ZAO Kazankovskaya ("Kazankovskaya") is a Russian coal mining company that was acquired as part of the purchase of Yuzhkuzbassugol in 2007. The Group owns 50% in Kazankovskaya.

The table below sets forth Kazankovskaya's assets and liabilities as of 31 December:

US$ million	**2012**	2011	2010
Mineral reserves	**$ –**	$ –	$ –
Other property, plant and equipment	**–**	–	–
Inventories	**–**	–	1
Accounts receivable	**–**	1	1
Other current assets	**2**	2	1
Total assets	**2**	3	3
Non-current liabilities	**9**	69	65
Deferred income tax liabilities	**–**	3	4
Current liabilities	**116**	25	24
Total liabilities	**125**	97	93
Net liabilities	**$ (123)**	$ (94)	$ (90)

The accumulated unrecognised losses in respect of Kazankovskaya amounted to:

US$ million	**2012**	2011	2010
Unrecognised losses	**$ (39)**	$ (27)	$ (21)

The table below sets forth Kazankovskaya's income and expenses:

US$ million	**2012**	2011	2010
Revenue	**$ –**	$ –	$ 14
Cost of revenue	**–**	(1)	(32)
Other expenses, including income taxes	**(23)**	(10)	(23)
Net loss	**(23)**	(11)	(41)
Group's share of loss of the associate	**$ (12)**	$ (6)	$ (21)

In January 2013, the Group acquired an additional 50% in Kazankovskaya from Magnitogorsk Steel Plant for a cash consideration of 167 US dollars. The primary reason for the business combination is a preparation for the subsequent sale of the mines.

11. Investments in Joint Ventures and Associates (continued)

Streamcore

The Group owns a 50% interest in Streamcore (Cyprus), a joint venture established for the purpose of exercising joint control over facilities for scrap procurement and processing in Siberia, Russia.

The table below sets forth Streamcore's assets and liabilities as of 31 December:

US$ million	**2012**	2011	2010
Property, plant and equipment	**$ 55**	$ 40	$ 31
Accounts receivable	**59**	11	17
Total assets	**114**	51	48
Deferred income tax liabilities	**3**	1	4
Current liabilities	**39**	1	1
Total liabilities	**42**	2	5
Net assets	**$ 72**	$ 49	$ 43
Group's share of net assets	**36**	24	21
Group's share in goodwill	**–**	–	–
Investment	**$ 36**	$ 24	$ 21

The table below sets forth Streamcore's income and expenses:

US$ million	**2012**	2011	2010
Revenue	**$ 504**	$ 9	$ 10
Cost of revenue	**(472)**	(6)	(9)
Other expenses, including income taxes	**(18)**	(3)	(1)
Net profit	**$ 14**	**$ –**	**$ –**
Group's share of profit of the joint venture	**$ 7**	**$ –**	**$ –**

12. Disposal Groups Held for Sale

The major classes of assets and liabilities of the disposal groups measured at the lower of carrying amount and fair value less costs to sell were as follows as of 31 December:

US$ million	**2012**	2011	2010
Property, plant and equipment	**$ 368**	$ 9	$ 2
Intangible assets	**149**	–	–
Goodwill	**18**	–	–
Other non-current assets	**35**	–	–
Accounts receivable	**290**	–	–
Cash and cash equivalents	**70**	–	–
Assets classified as held for sale	**930**	9	2
Deferred income tax liabilities	**75**	–	–
Non-current liabilities	**125**	–	–
Current liabilities	**278**	–	–
Liabilities directly associated with assets classified as held for sale	**478**	–	–
Non-controlling interests	**49**	–	–
Net assets classified as held for sale	**$ 403**	$ 9	$ 2

The net assets of disposal groups classified as held for sale at 31 December related to the following reportable segments:

US$ million	**2012**	2011	2010
Assets classified as held for sale	**$ 930**	$ 9	$ 2
Steel production	**843**	8	–
Mining	**16**	1	2
Vanadium products	**71**	–	–
Liabilities directly associated with assets classified as held for sale	**478**	–	–
Steel production	**429**	–	–
Mining	**41**	–	–
Vanadium products	**8**	–	–
Non-controlling interests	**49**	–	–
Steel production	**40**		
Vanadium products	**9**	–	–

At 31 December 2012, the disposal groups held for sale consisted mostly of the assets and liabilities of EVRAZ Vitkovice Steel and EVRAZ Highveld Steel and Vanadium Limited ("EHSVL"), which the Group plans to sell in 2013. The difference between the carrying value of the net assets of the subsidiaries and the expected consideration amounting to $83 million was recognised as a loss on disposal groups classified as held for sale.

12. Disposal Groups Held for Sale (continued)

The table below demonstrates the carrying values of assets and liabilities, at the dates of disposal, of the subsidiaries and other business units disposed of during 2010–2012.

US$ million	**2012**	**2011**	**2010**
Property, plant and equipment	**$ 130**	$ 1	$ 90
Other non-current assets	**13**	–	–
Inventory	**10**	–	–
Accounts receivable	**70**	–	22
Cash and cash equivalents	**2**	–	–
Total assets	**225**	1	112
Deferred income tax liabilities	**12**	–	13
Non-current liabilities	**7**	–	1
Current liabilities	**99**	–	–
Total liabilities	**118**	–	14
Non-controlling interests	**(2)**	–	–
Net assets	**$ 109**	$ 1	$ 98

The net assets of disposal groups sold in 2010–2012 related to the following reportable segments:

US$ million	**2012**	**2011**	**2010**
Assets classified as held for sale	**$ 225**	$ 1	$ 112
Steel production	**75**	–	–
Mining	**3**	1	112
Other operations	**147**	–	–
Liabilities directly associated with assets classified as held for sale	**118**	–	14
Steel production	**86**	–	–
Mining	**2**	–	14
Other operations	**30**	–	–
Non-controlling interests	**(2)**	–	–
Steel production	**(2)**	–	–

Cash flows on disposal of subsidiaries and other business units were as follows:

US$ million	**2012**	**2011**	**2010**
Net cash disposed of with subsidiaries	**$ (2)**	**$ –**	$ –
Cash received	**313**	**5**	42
Net cash inflow	**$ 311**	**$ 5**	$ 42

At 31 December 2010, the Group owed $5 million in respect of the disposed business units. In 2011, following the arbitration court's decision, these payables were written off and recorded as a gain on assets held for sale.

12. Disposal Groups Held for Sale (continued)

The disposal groups sold during 2010–2012 are described below.

Evraztrans

In December 2012, the Group sold to a third party a business of its wholly owned subsidiary Evraztrans, which renders long-distance railway transportation services using own and rented railcars. Cash consideration amounted to $306 million. The Group recognised a gain of $190 million on this transation.

Dneprodzerzhinsky Coke-chemical Plant

In August 2012, the Group sold to its parent a controlling interest in a loss-making coke-chemical plant located in Ukraine. Cash consideration amounted to $4. The Group recognised a $14 million gain on this sale.

Frotora Holdings Ltd.

In April 2012, the Group sold its ownership interest in a subsidiary whose assets comprised only rights under a long-term lease of land to be used for a construction of a commercial seaport in Ukraine. These rights were included in contract terms category of the intangible assets. In 2010, the Group recognised an impairment loss of $30 million in respect of these rights due to the change in plans for the use of this land. In 2012, the Group recognised a $6 million loss on sale of this subsidiary.

Sale of Koksovaya

In April 2010, the Group sold ZAO Koksovaya to Raspadskaya, a subsidiary of Corber, the Group's joint venture (Note 11). ZAO Koksovaya is an operating hard coking coal mine, which owns the licence for the Tomusinskaya 5-6 coal deposit. As part of the transaction, the parties entered into a long-term off-take contract under which Raspadskaya committed to supply to the Group certain volumes of coal or concentrate produced from coal extracted on the Tomusinskaya 5-6 deposit during 2010–2019.

The cash consideration amounted to $40 million. The loss from sale, net of the Group's share in gain on the transaction recognised by Raspadskaya (Note 11), amounted to $15 million and was included in loss on disposal groups classified as held for sale caption of the consolidated statement of operations.

Other Disposal Groups Held for Sale

Other disposal groups held for sale included a few small subsidiaries involved in non-core activities (construction business, trading activity and recreational services) and other non-current assets.

13. Other Non-current Assets

Non-current Financial Assets

US$ million		**2012**		2011		2010
Available-for-sale financial assets – investments in Delong Holdings Limited	**$**	**21**	$	17	$	37
Derivatives not designated as hedging instruments (Note 26)		**2**		–		5
Restricted deposits		**4**		15		9
Loans to related parties (Note 16)		**–**		–		46
Loans receivable		**12**		18		17
Trade and other receivables		**4**		3		3
Other		**49**		–		1
	$	**92**	$	53	$	118

Other Non-current Assets

US$ million		**2012**		2011		2010
Income tax receivable	**$**	**33**	$	26	$	24
Input VAT		**17**		11		11
Defined benefit plan asset (Note 23)		**39**		28		19
Fees for future purchases under a long-term contract		–		–		11
Prepayments for purchases of subsidiaries (Note 4)		–		20		–
Prepayment for purchases of associates and joint ventures		**–**		–		9
Other		**14**		22		29
	$	**103**	$	107	$	103

Available-for-Sale Financial Assets

At 31 December 2012, the Group holds 82,853,998 shares of Delong Holdings Limited ("Delong"), which is approximately 15% of the entity's share capital. Delong is a flat steel producer headquartered in Beijing (China).

The investments in Delong are measured at fair value based on market quotations. The change in the fair value of these shares is initially recorded in other comprehensive income.

In 2010, the Group recognised $6 million impairment loss on Delong shares, including $4 million through other comprehensive income and $2 million through the statement of operations within the gain/(loss) on financial assets and liabilities caption. In 2011, a $20 million loss relating to the decline in quotations of Delong shares was recognised in the statement of operations. In 2012, the Group recognised a $4 million gain on the increase in market quotations in other comprehensive income.

13. Other Non-current Assets (continued)

Impairment of Long-Term Taxes

In 2012, 2011 and 2010, the Group recognised an impairment relating to the VAT with a long-term recovery in the amount of $8 million, $9 million and $Nil, respectively. This loss was included in the impairment of assets caption of the consolidated statement of opertions.

14. Inventories

Inventories consisted of the following as of 31 December:

US$ million	**2012**	2011	2010
Raw materials and spare parts	**$ 959**	$ 975	$ 974
Work-in-progress	**397**	466	444
Finished goods	**622**	747	652
	$ 1,978	$ 2,188	$ 2,070

As of 31 December 2012, 2011 and 2010, the net realisable value allowance was $90 million, $90 million and $114 million, respectively.

As of 31 December 2012, 2011 and 2010, certain items of inventory with an approximate carrying amount of $319 million, $250 million and $203 million, respectively, were pledged to banks as collateral against loans provided to the Group (Note 21).

15. Trade and Other Receivables

Trade and other receivables consisted of the following as of 31 December:

US$ million	**2012**	2011	2010
Trade accounts receivable	**$ 939**	$ 1,002	$ 1,239
Other receivables	**32**	56	72
	971	1,058	1,311
Allowance for doubtful accounts	**(76)**	(87)	(98)
	$ 895	$ 971	$ 1,213

Ageing analysis and movement in allowance for doubtful accounts are provided in Note 29.

16. Related Party Disclosures

Related parties of the Group include associates and joint venture partners, key management personnel and other entities that are under the control or significant influence of the key management personnel, the Group's ultimate parent or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Amounts owed by/to related parties at 31 December were as follows:

	Amounts due from related parties			Amounts due to related parties		
US$ million	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Kazankovskaya	**$ 23**	$ 21	$ 21	**$ –**	$ –	$ 1
Lanebrook Limited	**–**	–	53	**–**	–	–
Raspadsky Ugol	**2**	2	2	**42**	39	32
Vtorresource-Pererabotka	**3**	–	–	**45**	–	–
Yuzhny GOK	**4**	5	19	**163**	46	178
Other entities	**14**	9	9	**7**	13	6
	46	37	104	**257**	98	217
Less: allowance for doubtful accounts	**(34)**	(29)	(24)	**–**	–	–
	$ 12	$ 8	$ 80	**$ 257**	$ 98	$ 217

In 2012, 2011 and 2010, the Group recognised an expense for bad and doubtful debts of related parties in the amount of $4 million, $7 million and $15 million, respectively.

Transactions with related parties were as follows for the years ended 31 December:

	Sales to related parties			Purchases from related parties		
US$ million	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Interlock Security Services	**$ 1**	$ 1	$ 1	**$ 48**	$ 43	$ 37
Kazankovskaya	**1**	1	6	**1**	5	14
Raspadsky Ugol	**8**	8	11	**127**	207	192
Vtorresource-Pererabotka	**14**	–	–	**485**	–	–
Yuzhny GOK	**66**	42	20	**124**	165	67
Other entities	**9**	8	8	**31**	27	20
	$ 99	$ 60	$ 46	**$ 816**	$ 447	$ 330

In addition to the disclosures presented in this note, some of the balances and transactions with related parties are disclosed in Notes 11 and 13.

Interlock Security Services is a group of entities controlled by a member of the key management personnel, which provide security services to the Russian subsidiaries of the Group.

16. Related Party Disclosures (continued)

Kazankovskaya is an associate of the Group (Note 11). The Group purchased coal from the entity and sold mining equipment and inventory to Kazankovskaya. In 2012 and 2011, the Group issued short-term loans to Kazankovskaya bearing an interest rate ranging from 8.1% to 8.5% per annum. At the reporting dates, the Group assessed the recoverability of these loans and recognised a loss, which was included in the other non-operating expenses caption of the consolidated statement of operations (2012: $5 million, 2011: $3 million).

Lanebrook Limited is a controlling shareholder of the Company. At 31 December 2010, the amounts receivable from Lanebrook Limited included overpayments for the acquired working capital of the Ukrainian subsidiaries and a $46 million loan. The loan bore interest of 7.85% per annum and was due for repayment on 22 June 2012. At 31 December 2010, the loan was included in other non-current assets. In 2011, Lanebrook early settled the loan and fully repaid its debts relating to the acquisition of the Ukrainian businesses.

In addition, in 2008 the Group acquired from Lanebrook a 1% ownership interest in Yuzhny GOK for a cash consideration of $38 million (Note 18). As part of the transaction, the Group signed a put option agreement that gives the Group the right to sell these shares back to Lanebrook Limited for the same amount. The put option expires on 31 December 2013.

In 2012, the Group sold one of its subsidiaries to Lanebrook (Note 12).

OOO Raspadsky Ugol ("Raspadsky Ugol"), a subsidiary of the Group's joint venture Corber (Note 11), sells coal to the Group. Raspadsky Ugol represents approximately 12% of the Group's coal consumption. The coal was sold at prevailing market prices at the dates of transactions. The Group sells steel products and renders services to Raspadsky Ugol.

Vtorresource-Pererabotka is a new subsidiary of Streamcore, the Group's joint venture, acquired in February 2012. It sells scrap metal to the Group and provides scrap processing and other services. In 2012, the purchases of scrap metal from Vtorresource-Pererabotka amounted to $399 million (1,366,423 tonnes).

Yuzhny GOK, an ore mining and processing plant, is an associate of Lanebrook Limited. The Group sold steel products to Yuzhny GOK and purchased sinter from the entity. In 2012, the volume of purchases achieved 1,432,473 tonnes.

In addition to the purchase transactions disclosed above, in July 2011 the Group acquired an office building for its administrative staff in Moscow from OOO Zapadnye Vorota, an entity under the control of the ultimate principal shareholders of the Group. The cash consideration (including VAT) amounted to $102 million.

The transactions with related parties were based on market terms.

16. Related Party Disclosures (continued)

Compensation to Key Management Personnel

Key management personnel include the following positions within the Group:

- directors of the Company,
- vice presidents,
- top managers of major subsidiaries.

In 2010–2012, key management personnel totalled 55 people. Total compensation to key management personnel were included in general and administrative expenses in the consolidated statement of operations and consisted of the following:

US$ million	**2012**	**2011**	**2010**
Salary	**$ 21**	$ 20	$ 21
Performance bonuses	**14**	12	14
Social security taxes	**3**	1	1
Share-based payments (Note 24)	**10**	13	1
Termination benefits	**–**	3	4
Other benefits	**1**	1	3
	$ 49	$ 50	$ 44

Other disclosures on directors' remuneration required by the Companies Act 2006 and those specified for audit by the Directors' Remuneration Report Regulations 2002 are included in the Directors' Remuneration Report.

17. Other Taxes Recoverable

Taxes recoverable consisted of the following as of 31 December:

US$ million	**2012**	**2011**	**2010**
Input VAT	**$ 206**	$ 287	$ 241
Other taxes	**123**	125	112
	$ 329	$ 412	$ 353

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

18. Other Current Financial Assets

Other current assets included the following as of 31 December:

US$ million	**2012**	2011	2010
Investments in Yuzhny GOK (Note 16)	**$ 38**	$ 38	$ 38
Bank deposits	**674**	2	1
Restricted deposits at banks	**–**	7	13
Collateral under swap agreements (Note 26)	**–**	10	–
	$ 712	$ 57	$ 52

19. Cash and Cash Equivalents

Cash and cash equivalents, mainly consisting of cash at banks, were denominated in the following currencies as of 31 December:

US$ million	**2012**	2011	2010
US dollar	**$ 855**	$ 314	$ 306
Russian rouble	**347**	262	200
Canadian dollar	**80**	21	69
Euro	**17**	89	46
South African rand	**10**	80	49
Ukrainian hryvnia	**9**	25	10
Czech koruna	**–**	6	1
Other	**2**	4	2
	$ 1,320	$ 801	$ 683

20. Equity

Share Capital

Prior to the reorganisation on 7 November 2011, in which substantially all shares of Evraz Group S.A. were converted into shares of EVRAZ plc, the share capital of the Group comprised the share capital of Evraz Group S.A.

Share Capital of Evraz Group S.A. before Reorganisation

Number of shares	**7 November 2011**	**31 December 2010**
Ordinary shares of €2 each, issued and fully paid	156,214,373	145,957,121

The issued and fully paid share capital of Evraz Group S.A. included 7,333,333 shares which were issued at zero consideration in 2009.

Conversion of Bonds into Shares

In July and August 2011, Evraz Group S.A. issued 30,771,756 GDRs representing 10,257,252 ordinary shares to bondholders which had accepted the offer to convert 7.25% convertible bonds due 2014 (Note 21).

20. Equity (continued)

Share Capital (continued)

Share Capital of EVRAZ plc

Number of shares	31 December 2012	31 December 2011
Ordinary shares of $1 each, issued and fully paid	**1,339,929,360**	**1,337,560,713**

On 17 October 2011, following the decision of the Board of directors, Evraz Group S.A. commenced the Group's reorganisation and re-domiciliation to the United Kingdom. This was implemented by means of the share exchange offer made by the Company to the shareholders of Evraz Group S.A. which were entitlied to receive 9 shares of EVRAZ plc for each share of Evraz Group S.A.

The first share exchange was performed on 7 November 2011: EVRAZ plc issued 1,313,258,883 ordinary shares with par value of $2 each and exchanged them for approximately 98.01% interest in Evraz Group S.A. The new shares were admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities.

On 24 November 2011, the par value of the shares was reduced to $1, and $1,313 million representing distributable reserves were transferred to accumulated profits. All subsequent shares were issued with par value of $1 each. The exchange offer was finally closed on 7 February 2012.

Information about the share exchange is summarised below.

Date of exchange	Number of shares issued by EVRAZ plc	Number of shares of Evraz Group S.A. exchanged	Ownership interest exchanged
7 November 2011	1,313,258,883	145,917,653.67	98.01%
28 November 2011	23,212,353	2,579,150.33	1.73%
16 December 2011	1,089,477	121,053.00	0.08%
Total at 31 December 2011	**1,337,560,713**	**148,617,857.00**	**99.82%**
30 January 2012	839,388	93,265.33	0.06%
8 February 2012	659,790	73,310.00	0.05%
Total at closing of the offer	**1,339,059,891**	**148,784,432.33**	**99.93%**

Upon the closure of the offer, the admission of the global depository receipts of Evraz Group S.A. to trading on the London Stock Exchange has been cancelled.

At 31 December 2011, there were shareholders which did not accept the share exchange offer. Accordingly, the Group recognised non-controlling interests of $11 million representing these shareholders. On 17 February 2012, the Group purchased the remaining GDRs, representing 96,607.67 shares of Evraz Group S.A., for $4 million and exchanged them for 869,469 newly issued shares of EVRAZ plc. Since that date Evraz Group S.A. became a wholly-owned subsidiary of EVRAZ plc.

20. Equity (continued)

Treasury Shares

	31 December		
	2012	**2011**	**2010**
Parent entity	EVRAZ plc	EVRAZ plc	Evraz Group S.A.
Number of treasury shares	**146,731**	775,410	7,333,333

In 2012, the Group purchased 869,469 shares of EVRAZ plc for $4 million and transferred 1,498,148 shares to participants of the Incentive Plan. The cost of treasury shares gifted under Incentive Plans, amounting to $11 million, was charged to accumulated profits.

In 2011, the Group purchased 235,878 shares of Evraz Group S.A. for $22 million, sold 34,332 shares for $3 million and transferred 115,389 shares to participants of the Incentive Plan (Note 24). The outstanding balance of the treasury shares has been exchanged into the shares of EVRAZ plc during the reorganisation described above. The cost of treasury shares gifted under an Incentive Plan, amounting to $11 million, was charged to accumulated profits.

Earnings per Share

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the potential dilutive ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2012	**2011**	**2010**
Weighted average number of ordinary shares for basic earnings per share	**1,339,027,567**	1,293,795,125	1,247,614,092
Effect of dilution: share-based awards	–	2,689,622	134,937
Weighted average number of ordinary shares adjusted for the effect of dilution	**1,339,027,567**	1,296,484,747	1,247,749,029
Profit/(loss) for the year attributable to equity holders of the parent, US$ million	**$ (308)**	$ 461	$ 486
Basic earnings/(losses) per share	**$ (0.23)**	$ 0.36	$ 0.39
Diluted earnings/(losses) per share	**$ (0.23)**	$ 0.36	$ 0.39

In 2010, the weighted average number of ordinary shares for basic earnings per share does not include 7,333,333 shares of Evraz Group S.A. issued in 2009 to Lanebrook in exchange for the right to receive 7,333,333 shares lent under the shares lending transactions. These transactions had no impact on equity, as the Group's net assets did not change as a result of these transactions.

20. Equity (continued)

Earnings per Share (continued)

In 2011 and 2010, share-based awards (Note 24) had a dilutive effect. In 2012, the Group reported net loss. Consequently, they were antidilutive. In 2010, the convertible bonds were antidilutive as the interest (net of tax) per ordinary share obtainable on conversion exceeded basic earnings per share.

In 2011, the weighted average number of ordinary shares outstanding from 1 January 2011 to the date of the first share exchange ("the reorganisation date") was computed on the basis of the weighted average number of ordinary shares of Evraz Group S.A. outstanding during the period multiplied by the share exchange ratio. The number of ordinary shares outstanding from the reorganisation date to the end of 2011 was the actual number of ordinary shares of EVRAZ plc outstanding during that period. The weighted average number of ordinary shares outstanding and earnings per share for 2010 were recalculated using the share exchange ratio.

In 2013, in connection with the purchase of a controlling interest in Corber (Note 11), EVRAZ plc issued 132,653,006 shares and warrants to subscribe for an additional 33,944,928 shares exercisable at zero price. The number of the additionally issued shares is adjusted for dividends that could be declared during the period from the date of issue of the warrants till the date of their exercise.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

Dividends

Dividends declared by the parent company during 2010–2012 were as follows:

	Date of declaration	To holders registered at	Dividends declared, US$ million	US$ per share
Declared by Evraz Group S.A.				
Interim for 2011	10/10/2011	28/10/2011	491	3.30
Declared by EVRAZ plc				
Final for 2011	18/06/2012	08/06/2012	228	0.17
Interim for 2012	29/08/2012	07/09/2012	147	0.11

In 2011, prior to the Group's reorganisation, Evraz Group S.A. declared interim dividends of $3.30 per share, including special dividends of $2.70 per share. In the consolidated financial statements of the Group for 2011 these dividends were charged against accumulated profits. At a meeting held on 15 May 2012, the shareholders of Evraz Group S.A. approved the distribution of those dividends from share premium of Evraz Group S.A. Consequently, in 2012, the Group decreased its additional paid-in capital and increased accumulated profits by $491 million.

The shareholders' meeting held on 16 May 2011 resolved not to declare dividends for 2010.

In addition, certain subsidiaries of the Group declared dividends. The share of non-controlling shareholders in those dividends was $1 million in 2012, 2011 and 2010.

20. Equity (continued)

Legal Reserve

According to the Luxembourg Law, Evraz Group S.A. is required to create a legal reserve of 10% of share capital per the Luxembourg statutory accounts by annual appropriations which should be at least 5% of the annual net profit per statutory financial statements. The legal reserve can be used only in case of a bankruptcy.

Other Movements in Equity

Acquisitions of Non-controlling Interests in Subsidiaries

In 2012, 2011 and 2010, the Group acquired non-controlling interests in certain subsidiaries (Note 4). The excess of consideration over the carrying value of non-controlling interests amounting to $30 million, $18 million and $3 million, respectively, was charged to accumulated profits and the excess of acquired non-controlling interests over the consideration amounting to $Nil, $Nil and $1 million, respectively, was recorded as additional paid-in capital.

In 2012, as a result of the completion of the Group's reorganisation, in which the remaining global depository receipts of Evraz Group S.A. were converted into the newly issued shares of EVRAZ plc, a 0.18% non-controlling interest in Evraz Group S.A. was derecognised (Note 4). This increased the shareholders' equity by $6 million.

Non-controlling Interests in Subsidiaries

In 2011, the Group sold a 49.98% share in the Mezhegey coal field project to a third party for a non-cash consideration of $34 million, which approximated the carrying value of a non-controlling interest arose on the transaction. In June 2012, the Group acquired an additional 9.996% ownership interest and its share in the project increased to approximately 60.016% (Note 4). During 2012 the non-controlling shareholder contributed $7 million to the Mezhegey coal field project.

In 2010, the non-controlling shareholder's right to put a 49% share in Frotora Holdings Ltd. ("Frotora") to the Group at fair value of the ownership interest become exercisable. The Group derecognised a 49% ownership interest in Frotora amounting to $6 million and accrued a liability for the same amount. In 2012, the Group sold Frotora to a third party (Note 12).

21. Loans and Borrowings

As of 31 December 2012, 2011 and 2010, total interest-bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $527 million, $339 million and $381 million, respectively, and long-term loans and borrowings in the amount of $7,652 million, $6,919 million and $7,636 million, respectively, including the current portion of long-term liabilities of $1,164 million, $193 million and $244 million, respectively.

Some of the loan agreements and terms and conditions of notes provide for certain covenants in respect of Evraz Group S.A. and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

21. Loans and Borrowings (continued)

Short-term and long-term loans and borrowings were as follows as of 31 December:

US$ million	2012	2011	2010
Bank loans	**$ 2,562**	$ 2,613	$ 3,472
European commercial papers	**242**	–	–
8.875 per cent notes due 2013	**534**	534	1,156
7.25 per cent convertible bonds due 2014 (Note 20)	–	–	650
8.25 per cent notes due 2015	**577**	577	577
7.40 per cent notes due 2017	**600**	–	–
9.5 per cent notes due 2018	**509**	509	509
6.75 per cent notes due 2018	**850**	850	–
13.5 per cent bonds due 2014	**658**	621	656
9.25 per cent bonds due 2013	**494**	466	492
9.95 per cent bonds due 2015	**494**	466	492
8.40 per cent bonds due 2016	**658**	621	–
Liabilities under bonds assumed in business combination	**1**	1	13
Unamortised debt issue costs	**(116)**	(133)	(192)
Difference between the nominal amount and liability component of convertible bonds (Note 20)	–	–	(104)
Interest payable	**93**	81	90
	$ 8,156	$ 7,206	$ 7,811

The average effective annual interest rates were as follows at 31 December:

	Long-term borrowings			Short-term borrowings		
	2012	2011	2010	2012	2011	2010
US dollar	**7.13%**	6.96%	8.01%	**3.00%**	2.89%	3.06%
Russian rouble	**10.51%**	10.37%	11.17%	**11.52%**	10.83%	12.50%
Euro	**3.93%**	4.66%	5.05%	**2.75%**	3.64%	1.48%
Canadian dollar	**3.85%**	–	–	**–**	–	–
Czech koruna	**–**	–	–	–	3.38%	–

The liabilities are denominated in the following currencies at 31 December:

US$ million	2012	2011	2010
US dollar	**$ 5,434**	$ 4,790	$ 6,079
Russian rouble	**2,349**	2,215	1,699
Euro	**381**	328	322
Canadian dollar	**108**	–	–
Czech koruna	**–**	6	7
Unamortised debt issue costs	**(116)**	(133)	(192)
Difference between the nominal amount and liability component of convertible bonds (Note 20)	–	–	(104)
	$ 8,156	$ 7,206	$ 7,811

21. Loans and Borrowings (continued)

Pledged Assets

The Group pledged its rights under some export contracts as collateral under the loan agreements. All proceeds from sales of steel pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

At 31 December 2012, 2011 and 2010, the Group had inventory with a carrying value of $319 million, $250 million and $203 million, respectively, pledged as collateral under the loan agreements.

Issue of Notes and Bonds

In April 2012, the Group issued notes in the amount of $600 million due in 2017. The notes bear semi-annual coupon at the annual rate of 7.40% and must be redeemed at their principal amount on 24 April 2017. The proceeds from the issue of the notes were used for the repayment of certain bank loans.

In December 2012, the Group issued European commercial papers in the amount of $80 million and $170 million bearing an interest rate of 3.50% and 3.75%, respectively, and maturing on 6 September 2013 and 4 December 2013, respectively.

In 2011, the Group issued notes for the amount of $850 million due in 2018. The notes bear semi-annual coupon at the annual rate of 6.75% and must be redeemed at their principal amount on 27 April 2018. The proceeds from the issue of the notes were used for the partial repurchase of 8.875% notes due 2013 and repayment of certain bank loans.

In 2009, the Group issued convertible bonds in the amount of $650 million, which bore interest of 7.25% per annum with maturity on 13 July 2014 (Note 20). These bonds were converted into shares in 2011 (Note 20).

In 2009, the Group issued bonds in the total amount of 20,000 million Russian roubles, which bear interest of 13.50% per annum and mature on 16 October 2014. In 2010, the Group issued bonds in the amount of 15,000 million Russian roubles bearing interest of 9.25% per annum with maturity on 22 March 2013 (Note 33), and bonds amounting to 15,000 million Russian roubles bearing interest of 9.95% per annum with maturity on 26 October 2015. In 2011, the Group issued bonds in the total amount of 20,000 million Russian roubles, which bear interest of 8.40% per annum and mature on 2 June 2016. The currency and interest rate risk exposures of these transactions were partially economically hedged (Note 26).

21. Loans and Borrowings (continued)

Repurchase of Notes and Bonds

In 2011, the Group repurchased $622 million of 8.875% notes due 2013 for a cash consideration of $693 million. As a result, the Group recognised a loss on extinguishment of debts in the amount of $71 million within gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations for the year ended 31 December 2011 (Note 7).

On 22 June 2011, Evraz Group S.A. made an incentive offer to the holders of 7.25% convertible bonds due 2014 to convert these bonds into GDRs at $21.12 per GDR. In addition, the holders were offered an incentive payment ("conversion premium") of $24,443.89 per bond with the principal amount of $100,000 each. The bondholders owning 6,478 bonds accepted the incentivised conversion. In July and August 2011, Evraz Group S.A. additionally converted 21 bonds and settled 1 bond by cash. The conversion premium paid by Evraz Group S.A. in the amount of $158 million together with $3 million of transaction costs were recognised as a loss (Note 7). Evraz Group S.A. issued 30,771,756 GDRs representing 10,257,252 ordinary shares. As such, the carrying amount of liability amounting to $553 million was reclassified into equity.

Covenants Reset

In 2012, the lenders under certain bank facilities and the holders of the 8.25% guaranteed notes due 2015 approved the requested amendments to the loan agreements and notes removing certain financial restrictions. The Group incurred $7 million with respect to this covenants reset.

In 2010, the Group paid the remaining $29 million of consent fees and legal fees in connection with the covenants reset, which was performed in 2009.

Unamortised Debt Issue Costs

Unamortised debt issue costs represent agent commission and transaction costs paid by the Group in relation to the arrangement and reset of loans and notes.

Unutilised Borrowing Facilities

The Group had the following unutilised borrowing facilities as of 31 December:

US$ million	**2012**	**2011**	**2010**
Unutilised borrowing facilities	**$ 1,146**	$ 1,322	$ 1,010

Loans of Disposal Groups Classified as Held for Sale

At 31 December 2012, the loans relating to the subsidiaries classified as held for sale (Note 12) amounted to $79 million, including $77 million of short-term liabilities. They were included in liabilities directly associated with the assets held for disposal.

22. Finance Lease Liabilities

The Group has several lease agreements under which it has an option to acquire the leased assets at the end of lease terms ranging from 1 to 21 years. The estimated remaining useful life of leased assets varies from 1 to 29 years. The leases were accounted for as finance leases in the consolidated financial statements. The carrying value of the leased assets was as follows as at 31 December:

US$ million	**2012**	**2011**	**2010**
Buildings and constructions	**$ 2**	$ 2	$ 1
Machinery and equipment	**15**	22	22
Transport and motor vehicles	**–**	83	93
Assets under construction	**–**	–	10
	$ 17	$ 107	$ 126

The leased assets are included in property, plant and equipment in the consolidated statement of financial position (Note 9).

Future minimum lease payments were as follows at 31 December:

US$ million	**2012**		**2011**		**2010**	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Not later than one year	**$ 3**	**$ 2**	$ 16	$ 13	$ 25	$ 19
Later than one year and not later than five years	**12**	**9**	29	24	41	33
Later than five years	**3**	**2**	3	2	5	5
	18	**13**	48	39	71	57
Less: amounts representing finance charges	**(5)**	**–**	(9)	–	(14)	–
	$ 13	**$ 13**	$ 39	$ 39	$ 57	$ 57

In the years ended 31 December 2012, 2011 and 2010, the average interest rates under the finance lease liabilities were 9.6%, 9.8% and 9.9%.

23. Employee Benefits

Russian Plans

Certain Russian subsidiaries of the Group provide regular lifetime pension payments and lump-sum amounts payable at retirement date. These benefits generally depend on years of service, level of remuneration and amount of pension payment under the collective bargaining agreements. Other post-employment benefits consist of various compensations and certain non-cash benefits. The Group funds the benefits when the amounts of benefits fall due for payment.

In addition, some subsidiaries have defined benefit plans under which contributions are made to a separately administered non-state pension fund. The Group matches 100% of the employees' contributions to the fund up to 4% of their monthly salary. The Group's contributions become payable at the participants' retirement dates.

23. Employee Benefits (continued)

Russian Plans (continued)

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

Ukrainian Plans

The Ukrainian subsidiaries make regular contributions to the State Pension Fund thereby compensating preferential pensions paid by the fund to employees who worked under harmful and hard conditions. The amount of such pension depends on years of service and salary.

In 2010 and 2011, these preferential pensions were partially funded by the State Pension Fund. The Ukrainian subsidiaries gradually increased these contributions and starting from 2012 they pay 100% of preferential pensions. In addition, employees receive lump-sum payments on retirement and other benefits under collective labour agreements. These benefits are based on years of service and level of compensation. All these payments are considered as defined benefit plans.

US and Canadian Plans

The Group's subsidiaries in the USA and Canada have defined benefit pension plans that cover specified eligible employees. Benefits are based on pensionable years of service, pensionable compensation, or a combination of both depending on the individual plan. Certain employees that were hired after specified dates are no longer eligible to participate in the defined benefit plans. Those employees are instead enrolled in defined contribution plans and receive a contribution funded by the Group's subsidiaries equal to 2–7% of annual wages, including applicable bonuses. The defined contribution plans are funded annually, and participants' benefits vest after three years of service. The subsidiaries also offer qualified Thrift (401(k)) plans to all of their eligible employees.

Other Plans

Defined benefit pension plans and defined contribution plans are maintained by the subsidiaries located in South Africa, Italy and the Czech Republic.

Defined Contribution Plans

The Group's expenses under defined contribution plans were as follows:

US$ million	**2012**	**2011**	**2010**
Expense under defined contribution plans	**$ 412**	$ 404	$ 257

Defined Benefit Plans

The Russian, Ukrainian and other defined benefit plans are mostly unfunded and the US and Canadian plans are partially funded.

23. Employee Benefits (continued)

The components of net benefit expense recognised in the consolidated statement of operations for the years ended 31 December 2012, 2011 and 2010 and amounts recognised in the consolidated statement of financial position as of 31 December 2012, 2011 and 2010 for the defined benefit plans were as follows:

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

Year ended 31 December 2012

US$ million	**Russian plans**	**Ukrainian plans**	**US & Canadian plans**	**Other plans**	**Total**
Current service cost	**$ (6)**	**$ (3)**	**$ (20)**	**$ –**	**$ (29)**
Interest cost on benefit obligation	**(17)**	**(8)**	**(33)**	**(2)**	**(60)**
Expected return on plan assets	**–**	**–**	**32**	**–**	**32**
Net actuarial gains/(losses) recognised in the year	**(9)**	**(1)**	**(12)**	**–**	**(22)**
Past service cost	**(3)**	**–**	**(1)**	**–**	**(4)**
Net benefit expense	**$ (35)**	**$ (12)**	**$ (34)**	**$ (2)**	**$ (83)**

Year ended 31 December 2011

US$ million	**Russian plans**	**Ukrainian plans**	**US & Canadian plans**	**Other plans**	**Total**
Current service cost	$ (7)	$ (5)	$ (17)	$ –	$ (29)
Interest cost on benefit obligation	(16)	(9)	(33)	(2)	(60)
Expected return on plan assets	–	–	32	–	32
Net actuarial gains/(losses) recognised in the year	(9)	–	(5)	–	(14)
Past service cost	1	12	(1)	–	12
Net benefit expense	$ (31)	$ (2)	$ (24)	$ (2)	$ (59)

Year ended 31 December 2010

US$ million	**Russian plans**	**Ukrainian plans**	**US & Canadian plans**	**Other plans**	**Total**
Current service cost	$ (5)	$ (5)	$ (14)	$ (1)	$ (25)
Interest cost on benefit obligation	(16)	(8)	(34)	(2)	(60)
Expected return on plan assets	–	–	28	–	28
Net actuarial gains/(losses) recognised in the year	(3)	–	(4)	–	(7)
Past service cost	6	(2)	1	–	5
Minimum funding requirements	–	–	1	–	1
Curtailment gain/(loss)	–	–	(1)	–	(1)
Net benefit expense	$ (18)	$ (15)	$ (23)	$ (3)	$ (59)

23. Employee Benefits (continued)

Actual return on plan assets was as follows:

US$ million	**2012**	2011	2010
Actual return on plan assets including:	**$ 50**	$ 1	$ 44
US & Canadian plans	**50**	1	44

Benefit liability

31 December 2012

US$ million	**Russian Plans**	**Ukrainian plans**	**US & Canadian plans**	**Other plans**	**Total**
Benefit obligation	**$ 251**	**$ 68**	**$ 793**	**$ 3**	**$ 1,115**
Plan assets	**(1)**	**–**	**(537)**	**–**	**(538)**
	250	**68**	**256**	**3**	**577**
Unrecognised net actuarial gains/(losses)	**(88)**	**(12)**	**(232)**	**–**	**(332)**
Unrecognised past service cost	**9**	**1**	**–**	**–**	**10**
Benefit asset	**–**	**–**	**39**	**–**	**39**
Benefit liability	**$ 171**	**$ 57**	**$ 63**	**$ 3**	**$ 294**

31 December 2011

US$ million	**Russian Plans**	**Ukrainian plans**	**US & Canadian plans**	**Other plans**	**Total**
Benefit obligation	$ 203	$ 65	$ 700	$ 21	$ 989
Plan assets	(1)	–	(470)	–	(471)
	202	65	230	21	518
Unrecognised net actuarial gains/(losses)	(68)	(8)	(185)	–	(261)
Unrecognised past service cost	10	2	(1)	–	11
Benefit asset	–	–	28	–	28
Benefit liability	$ 144	$ 59	$ 72	$ 21	$ 296

31 December 2010

US$ million	**Russian Plans**	**Ukrainian plans**	**US & Canadian plans**	**Other plans**	**Total**
Benefit obligation	$ 192	$ 77	$ 629	$ 24	$ 922
Plan assets	(1)	–	(463)	–	(464)
	191	77	166	24	458
Unrecognised net actuarial gains/(losses)	(68)	(2)	(95)	–	(165)
Unrecognised past service cost	12	(10)	1	–	3
Benefit asset	–	–	19	–	19
Benefit liability	$ 135	$ 65	$ 91	$ 24	$ 315

23. Employee Benefits (continued)

Movements in benefit obligation

US$ million	Russian plans	Ukrainian plans	US & Canadian plans	Other plans	Total
At 31 December 2009	**$ 173**	**$ 72**	**$ 562**	**$ 20**	**$ 827**
Interest cost on benefit obligation	16	8	34	2	60
Current service cost	5	5	14	1	25
Past service cost	(4)	–	–	–	(4)
Benefits paid	(13)	(6)	(37)	(1)	(57)
Actuarial (gains)/losses on benefit obligation	17	(2)	39	–	54
Disposal of subsidiaries	(1)	–	–	–	(1)
Translation difference	(1)	–	17	2	18
At 31 December 2010	**192**	**77**	**629**	**24**	**922**
Interest cost on benefit obligation	16	9	33	2	60
Current service cost	7	5	17	–	29
Past service cost	1	(24)	3	–	(20)
Benefits paid	(15)	(7)	(39)	(1)	(62)
Actuarial (gains)/losses on benefit obligation	14	5	65	–	84
Translation difference	(12)	–	(8)	(4)	(24)
At 31 December 2011	**203**	**65**	**700**	**21**	**989**
Interest cost on benefit obligation	17	8	33	2	60
Current service cost	6	3	20	–	29
Past service cost	5	–	1	–	6
Benefits paid	(16)	(8)	(44)	(2)	(70)
Actuarial (gains)/losses on benefit obligation	24	5	75	1	105
Disposal of subsidiaries	(1)	(5)	–	–	(6)
Reclassification to liabilities directly associated with disposal groups classified as held for sale	–	–	–	(18)	(18)
Translation difference	13	–	8	(1)	20
At 31 December 2012	**$ 251**	**$ 68**	**$ 793**	**$ 3**	**$ 1,115**

23. Employee Benefits (continued)

Changes in the fair value of plan assets

US$ million	Russian plans	Ukrainian plans	US & Canadian plans	Other plans	Total
At 31 December 2009	**$ 1**	**$ –**	**$ 403**	**$ –**	**$ 404**
Expected return on plan assets	–	–	28	–	28
Contributions of employer	13	6	37	1	57
Benefits paid	(13)	(6)	(37)	(1)	(57)
Actuarial gains/(losses) on plan assets	–	–	16	–	16
Minimum funding requirements	–	–	1	–	1
Translation difference	–	–	15	–	15
At 31 December 2010	**1**	**–**	**463**	**–**	**464**
Expected return on plan assets	–	–	32	–	32
Contributions of employer	15	7	52	1	75
Benefits paid	(15)	(7)	(39)	(1)	(62)
Actuarial gains/(losses) on plan assets	–	–	(31)	–	(31)
Translation difference	–	–	(7)	–	(7)
At 31 December 2011	**1**	**–**	**470**	**–**	**471**
Expected return on plan assets	–	–	32	–	32
Contributions of employer	16	8	54	2	80
Benefits paid	(16)	(8)	(44)	(2)	(70)
Actuarial gains/(losses) on plan assets	–	–	18	–	18
Translation difference	–	–	7	–	7
At 31 December 2012	**$ 1**	**$ –**	**$ 537**	**$ –**	**$ 538**

The amount of contributions expected to be paid to the defined benefit plans during 2013 approximates $66 million.

The major categories of plan assets as a percentage of total plan assets were as follows at 31 December:

	2012	**2011**	**2010**
US & Canadian plans:			
Equity funds and investment trusts	**83%**	81%	86%
Corporate bonds and notes	**13%**	11%	11%
Property	**2%**	3%	0%
Cash	**2%**	5%	3%

23. Employee Benefits (continued)

The following table is a summary of the present value of the benefit obligation, fair value of the plan assets and experience adjustments for the current year and previous four annual periods.

US$ million	**2012**	2011	2010	2009	2008
Defined benefit obligation	**$ 1,115**	$ 989	$ 922	$ 827	$ 717
Plan assets	**538**	471	464	404	325
Deficit	**(577)**	(518)	(458)	(423)	(392)
Experience adjustments on plan liabilities	**122**	137	60	54	(38)
Experience adjustments on plan assets	**3**	(12)	9	24	16

The principal assumptions used in determining pension obligations for the Group's plans are shown below:

	2012				**2011**				**2010**			
	Russian plans	**Ukrainian plans**	**US & Canadian plans**	**Other plans**	**Russian plans**	**Ukrainian plans**	**US & Canadian plans**	**Other plans**	**Russian plans**	**Ukrainian plans**	**US & Canadian plans**	**Other plans**
Discount rate	**7%**	**14.0%**	**3.9-5.1%**	**2.0-8.8%**	8%	14.0%	4.0-5.3%	4.0-8.8%	8%	12.6%	5.1-5.8%	3.9-8.3%
Expected rate of return on assets	**8%**	**–**	**6.5-7.0%**	**–**	12%	–	0.9-7.1%	–	12%	–	0.9-7.3%	–
Future benefits increases	**8%**	**8%**	**–**	**2%**	8%	8%	–	3.0%	8%	8%	–	3%
Future salary increase	**8%**	**8%**	**3.1-3.5%**	**3%**	8%	8%	3.0-3.1%	2.0-6.3%	8%	8%	3.0-3.2%	2.0-6.5%
Healthcare costs increase rate	**–**	**–**	**6-7%**	**7.0-7.3%**	–	–	6.5-7%	7.3-7.5%	–	–	6.8-10%	6.5-7%

The expected long-term rate of return on defined benefit pension plan assets represents the weighted-average asset return for each forecasted asset class return over several market cycles.

A one percentage point change in the assumed rate of increase in healthcare costs would have insignificant effects on the Group's current service cost and the defined benefit obligation.

24. Share-based Payments

On 14 December 2010, 13 October 2011 and 6 September 2012, the Group adopted Incentive Plans under which certain senior executives and employees ("participants") could be gifted shares of the parent company upon vesting.

The vesting date for each tranche occurs within the 90-day period after announcement of the annual results. The expected vesting dates of the awards outstanding at 31 December 2012 are presented below:

Number of Shares of EVRAZ plc	**Incentive Plan 2012**	**Incentive Plan 2011**	**Incentive Plan 2010**
11 April 2013	2,857,558	792,969	656,697
29 March 2014	2,857,558	1,094,426	
29 March 2015	3,810,363	–	–
	9,525,479	**1,887,395**	**656,697**

The plans are administrated by the Board of Directors of the Company. The Board of Directors has the right to accelerate vesting of the grant. In the event of a participant's employment termination, unless otherwise determined by the Board or by a decision of the authorised person, a participant loses the entitlement for the shares that were not gifted up to the date of termination.

There have been no modifications or cancellations to the plans during 2010–2012. In 2011, after the Group's reorganisation (Notes 1 and 20), the shares of Evraz Group S.A., which were granted to the participants, have been substituted by the shares of EVRAZ plc.

The Group accounted for share-based compensation at fair value pursuant to the requirements of IFRS 2 "Share-based Payment". The weighted average fair value of share-based awards granted in 2012 was $3.41 per share of EVRAZ plc (in 2011 and 2010 $48.26 and $102.07 per share of Evraz Group S.A., respectively). The fair value of these awards was estimated at the date of grant and measured at the market price of the shares of a parent company reduced by the present value of dividends expected to be paid during the vesting period. The following inputs, including assumptions, were used in the valuation:

	Incentive Plan 2012	**Incentive Plan 2011**	**Incentive Plan 2010**
Dividend yield (%)	1.9 – 5.4	3.6 – 4.8	1.2 – 1.5
Expected life (years)	0.6 – 2.6	0.5 – 2.5	0.5 – 2.5
Market prices of the shares of EVRAZ plc (2011 and 2010: Evraz Group S.A.) at the grant dates	$3.61	$51.57	$103.83

24. Share-based Payments (continued)

The following table illustrates the number of, and movements in, share-based awards during the years.

	2012	2011	2010
Outstanding at 1 January	**4,460,547**	**321,898**	**–**
Granted during the year	9,892,313	335,069	334,755
Forfeited during the year	(785,141)	(45,960)	(12,857)
Exercised during the year	(1,498,148)	(115,389)	–
Exchange into shares of EVRAZ plc	–	3,964,929	–
Outstanding at 31 December	**12,069,571**	**4,460,547**	**321,898**

The weighted average share price at the dates of exercise was $4.31 and $97.46 in 2012 and 2011, respectively.

The weighted average remaining contractual life of the share-based awards outstanding as of 31 December 2012, 2011 and 2010 was 1.2, 1.2 and 1.4 years, respectively.

In the years ended 31 December 2012, 2011 and 2010, expense arising from the equity-settled share-based compensations was as follows:

US$ million	2012	2011	2010
Expense arising from equity-settled share-based payment transactions	**$ 22**	$ 23	$ 2

In 2012, 2011 and 2010, the Group paid $Nil, $1 million and $3 million, respectively, relating to the cash-settled share-based awards under the incentive plans which were in place before 2010.

25. Provisions

At 31 December the provisions were as follows:

US$ million	2012		2011		2010	
	Non-current	Current	Non-current	Current	Non-current	Current
Site restoration and decommissioning costs	**$ 252**	**$ 14**	$ 283	$ 27	$ 277	$ 28
Legal claims	**–**	**12**	–	15	–	17
Other provisions	**5**	**6**	2	11	2	9
	$ 257	**$ 32**	$ 285	$ 53	$ 279	$ 54

25. Provisions (continued)

In the years ended 31 December 2012, 2011 and 2010, the movement in provisions was as follows:

US$ million	Site restoration and decom-missioning costs	Legal claims	Other provisions	Total
At 31 December 2009	**$ 190**	**$ 6**	**$ 15**	**$ 211**
Additional provisions	23	18	12	53
Increase from passage of time	15	–	–	15
Effect of change in the discount rate	20	–	–	20
Effect of changes in estimated costs and timing	55	–	–	55
Utilised in the year	(5)	(5)	(15)	(25)
Unused amounts reversed	–	(2)	(1)	(3)
Translation difference	7	–	–	7
At 31 December 2010	**305**	**17**	**11**	**333**
Additional provisions	45	20	19	84
Increase from passage of time	19	–	–	19
Effect of change in the discount rate	(8)	–	–	(8)
Effect of changes in estimated costs and timing	(9)	(1)	–	(10)
Utilised in the year	(12)	(12)	(14)	(38)
Unused amounts reversed	(2)	(8)	(2)	(12)
Translation difference	(28)	(1)	(1)	(30)
At 31 December 2011	**310**	**15**	**13**	**338**
Additional provisions	27	18	21	66
Increase from passage of time	19	–	–	19
Effect of change in the discount rate	35	–	–	35
Effect of changes in estimated costs and timing	(1)	(4)	–	(5)
Utilised in the year	(7)	(11)	(20)	(38)
Unused amounts reversed	(6)	(6)	(1)	(13)
Reclassification to liabilities directly associated with disposal groups classified as held for sale	(120)	(1)	(2)	(123)
Translation difference	9	1	–	10
At 31 December 2012	**$ 266**	**$ 12**	**$ 11**	**$ 289**

Site Restoration Costs

Under the legislation, mining companies and steel mills have obligations to restore mining sites and contaminated land. The respective liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate ranging from 3.7% to 14% in 2012 and 2011 (2010: 6.1% to 13%).

26. Other Long-Term Liabilities

Other long-term liabilities consisted of the following as of 31 December:

US$ million	**2012**	2011	2010
Contingent consideration payable for the acquisition of Stratcor	**$ 12**	$ 16	$ 24
Deferred consideration payable for the acquisition of Inprom (Note 4)	**10**	11	21
Dividends payable under cumulative preference shares of a subsidiary to a related party	**14**	14	14
Employee income participation plans and compensations	**7**	2	3
Tax liabilities	**18**	26	33
Derivatives not designated as hedging instruments (Note 21)	**115**	209	38
Other liabilities	**16**	16	24
	192	294	157
Less: current portion (Note 27)	**(22)**	(9)	(14)
	$ 170	$ 285	$ 143

Contingent Consideration Payable

Contingent consideration represents additional payments for the acquisition of Stratcor in 2006. This consideration could be paid each year up to 2019. The payments depend on the deviation of the average prices for vanadium pentoxide from certain levels and the amounts payable for each year are limited to maximum amounts. In 2012, the Group was not required to pay this consideration due to the movements in the vanadium pentoxide market relative to the levels set in the agreement. In 2011 and 2010, the Group paid $3 million and $16 million, respectively.

Derivatives Not Designated as Hedging Instruments

In 2009–2011, the Group issued rouble-denominated bonds in the total amount of 70,000 million Russian roubles (Note 21). To manage the currency exposure, the Group concluded currency and interest rate swap contracts under which it agreed to deliver US dollar-denominated interest payments at the rates ranging from 4.45% to 8.90% per annum plus the notional amount totalling $2,177 million, in exchange for rouble-denominated interest payments plus the notional amount totalling 63,790 million roubles ($2,100 million at the exchange rate as of 31 December 2012). The exchange is exercised on approximately the same dates as the payments under the bonds.

26. Other Long-Term Liabilities (continued)

Derivatives Not Designated as Hedging Instruments (continued)

The swap contracts are summarised in the table below.

	Principal, millions of roubles	Hedged amount, millions of roubles	Swap amount, US$ million	Interest rates on the swap amount
13.5 per cent bonds due 2014	20,000	14,019	$ 475	7.50% - 8.90%
9.25 per cent bonds due 2013	15,000	14,778	500	5.75% - 5.90%
9.95 per cent bonds due 2015	15,000	14,997	491	5.65% - 5.88%
8.40 per cent bonds due 2016	20,000	19,996	711	4.45% - 4.60%
	70,000	**63,790**	**$ 2,177**	

These swap contracts were not designated as cash flow or fair value hedges. The Group accounted for these derivatives at fair value which was determined using valuation techniques. In 2012, 2011 and 2010, the change in fair value of the derivatives of $96 million, $(176) million and $(27) million, respectively, together with a realised gain on the swap transactions, amounting to $81 million, $66 million and $31 million, respectively, was recognised within gain/(loss) on financial assets and liabilities in the consolidated statement of operations (Note 7).

27. Trade and Other Payables

Trade and other payables consisted of the following as of 31 December:

US$ million	**2012**	**2011**	**2010**
Trade accounts payable	**$ 1,100**	$ 1,147	$ 880
Accrued payroll	**249**	254	229
Other long-term obligations with current maturities (Note 26)	**22**	9	14
Other payables	**41**	50	50
	$ 1,412	$ 1,460	$ 1,173

The maturity profile of the accounts payable is shown in Note 29.

28. Other Taxes Payable

Taxes payable were mainly denominated in roubles and consisted of the following as of 31 December:

US$ million	**2012**	**2011**	**2010**
VAT	**$ 87**	$ 81	$ 90
Social insurance taxes	**61**	53	40
Property tax	**11**	17	14
Land tax	**11**	10	10
Personal income tax	**14**	12	10
Other taxes, fines and penalties	**11**	15	16
	$ 195	$ 188	$ 180

29. Financial Risk Management Objectives and Policies

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

To manage credit risk related to cash, the Group maintains its available cash, mainly in US dollars, in reputable international banks and major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group's trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities. In 2012, the major customers were Russian Railways and Enbridge Energy Partners (3.1% and 2.4% of total sales, respectively).

Part of the Group's sales is made on terms of letter of credit. In addition, the Group requires prepayments from certain customers. The Group does not require collateral in respect of trade and other receivables, except when a customer applies for credit terms which are longer than normal. In this case, the Group requires bank guarantees or other collateral. The Group has developed standard credit terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers.

Certain of the Group's long-standing Russian customers for auxiliary products, such as heat and electricity, represent municipal enterprises and governmental organisations that experience financial difficulties. The significant part of doubtful debts allowance consists of receivables from such customers. The Group has no practical ability to terminate the supply to these customers and negotiates with regional and municipal authorities the terms of recovery of these receivables.

At 31 December the maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below.

US$ million	**2012**	**2011**	**2010**
Restricted deposits at banks (Notes 13 and 18)	**$ 4**	$ 22	$ 22
Financial instruments included in other non-current and current assets (Notes 13 and 18)	**51**	10	6
Long-term and short-term investments (Notes 13 and 18)	**733**	57	76
Trade and other receivables (Notes 13 and 15)	**899**	974	1,216
Loans receivable	**31**	62	18
Receivables from related parties (Notes 13 and 16)	**12**	8	124
Cash and cash equivalents (Note 19)	**1,320**	801	683
	$ 3,050	$ 1,934	$ 2,145

29. Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

Receivables from related parties in the table above do not include prepayments in the amount of $Nil, $Nil and $2 million as of 31 December 2012, 2011 and 2010, respectively.

The ageing analysis of trade and other receivables, loans receivable and receivables from related parties at 31 December is presented in the table below.

US$ million	**2012**		**2011**		**2010**	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**	**Gross amount**	**Impairment**
Not past due	**$ 759**	**$ (16)**	$ 846	$ (5)	$ 1,098	$ (8)
Past due	**284**	**(85)**	306	(103)	377	(109)
less than six months	**198**	**(11)**	204	(24)	232	(16)
between six months and one year	**20**	**(11)**	30	(16)	27	(10)
over one year	**66**	**(63)**	72	(63)	118	(83)
	$ 1,043	**$ (101)**	$ 1,152	$ (108)	$ 1,475	$ (117)

In the years ended 31 December 2012, 2011 and 2010, the movement in allowance for doubtful accounts was as follows:

US$ million	**2012**	**2011**	**2010**
At 1 January	**$ (108)**	$ (117)	$ (92)
Charge for the year	**(14)**	(45)	(45)
Utilised	**25**	47	19
Translation difference	**(4)**	7	1
At 31 December	**$ (101)**	$ (108)	$ (117)

Liquidity Risk

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

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

29. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

The Group prepares a rolling 12-month financial plan which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities as they arise. The Group exercises a daily monitoring of cash proceeds and payments. The Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs. If necessary, the Group refinances its short-term debt by long-term borrowings. The Group also uses forecasts to monitor potential and actual financial covenants compliance issues. Where compliance is at risk, the Group considers options including debt repayment, refinancing or covenant reset. The Group has developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

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

Year ended 31 December 2012

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ 7	$ 501	$ 795	$ 678	$ 2,393	$ 1,380	$ 5,754
Interest	–	23	404	396	647	58	1,528
Finance lease liabilities	–	1	2	4	8	3	18
Financial instruments included in long-term liabilities	–	14	3	21	100	24	162
Total fixed-rate debt	7	539	1,204	1,099	3,148	1,465	7,462
Variable-rate debt							
Loans and borrowings							
Principal	158	119	112	359	1,601	76	2,425
Interest	–	22	68	84	121	7	302
Total variable-rate debt	158	141	180	443	1,722	83	2,727
Non-interest bearing debt							
Financial instruments included in other liabilities	–	1	–	3	2	2	8
Trade and other payables	266	809	66	–	–	–	1,141
Payables to related parties	218	39	–	–	–	–	257
Amounts payable under put options for shares of subsidiaries	–	–	4	6	–	–	10
Dividends payable	8	–	–	–	–	–	8
Total non-interest bearing debt	492	849	70	9	2	2	1,424
	$ 657	$ 1,529	$ 1,454	$ 1,551	$ 4,872	$ 1,550	$11,613

29. Financial Risk Management Objectives and Policies (continued)

Year ended 31 December 2011

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ 4	$ 1	$ 27	$ 1,019	$ 2,338	$ 1,374	$ 4,763
Interest	–	23	420	395	741	159	1,738
Finance lease liabilities	–	1	3	4	10	3	21
Financial instruments included in long-term liabilities	1	1	6	53	178	23	262
Total fixed-rate debt	5	26	456	1,471	3,267	1,559	6,784
Variable-rate debt							
Loans and borrowings							
Principal	158	213	129	268	1,671	56	2,495
Interest	–	22	68	82	148	8	328
Finance lease liabilities	–	4	8	7	8	–	27
Total variable-rate debt	158	239	205	357	1,827	64	2,850
Non-interest bearing debt							
Financial instruments included in other liabilities	–	–	–	–	–	4	4
Trade and other payables	238	949	10	–	–	–	1,197
Payables to related parties	67	31	–	–	–	–	98
Amounts payable under put options for shares of subsidiaries	9	–	–	–	11	–	20
Dividends payable	9	–	–	–	–	–	9
Total non-interest bearing debt	323	980	10	–	11	4	1,328
	$ 486	$ 1,245	$ 671	$ 1,828	$ 5,105	$ 1,627	$10,962

29. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended 31 December 2010

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ 7	$ 20	$ 124	$ 25	$ 5,039	$ 538	$ 5,753
Interest	–	55	462	509	955	123	2,104
Finance lease liabilities	–	1	2	3	7	3	16
Financial instruments included in long-term liabilities	1	2	11	8	60	21	103
Total fixed-rate debt	8	78	599	545	6,061	685	7,976
Variable-rate debt							
Loans and borrowings							
Principal	235	224	15	283	1,487	20	2,264
Interest	–	19	56	62	89	4	230
Finance lease liabilities	–	5	17	12	19	2	55
Total variable-rate debt	235	248	88	357	1,595	26	2,549
Non-interest bearing debt							
Financial instruments included in other liabilities	–	–	–	–	–	5	5
Trade and other payables	104	795	31	–	–	–	930
Payables to related parties	177	37	2	–	–	–	216
Amounts payable under put options for shares of subsidiaries	6	–	–	–	21	–	27
Dividends payable	13	–	–	–	–	–	13
Total non-interest bearing debt	300	832	33	–	21	5	1,191
	$ 543	$ 1,158	$ 720	$ 902	$ 7,677	$ 716	$11,716

Payables to related parties in the tables above do not include advances received in the amount of $Nil, $Nil and $1 million as of 31 December 2012, 2011 and 2010, respectively.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on risk.

Interest Rate Risk

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities, such as finance lease liabilities and other obligations.

The Group incurs interest rate risk on liabilities with variable interest rates. The Group's treasury function performs analysis of current interest rates. In case of changes in market fixed or variable interest rates management may consider the refinancing of a particular debt on more favourable terms. The Group does not have any financial assets with variable interest rates.

29. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Interest Rate Risk (continued)

Fair Value Sensitivity Analysis for Fixed Rate Instruments

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Group's profits.

The Group does not account for any fixed rate financial assets as assets available for sale. Therefore, a change in interest rates at the reporting date would not affect the Group's equity.

Cash Flow Sensitivity Analysis for Variable Rate Instruments

Based on the analysis of exposure during the years presented, reasonably possible changes in floating interest rates at the reporting date would affect profit before tax ("PBT") by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In estimating reasonably possible changes the Group assessed the volatility of interest rates during the reporting periods.

	2012		**2011**		**2010**	
	Basis points	**Effect on PBT**	**Basis points**	**Effect on PBT**	**Basis points**	**Effect on PBT**
		US$ millions		*US$ millions*		*US$ millions*
Liabilities denominated in US dollars						
Decrease in LIBOR	**(2)**	**$ –**	(6)	$ 1	(25)	$ 4
Increase in LIBOR	**2**	**–**	6	(1)	100	(17)
Liabilities denominated in euro						
Decrease in EURIBOR	**(4)**	**–**	(15)	–	(25)	1
Increase in EURIBOR	**4**	**$ –**	15	$ –	100	$ (2)

Currency Risk

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

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

29. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Currency Risk (continued)

The Group's exposure to currency risk determined as the net monetary position in the respective currencies was as follows at 31 December:

US$ million	2012	2011	2010
USD/RUB	**$ (1,478)**	$ 4,402	$ 3,419
EUR/RUB	**(382)**	(321)	(283)
EUR/USD	**109**	127	137
USD/CAD	**(24)**	(995)	(1,180)
EUR/CZK	**4**	35	38
USD/CZK	**(176)**	(229)	(282)
USD/ZAR	**(9)**	14	66
EUR/ZAR	**69**	77	41
USD/UAH	**(168)**	(156)	(1)
RUB/UAH	**28**	(1)	(43)

Sensitivity Analysis

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

	2012		**2011**		**2010**	
	Change in exchange rate	**Effect on PBT**	**Change in exchange rate**	**Effect on PBT**	**Change in exchange rate**	**Effect on PBT**
	%	*US$ millions*	*%*	*US$ millions*	*%*	*US$ millions*
USD/RUB	**(11.09)**	**164**	(11.36)	(500)	(9.70)	(332)
	11.09	**(164)**	11.36	500	9.70	332
EUR/RUB	**(8.12)**	**31**	(8.27)	27	(8.79)	25
	8.12	**(31)**	8.27	(27)	8.79	(25)
EUR/USD	**(8.45)**	**(9)**	(11.37)	(15)	(11.32)	(16)
	8.45	**9**	11.37	15	11.32	16
USD/CAD	**(6.69)**	**2**	(9.75)	97	(10.97)	129
	6.69	**(2)**	9.75	(97)	10.97	(129)
EUR/CZK	**(6.38)**	**–**	(5.87)	(2)	(5.30)	(2)
	6.38	**–**	5.87	2	5.30	2
USD/CZK	**(12.64)**	**22**	(13.96)	32	(13.79)	39
	12.64	**(22)**	13.96	(32)	13.79	(39)
USD/ZAR	**(19.27)**	**2**	(17.34)	(2)	(13.68)	(9)
	19.27	**(2)**	17.34	2	13.68	9
EUR/ZAR	**(12.09)**	**(8)**	(13.14)	(10)	(11.59)	(5)
	12.09	**8**	13.14	10	11.59	5
USD/UAH	**(0.08)**	–	(0.33)	1	(1.71)	–
	0.08	–	0.33	(1)	1.71	–
RUB/UAH	**(11.07)**	**(3)**	(11.33)	–	(9.94)	4
	11.07	**3**	11.33	–	9.94	(4)

29. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Currency Risk (continued)

Sensitivity Analysis (continued)

Except for the effects of changes in the exchange rates disclosed above, the Group is exposed to currency risk on derivatives not designated as hedging instruments (Note 26). The impact of currency risk on the fair value of these derivatives is disclosed below.

	2012		**2011**		**2010**	
	Change in exchange rate	**Effect on PBT**	**Change in exchange rate**	**Effect on PBT**	**Change in exchange rate**	**Effect on PBT**
	%	*US$ millions*	*%*	*US$ millions*	*%*	*US$ millions*
USD/RUB	**(11.09)**	**271**	(11.36)	252	(9.70)	167
	11.09	**(217)**	11.36	(201)	9.70	(137)

Fair Value of Financial Instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs).

The carrying amounts of financial instruments, such as cash, short-term and long-term investments, short-term accounts receivable and payable, short-term loans receivable and payable and promissory notes, approximate their fair value.

At 31 December the Group held the following financial instruments measured at fair value:

	2012			**2011**			**2010**		
US$ million	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value									
Available-for-sale financial assets	**21**	**–**	**–**	17	–	–	37	–	–
Derivatives not designated as hedging instruments	**–**	**2**	**–**	–	–	–	–	5	–
Liabilities measured at fair value									
Liability at fair value through profit or loss	**–**	**–**	**–**	–	–	–	–	–	16
Derivatives not designated as hedging instruments (Note 26)	**–**	**115**	**–**	–	209	–	–	38	–
Deferred consideration payable for the acquisition of Inprom (Note 26)	**10**	**–**	**–**	11	–	–	21	–	–
Contingent consideration payable for the acquisition of Stratcor (Note 26)	**–**	**–**	**12**	–	–	16	–	–	24
Amounts payable under put options for shares of subsidiaries	**–**	**–**	**–**	–	–	9	–	–	6

29. Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

During the reporting period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows financial instruments which carrying amounts differ from fair values at 31 December.

US$ million	**2012**		**2011**		**2010**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Long-term fixed-rate bank loans	**$ 105**	**$ 131**	$ 104	$ 115	$ 1,201	$ 1,198
Long-term variable-rate bank loans	**2,115**	**1,956**	2,109	1,943	1,807	1,663
8.875 per cent notes due 2013	**542**	**545**	535	559	1,144	1,248
7.25 per cent convertible bonds due 2014	**–**	**–**	–	–	551	650
8.25 per cent notes due 2015	**562**	**637**	560	581	555	615
7.40 per cent notes due 2017	**604**	**634**	–	–	–	–
9.5 per cent notes due 2018	**503**	**582**	501	520	499	565
6.75 per cent notes due 2018	**854**	**879**	853	759	–	–
13.5 per cent bonds due 2014	**675**	**670**	635	676	670	740
9.25 per cent bonds due 2013	**506**	**467**	476	468	502	498
9.95 per cent bonds due 2015	**501**	**474**	472	478	498	496
8.40 per cent bonds due 2016	**661**	**590**	623	559	–	–
Liabilities under 12.00 per cent rouble bonds due 2011 and 2013 assumed in business combination	**1**	**1**	1	1	13	12
	$ 7,629	**$ 7,566**	$ 6,869	$ 6,659	$ 7,440	$ 7,685

The fair value of the non-convertible bonds and notes was determined based on market quotations. The fair value of convertible bonds and long-term bank loans was calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rates of interest at the reporting dates. The discount rates used for valuation of financial instruments were as follows:

Currency in which financial instruments are denominated	**2012**	**2011**	**2010**
USD	**7.5 – 8.6%**	8.2 – 9.1%	7.7 – 8.3%
EUR	**2.9%**	3.2%	2.8%
RUB	**9.2%**	9.7%	12.0%

29. Financial Risk Management Objectives and Policies (continued)

Capital Management

Capital includes equity attributable to the equity holders of the parent entity. Revaluation surplus which is included in capital is not subject to capital management because of its nature.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of Directors reviews the Group's performance and establishes key performance indicators. In addition, the Group and certain of its subsidiaries are subject to externally imposed capital requirements (loans and bonds covenants) which are used for capital monitoring. There were no changes in the objectives, policies and processes during 2012.

The Group manages its capital structure and makes adjustments to it by the issue of new shares, dividend payments to shareholders, and the purchase of treasury shares. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividend payments.

The capital requirements imposed by certain loan agreements include a $2,000 million minimum representing consolidated equity of Evraz Group S.A. less goodwill. In 2010–2012, the Group was in compliance with this requirement.

30. Non-cash Transactions

Transactions that did not require the use of cash or cash equivalents were as follows in the years ended 31 December:

US$ million	**2012**	**2011**	**2010**
Liabilities for purchases of property, plant and equipment	**$ 144**	$ 93	$ 70
Purchases of property, plant and equipment settled by an offset with accounts receivable	**–**	10	12
Loan issued to a partner of the Mezhegey coal field project	**7**	36	–
Purchase of a non-controlling interest in the Mezhegey coal field project settled by an offset with a loan due to the Group (Note 4)	**40**	–	–
Carrying amount of convertible bonds transferred to equity upon debt conversion (Note 21)	**–**	553	–

31. Commitments and Contingencies

Operating Environment of the Group

The Group is one of the largest vertically integrated steel producers globally and the largest steel producer in Russia. The Group's major subsidiaries are located in Russia, Ukraine, the European Union, the USA, Canada and the Republic of South Africa. Russia, Ukraine and the Republic of South Africa are considered to be emerging markets with higher economic and political risks.

Steel consumption is affected by the cyclical nature of demand for steel products and the sensitivity of that demand to worldwide general economic conditions. The global economic recession resulted in a significantly lower demand for steel products and decreased profitability.

In 2012, the sovereign debt problems in Europe added extra volatility to commodity and financial markets and led to an additional uncertainty in the process of recovery of the global economy.

The global economic climate continues to be unstable and this may negatively affect the Group's results and financial position in a manner not currently determinable.

Taxation

Russian and Ukrainian 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.

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

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities which were identified by management at the end of the reporting period as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these financial statements could be up to approximately $19 million.

31. Commitments and Contingencies (continued)

Contractual Commitments

At 31 December 2012, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of $579 million.

In 2010, the Group concluded an agreement for the supply of oxygen, nitrogen and argon by a third party for a period of 20 years. The contractual price comprises a fixed component and a variable component. The total amount of the fixed component approximates 252 million euro. The agreement is within the scope of IFRIC 4 "Determining whether an Arrangement Contains a Lease". At 31 December 2012, the lease had not commenced.

Social Commitments

The Group is involved in a number of social programmes aimed to support education, healthcare and social infrastructure development in towns where the Group's assets are located. In 2013, the Group plans to spend approximately $159 million under these programmes.

Environmental Protection

In the course of the Group's operations, the Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management believes that any pending environmental claims or proceedings will not have a material adverse effect on its financial position and results of operations.

In addition, the Group has committed to various environmental protection programmes covering periods from 2013 to 2022, under which the Group will perform works aimed at reductions in environmental pollution and contamination. The costs of implementing these programmes are estimated at $267 million.

Legal Proceedings

The Group has been and continues to be the subject of legal proceedings, none of which has had, individually or in aggregate, a significant effect on the Group's operations or financial position. Possible liabilities which were identified by the Group at the end of the reporting period as those that can be subject to different interpretations of legislation and are not accrued in these financial statements could be up to approximately $27 million.

In 2008, the Competition Commission initiated a complaint against various steel manufacturers, including EVRAZ Highveld Steel and Vanadium Corporation Limited ("EHSVL"), alleging that EHSVL (then Highveld Steel and Vanadium Corporation) was involved, whether directly or indirectly, in the fixing of the selling prices and trading conditions for flat steel products. It was further alleged that EHSVL contravened the Competition Act by engaging in the exchange of information with a competitor through information exchanges and meetings of the South African Iron and Steel Institute or its committees.

31. Commitments and Contingencies (continued)

Legal Proceedings (continued)

In March 2012, the Commission referred the complaints to the South African Competition Tribunal for prosecution.

No decision has yet been announced by the Competition Tribunal as to whether it will decide to impose any penalty against EHSVL or, if imposed, the amount of any such fine. Should the Competition Commission be successful, which is not expected by management, it could raise a maximum penalty of R554 million ($65 million).

Management believes that EHSVL acted in compliance with applicable laws and regulations. Thus, no provision for this matter has been accrued as of 31 December 2012. The Group has cooperated with the Competition Commission throughout the investigation and intends to continue to do so.

32. Auditor's Remuneration

The remuneration of the Group's auditor in respect of the services provided to the Group was as follows.

US$ million	**2012**	2011	2010
Audit of the parent company of the Group	**$ 2**	$ 4	$ 2
Audit of the subsidiaries	**5**	7	6
Total assurance services	**7**	11	8
Services in connection with capital market transactions	**–**	3	1
Other non-audit services	**1**	2	1
Total other services	**1**	5	2
	$ 8	$ 16	$ 10

33. Subsequent Events

Acquisition of a Controlling Interest in Corber

In January 2013, the Group obtained control over Corber, which owns 81.95% interest in JSC Raspadskaya (Note 11).

Extension of the Notes Due 2013

In March 2013, the holders of 9.25% rouble-denominated notes received an option to accept a new coupon of 8.75% per annum till 20 March 2015 or put the notes back to the Group at a nominal value. By 26 March 2013, the date of the expiration of the option, the Group re-purchased back the notes totalling 12,265 million roubles ($399 million at the exchange rate as of the date of the transaction). The remaining notes with the aggregate principal amount of 2,735 million roubles (approximately $89 million) continue to be traded on the Moscow Exchange. The Group has a right to resell the repurchased notes on the market at any time and at its own discretion.

33. Subsequent Events (continued)

Timir Iron Ore Project

On 3 April 2013, the Group acquired a 51% ownership interest in the joint venture with Alrosa for the development of 4 iron ore deposits in the southern part of the Yakutia region in Russia. The Group's consideration for this stake amounts to 4,950 million roubles (approximately $160 million) payable in installments through 15 July 2014. Total investments in the first phase of the Timir project are estimated at $1.8 billion during the period from 2013 to 2018. The Group and Alrosa are expected to finance the Timir project on a pro rata basis.