RISING TO THE CHALLENGE

ANNUAL REPORT AND FINANCIAL STATEMENTS 2012

WHILE 2012 WAS A CHALLENGING YEAR FOR METINVEST, OUR MARKETS AND THE GLOBAL ECONOMY, WE WERE PROACTIVE.

IN RESPONSE TO THE CHALLENGES, WE HAVE TAKEN A SERIES OF DECISIVE ACTIONS IN LINE WITH OUR LONG-TERM STRATEGY TO PROTECT OUR STABLE FINANCIAL POSITION AND MARKET LEADERSHIP.

Key Strategic Actions:

#1: We have adapted our capital expenditure plans to focus on the most efficient investments in line with our Technological Strategy

READ MORE ON PAGES 12-13

#2: We have pursued greater efficiency, quality and customer satisfaction through continuous improvement and lean production implementation

READ MORE ON PAGES 14-15

#3: We have launched a major initiative to optimise working capital and enhance liquidity across the Group

READ MORE ON PAGES 16-17

#4: We have adjusted and strengthened sales by expanding our network, focusing on strategic markets and balancing our product range

READ MORE ON PAGES 18-19

INTRODUCTION

WE ARE METINVEST: A VERTICALLY INTEGRATED STEEL AND MINING GROUP THAT HAS ASSETS IN UKRAINE, EUROPE AND THE US AND SELLS ITS PRODUCTS THROUGH A GLOBAL NETWORK

Metinvest is a leading steel producer in the CIS and one of the top 30 steelmakers and top 10 iron ore producers in the world. We are resourceful, managing every part of the value chain, from mining and processing iron ore and coal to making and selling steel products. We employ more than 100,000 people.

The Group maintains a conservative financial position and has an established track record of ensuring operational excellence and delivering on its strategy. We have a global sales presence and benefit from our unique geographic position in both Europe and the CIS. Our diversified product mix, superior global distribution network and downstream service centres are key competitive advantages.

Our vertically integrated business model has been designed to manage a vast and expandable resource base. We have 7,433 million tonnes of long-life iron ore resources, including 1,867 million tonnes of proven and probable iron ore reserves,[1] and are fully self-sufficient in iron ore concentrate and pellets. We also have some 627 million tonnes of long-life coal reserves,[2] and the production capacity to cover 65% of our internal needs for coking coal.

INTRODUCTION
Introduction 01
Highlights of 2012 02
Achievements of 2012 03
Chairman's Statement 04

SECTION I:
STRONG MODEL IN CHALLENGING TIMES
General Director's Review 08
Key Performance Indicators 11
Strategic Actions
– Adapt Capital Expenditure 12
– Pursue Greater Efficiency and Customer Satisfaction 14
– Optimise Working Capital and Enhance Liquidity 16
– Adjust and Strengthen Sales 18

SECTION II:
STRATEGIC OVERVIEW
Corporate Strategy 22
Strategic Objectives 24
Business Model 26
Vertical Integration and Operating Model 28
Global Presence 30

SECTION III:
REVIEW OF THE YEAR
Industry and Market Overview 34
Chief Financial Officer's Review 36
Divisional Review
– Mining 40
– Metallurgical 42

SECTION IV:
OUR GOVERNANCE
Corporate Governance 46
Management Team 48
Risk Management 52

SECTION V:
SUSTAINABILITY
Health and Safety 58
Our People 60
Environment and Communities 62

SECTION VI:
ABBREVIATED IFRS CONSOLIDATED FINANCIAL STATEMENTS 2012
Contents 66
Independent Auditor's Report 67
Abbreviated Consolidated Balance Sheet 68
Abbreviated Consolidated Income Statement 69
Abbreviated Consolidated Statement of Comprehensive Income 70
Abbreviated Consolidated Statement of Cash Flows 71
Abbreviated Consolidated Statement of Changes in Equity 72
Notes to the Abbreviated Consolidated Financial Statements 73

SECTION VII:
ADDITIONAL INFORMATION
Parent Company and Principal Subsidiaries 110
Sales Offices 111
Glossary and Abbreviations 112

1 As of 31 December 2009, according to JORC standards.
2 As of 31 December 2012 (unaudited).

HIGHLIGHTS OF 2012

RESILIENT IN CHALLENGING TIMES

Revenues

US$**12,565**M

-11% year-on-year

Revenues totalled US$12,565 million, down 11% from the US$14,189 million in 2011, due to weakness in the global steel market.

Adjusted EBITDA[3]

US$**1,985**M

-46% year-on-year

Adjusted EBITDA amounted to US$1,985 million, down from the US$3,655 million in 2011. We managed to maintain a relatively high margin of 16% thanks to robust cost controls.

Net Profit

US$**435**M

-77% year-on-year

Net profit came to US$435 million, down 77% from the US$1,854 million in 2011, the main reason being falling global steel and iron ore prices.

Capital Expenditure

US$**765**M

-34% year-on-year

Capital expenditure stood at US$765 million, down 34% from the US$1,165 million in 2011, as we adjusted our investment plans in light of the difficult macroeconomic environment and to maintain our conservative debt position.

Crude Steel Production

12,459KT

-13% year-on-year

Crude steel production totalled 12,459 thousand tonnes, down 13% from the 14,375 thousand tonnes in 2011, due to weaker global demand for steel products.

Iron Ore Concentrate Production

36,224KT

+1% year-on-year

Iron ore concentrate production reached a record 36,224 thousand tonnes, up 1% from the 35,741 thousand tonnes in 2011.

3 Adjusted EBITDA is calculated as profits before income tax, financial income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, sponsorship and other charity payments, the share of results of associates and other non-core expenses. We will refer to adjusted EBITDA as EBITDA throughout this report.

ACHIEVEMENTS OF 2012

ONGOING INVESTMENT IN THE FUTURE

Investment in Growth

WE APPROVED OUR TECHNOLOGICAL AND FINANCING STRATEGIES, giving us a long-term roadmap for investments in technology, one that factors in a volatile macroeconomic environment and prioritises a conservative financial position.

WE ACQUIRED 49.9% OF ZAPORIZHSTAL, which is in line with our strategic goal of expanding steel production capacity and strengthens our product portfolio in Ukraine and Western Russia with rolled products.

WE IMPLEMENTED A PCI TECHNOLOGY PROJECT at Ilyich Steel, which allows us to lower production costs by fully eliminating the use of natural gas in our blast furnaces and reducing coke consumption.

WE EXPANDED OUR SALES NETWORK by acquiring a large warehouse complex in Belgorod (Russia) and four metals service centres in Western Ukraine – in Ternopil, Lviv, Khmelnytskiy and Ivano-Frankivsk – strengthening our sales presence in local markets, one of our priorities.

Sustainable Financing

WE SECURED A US$300 MILLION three-year pre-export finance facility to support the implementation of our Technological Strategy. The amount was more than initially envisaged due to strong interest from banks.

WE SECURED A US$325 MILLION three-year pre-export finance facility, which was higher than the original amount sought and oversubscribed.

WE REPAID A RECORD US$1.5 BILLION five-year pre-export finance facility, the largest in our history, on time and in full, underlining our reputation as a reliable borrower.

WE REPAID AHEAD OF SCHEDULE A €410 MILLION seven-year senior facility agreement used to buy Trametal (Italy) and Spartan UK (UK), as part of our drive to optimise Metinvest's corporate debt structure.

Social and Environmental Investments

WE CLOSED THREE OBSOLETE COKE BATTERIES AND MOTHBALLED THE SINTER PLANT at Azovstal ahead of schedule to dramatically reduce emissions in the surrounding communities.

WE MAINTAINED OUR SPENDING ON THE ENVIRONMENT AT US$455 MILLION[4] despite challenging market conditions, underlining our long-term commitment to achieving European standards for air quality through sustained technological investments.

WE INVESTED IN CUTTING-EDGE SAFETY TECHNOLOGY AT KRASNODON COAL, including new gas monitoring and employee positioning systems, as we continue to work towards the highest possible safety standards.

WE IMPLEMENTED OUR SOCIAL INVESTMENT POLICY, designed to promote long-term social partnerships with communities that deliver effective, long-term change, and we signed social partnership agreements with nine cities where we are present: Donetsk region (Avdiivka, Khartsyzk, Makiivka, Yenakiieve, Komsomolske, Dzerzhynsk and Mariupol), Dnipropetrovsk region (Kryvyi Rih) and Luhansk region (Krasnodon).

4 Includes operating expenses (US$354 million), capital expenditure (US$87 million), spending on environmental measures (US$14 million).

CHAIRMAN'S STATEMENT
AMIR AISAUTOV

BUILT TO OVERCOME CHALLENGES

Dear colleagues and partners,

Our results for 2012 clearly show that we can be successful even in less favourable market conditions, thanks to our careful long-term planning and carefully selected management team. We delivered a solid performance, while implementing long-term plans that will allow us to achieve our strategic goals and deliver maximum value for our investors and other stakeholders.

IN 2012, WE DELIVERED A SOLID PERFORMANCE, WHILE IMPLEMENTING LONG-TERM PLANS THAT WILL ALLOW US TO ACHIEVE OUR STRATEGIC GOALS AND DELIVER MAXIMUM VALUE FOR ALL OUR STAKEHOLDERS. WE KEPT OUR DEVELOPMENT ON TRACK AND CONTINUED IMPLEMENTING AN INVESTMENT PROGRAMME THAT AIMS TO SECURE OUR FUTURE AS A MARKET LEADER WHILE PRESERVING FINANCIAL STABILITY.

Amid declining prices and demand on global markets, Metinvest managed to preserve its sales volumes of steel and iron ore products last year, while our EBITDA margin was 16%. Above all, we kept our development on track and continued implementing an investment programme that aims to secure our future as a market leader while preserving financial stability. In 2012, we invested US$765 million in modernising the Group. We worked on improving not only technology and workplace safety, but also living conditions for residents in the cities where we operate.

We also approved our Technological and Financing strategies, which are closely linked and will enable us to deliver on our long-term vision. The 10-year Technological Strategy envisages investing in enhancing operational efficiency and product quality, meeting international standards of health and safety, and significantly reducing our environmental footprint.

Our Financing Strategy reinforces our commitment to financial sustainability and conservative approach to borrowing amid the volatile global economic environment. It enables us to adjust our capital expenditure according to market conditions, ensuring that financing is in place before we launch projects. It also focuses on funding new projects using the returns from completed ones and shifts certain larger-scale initiatives to the second half of our 10-year schedule.

INVESTING IN THE FUTURE

In 2012, as part of our Technological Strategy, we launched the pulverised coal injection (PCI) unit and a new turbine air blower at the blast furnaces of Ilyich Steel. At Yenakiieve Steel, we commissioned a state-of-the-art blast furnace, built in 2011. In addition, we began building a new air separation unit with Air Liquide, a new PCI unit and started preparations to build a new environmentally friendly sinter plant. We also completed the construction of an accelerated cooling unit at Azovstal, as part of a major project to upgrade the plate mill.

Meanwhile, we are conducting a major investment programme at Zaporizhstal,[5] which became part of Metinvest in July. The acquisition itself is part of our long-term development strategy to increase our share of value-added finished products and position ourselves as a world-class steel and mining company that is well established in every part of the production chain. By early 2013, we had already commissioned new facilities at Zaporizhstal: a sinter machine with a state-of-the-art gas-purification system with two powerful electrical filters.

All of these upgrades will make Metinvest's production more efficient and environmentally friendly. Overall, the energy-saving projects implemented last year have already brought savings of over US$35 million. Once all of the PCI units are operational, our gas consumption will fall to one third of current levels, which is expected to save over US$170 million.

LEADING IN ENVIRONMENT, SAFETY AND COMMUNITY INVESTMENTS

In 2012, one of our priorities was improving the environment in the communities where we are present. In addition to the investments in new technology detailed above, which make our production process more environmentally friendly and efficient, we closed three obsolete coke batteries and mothballed a sinter plant at Azovstal, as well as began to upgrade the sinter plant at Ilyich Steel. In March 2012, we began preparations to build a new, environmentally friendly sinter plant at Yenakiieve Steel, the first sinter plant project in Ukraine since it became independent more than 20 years ago.

5 As of 31 December 2012, Metinvest owned a 49.9% stake in Zaporizhstal. The investment is classified as a joint venture due to the strategic financial and operating decisions requiring the participation and approval of the other shareholders of Zaporizhstal.

Another continuing priority is the health and safety of our employees. Our goal is to create a safety-driven culture at all levels of the Group, backed by the latest equipment and technology. Last year, we spent more than US$160 million on health, employee protection and safety, as well as trained more than 15,000 employees in corporate health, safety and environment standards. We are also matching global best practices by introducing new workplace standards and 'cardinal rules' of safety that every employee must follow.

Among the key projects in 2012, we began to implement a major new system that improves safety in the production processes at the Sukhodolska mine in Krasnodon. It includes an electronic positioning system for tracking personnel underground, automated warning systems, remote control of equipment and transmission of real-time data from the mine to the surface. We also installed an advanced system for real-time remote monitoring of gas levels. In the future, we plan to implement these safety features and technology at all of Krasnodon Coal's operations.

In addition to our vital work on environmental and safety issues, we continued to invest in our communities in 2012. Despite a difficult economic environment, we maintained our commitments on the national, regional and local levels, and we were proud to rank among the top three companies in the Transparency Index Ukraine for CSR activities, as measured using the criteria of the Global Transparency Index.

We believe that our community projects should be subject to the same rigorous criteria as any other part of our business. Last year, to this end, we implemented the policy for social investment approved by the Board of Directors at the end of 2011. We also empower communities through the 'The City – Our Hands' project, which gives local residents, town officials and NGOs access to funding for their own projects from Metinvest. Among the many examples of this initiative last year, we are proud to have doubled our spending on social projects in Kryvyi Rih, invested in healthcare equipment in Luhansk and Krasnodon, and continued to support our football programme for more than 1,500 children and young people.

OUTLOOK

Despite the challenging market environment, we remain committed to our strategic objectives, one of which is becoming the supplier of choice for consumers of steel products worldwide. Key requirements for achieving this aim are energy-efficient, safe and modern facilities, uninterrupted supplies and a wide range of products, as well as the professionalism, dedication and commitment of every employee.

We are also reliant on the confidence and support of all our stakeholders. On behalf of the Supervisory Board, I would like to thank them for their continued support as we work to attain our vision.

I am confident that these factors will enable Metinvest to achieve a leading sustainable position on both domestic and international markets.

SECTION I:
STRONG MODEL IN CHALLENGING TIMES

IN A YEAR OF MAJOR CHALLENGES FOR THE GLOBAL STEEL INDUSTRY, METINVEST'S BUSINESS MODEL PROVED BOTH RESILIENT AND AGILE. AS ECONOMIC AND COMPETITIVE FORCES CREATE MORE UNCERTAINTY WORLDWIDE, WE ARE CONSTANTLY LOOKING AT HOW OUR VALUE CHAIN IS STRUCTURED AND MANAGED, AND WE OPTIMISE IT ACCORDINGLY.

IN THIS SECTION:

GENERAL DIRECTOR'S REVIEW..................08
KEY PERFORMANCE INDICATORS................11
STRATEGIC ACTIONS 12

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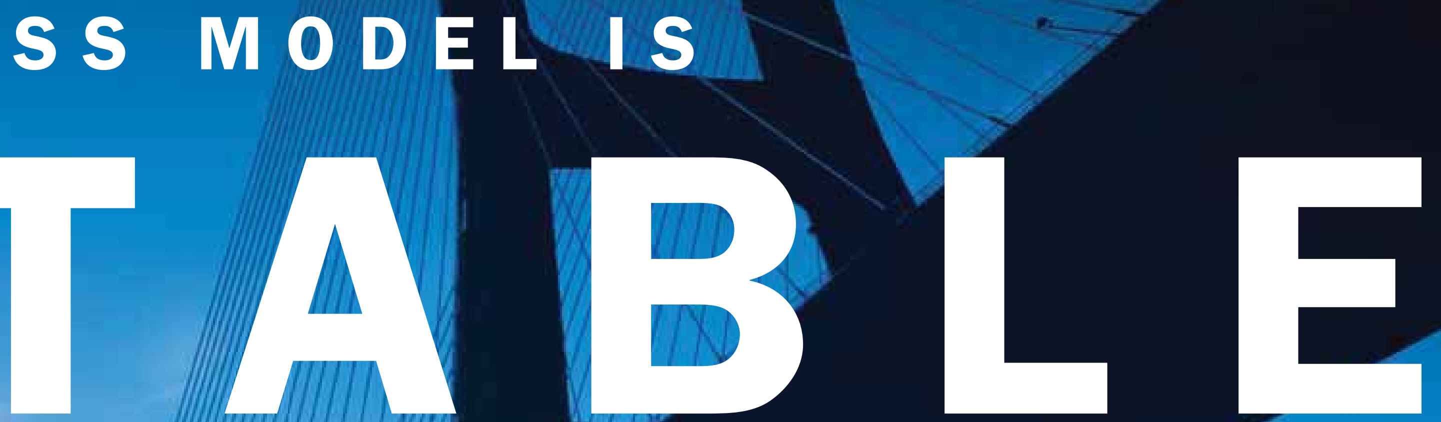
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GENERAL DIRECTOR'S REVIEW
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CHALLENGING TIMES REQUIRE STRATEGIC ACTION

While conditions on global steel and financial markets tested us in 2012, Metinvest was prepared. We have the right long-term strategy, business model and people in place to both overcome short-term volatility and address future challenges in a still-uncertain market environment. We have invested in technology and world-class business processes to increase operational efficiency and stay on course to become a leading European steelmaker.

RIGHT STEPS AT THE RIGHT TIME

By any measure, 2012 was a tough year for the steel industry, and we adopted a rigorous approach to operational efficiency and cost-cutting. In our view, this was critical to maintaining profitability in an environment of falling prices for steel and iron ore products, a situation that deteriorated as the year went on.

Our headline financial results reflected the overall conditions in the industry. For 2012, consolidated revenues amounted to US$12,565 million, while operating profit reached US$979 million and net profit totalled US$435 million. Although these numbers represent a decline from 2011, a focus on costs and improved business processes kept us firmly in the black despite the market environment.

At the same time, our operational results were more favourable overall. Crude steel production amounted to 12,459 thousand tonnes, down 13% year-on-year; while we mined 11,623 thousand tonnes of coking coal, up 3%, and produced 36,224 thousand tonnes of iron ore concentrate, up 1%.

Overall sales volumes for the Metallurgical division were down by just 1%, while for the Mining division they were up 3%.

Our long-term corporate strategy was designed to shield us from uncertainty. The scale of our production, captive resource base, global sales presence and diversified product mix gives us a strong competitive advantage in serving our core markets. At the same time, a commitment to business excellence and conservative financial management helps us to execute our strategy while reducing costs and improving efficiency.

DECISIVE STRATEGIC ACTION

We are taking the right steps to navigate the current headwinds and emerge even stronger. Last year, we approved a 10-year Technological Strategy. Together with our long-term Financing Strategy, also initiated in 2012, our Technological Strategy provides a roadmap for investments that will increase production capacity and efficiency, improve product quality, enhance workplace safety and reduce our environmental footprint and costs by lowering our emissions and consumption of natural gas and electricity.

We have designed the Technological Strategy to be flexible. This allows us to react to changes in the external environment and availability of funding. In the short term, we prioritised projects that have the shortest payback period and bring rapid benefit to our business. We were able to make substantial progress in several key technology projects, despite adjusting our capital expenditure to US$765 million in 2012. In our view, the progress last year has allowed us to keep our long-term strategy on course, a significant achievement given the challenging market conditions.

To provide just a few examples of the last year's projects, in the Metallurgical division we completed the construction and launch of hot testing of the pulverised coal injection (PCI) unit at Ilyich Steel. We also advanced plans for a PCI unit at Yenakiieve Steel. PCI technology allows us to eliminate the need for natural gas in the production process and use coke more efficiently. In addition, we completed an accelerated cooling unit at the plate mill at Azovstal, allowing us to expand the range of plates produced there while lowering costs.

In the Mining division, we built a crusher and conveyor system to maintain capacity and production levels at Northern GOK. We also invested more than US$50 million at Krasnodon Coal to maintain production and install state-of-the art safety control systems. Meanwhile, we are completing the final phase of construction at the Affinity Mining complex at United Coal to secure long-term supplies of high quality coking coal.

Another strategically important step undertaken in 2012 was the ongoing implementation of the continuous improvement (CI) programme, which is based on lean principles. CI covers various changes in business processes that allow us to improve the operational performance of our assets and the Group as a whole by taking a systematic approach to analysing problems and searching for solutions

WE ARE TAKING THE RIGHT STEPS TO NAVIGATE THE CURRENT HEADWINDS AND EMERGE EVEN STRONGER. OUR 10-YEAR TECHNOLOGICAL AND FINANCING STRATEGIES PROVIDE A ROADMAP FOR INVESTMENTS THAT WILL INCREASE PRODUCTION CAPACITY AND EFFICIENCY, IMPROVE PRODUCT QUALITY, ENHANCE WORKPLACE SAFETY, AND REDUCE OUR ENVIRONMENTAL FOOTPRINT.

throughout our organisation. Savings from CI initiatives amounted to around US$300 million last year, a major contribution to profitability.

In 2011 and 2012, we implemented several CI projects in the Metallurgical division, including at Azovstal, Yenakiieve Steel, Ilyich Steel and Khartsyzk Pipe. We also launched pilot projects in the Mining division, including developing a CI system at Northern GOK and beginning CI projects at Krasnodon Coal and United Coal.

A further strategic action that has great potential to strengthen liquidity and improve business processes is a Group-wide programme launched last year to identify areas where our working capital could be used more efficiently. The best way to release additional cash is by reducing exposure to bad debt, excess inventory and other costs. We have reviewed these areas based on our 2011 performance and begun to initiate processes, such as order-to-cash, procure-to-pay and forecast-to-fill, to unlock the value of working capital.

Furthermore, we continued to expand and improve our sales network and product range, while focusing on our key geographic markets. We acquired a 49.9% stake in Zaporizhstal, one of Ukraine's largest steelmakers, which has a portfolio of products well suited for our various markets, including Ukraine and Russia. We also strengthened our sales presence by acquiring metals centres in Russia and Western Ukraine.

GENERAL DIRECTOR'S REVIEW
CONTINUED

These efforts were reflected in our sales mix. The share of shipments to Ukraine increased by 4 percentage points, as did sales to the Middle East and North Africa (MENA), another core market for us. The share of sales to the CIS remained stable. Ukraine, Russia and MENA drove our steel sales. All of this underlines the importance of our global sales presence, continued expansion of our product mix and focus on key markets.

Alongside these headline strategic steps to make our business more resilient and fulfil our long-term strategy, we continued to optimise our business processes. We made substantial progress in implementing a centralised Sales and Operations Planning (S&OP) function at the Group level to create further value. This allows us to plan production and sales transparently.

FOCUS ON SAFETY

In 2012, we continued to invest in health and safety, particularly by buying equipment, on which we spent more than US$160 million alone.

We continue to institute Group-wide standards for industrial and workplace safety. One main goal of our continuous training programmes is to foster a culture where safety is a reflex for each worker as they look out for themselves and their teams.

As mentioned, last year, we invested significant resources in safety systems at Krasnodon Coal's Sukhodolska mine, including the test deployment of state-of-the-art gas sensors and positioning systems that allow us to track our workers. We also took other practical steps, such as installing medical facilities in the mine itself and auditing the safety of equipment, as electrical sparks represent the main risk of underground explosions.

RESPONDING TO OUR STAKEHOLDERS

In 2012, in response to the environmental situation in Mariupol, we decided to close three obsolete coke batteries and mothball the sinter plant at Azovstal. We calculate that the closure of the coke batteries will reduce emissions by 6,162 tonnes a year, representing 50% of the total emissions from Azovstal's coke shop. The mothballing of the sinter plant is expected to decrease emissions by 32,875 tonnes a year, or 22% of Azovstal's total emissions.[6]

We also accelerated existing investment plans to address emissions. We began engineering works to modernise the sinter plant at Ilyich Steel. In March 2012, we started preparations to build a new, environmentally friendly sinter plant at Yenakiieve Steel, the first sinter plant project since Ukraine's independence more than 20 years ago.

While these initiatives already featured in our Technological Strategy, our dialogue with the local community convinced us that we should act quickly. Our ability to take decisive action reflects both our deep engagement with the community and advantage of having flexible investment plans that allow us to respond to issues as they arise.

We continue to believe that our greatest contribution to the environment and our local communities is our long-term strategy of investing in new technologies. Over time, it will transform proud but ageing facilities into new-generation plants that are able to meet or exceed European environmental standards, while contributing to the prosperity of our communities.

Last year, we also developed and launched new social partnerships, a form of sustained community investment that combines the rigour of our business practices with long-term commitments to key stakeholders in the cities where we operate.

RIGHT ORGANISATIONAL MODEL

Last year, as another important part of our business transformation, we made significant progress on the key strategic initiative to introduce a single SAP Enterprise Resource Planning (ERP) system. This will create a uniform platform that will help us to streamline business processes and reporting across the Group and will be an important part of our S&OP function.

As part of the project, we analysed our business practices and created a model and a roadmap for implementing SAP. We also began training some of the approximately 40,000 people who will be involved in using the system. In 2013, we plan to pilot SAP at several assets. In total, we expect to spend some US$250 million on the initiative, an important part of our drive to create a new organisational model with world-class business processes.

CHALLENGES AHEAD

Our experienced management has endured periods of macroeconomic instability and volatility in the steel and iron ore markets in the past, notably in 2008 and 2009. In our view, 2013 will be another challenging year for the global steel market. Nonetheless, we believe in our long-term vision and are confident that we have the right strategy, business model and processes in place to achieve our ambitions.

On behalf of our entire team, I would like to express my gratitude to our shareholders and investors for their confidence and support last year. I would also like to acknowledge our many stakeholders for engaging so positively with us in our drive to create more vibrant communities. Finally, I would like to thank our entire team for their dedication and willingness to embrace change, as we implemented our new operating model and focus on delivering even more long-term value for all stakeholders.

6 These figures are based on the assumption that the plant runs at full capacity.

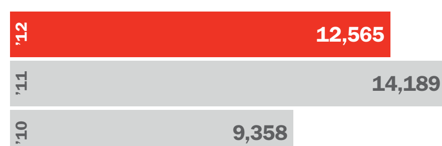
KEY PERFORMANCE INDICATORS

Revenues

US$**12,565**M

-11%

The overall top line declined, as revenues fell by 12% for the Metallurgical division and 10% for the Mining division. Similar to 2011, the Metallurgical division accounted for 74% of external sales and the Mining division for 26%.

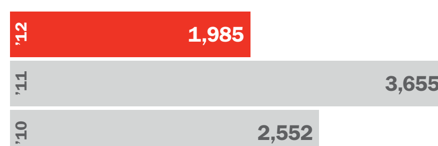


EBITDA

US$**1,985**M

-46%

The EBITDA margin contracted to 16% last year, from 26% in 2011, due to the deterioration on the global steel market, as well as the low iron ore prices in the second half of the year. The Mining division reported a margin of 43% and the Metallurgical division a negative margin of 3%.

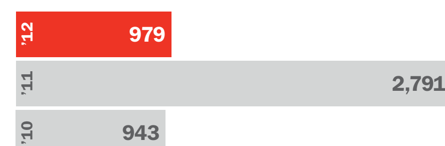


Operating Profit

US$**979**M

-65%

The drop in operating profit reflected the fall in overall revenues and a rise of some cost elements, such as distribution, while we successfully restrained general and administrative expenses.



Net Profit

US$**435**M

-77%

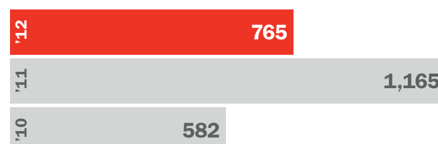
Net profit declined on the back of lower revenues and prices of steel and iron ore products. We achieved a net margin of 3%.

Capital Expenditure

US$**765**M

-34%

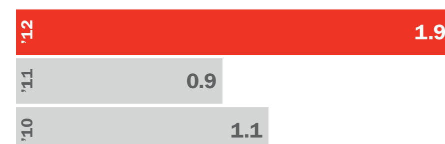
We took advantage of the flexibility of our Technological Strategy to focus on critical projects and retain a conservative financial position. The Metallurgical division accounted for 42% of capital expenditure and the Mining division for 58%.



Net Debt/EBITDA

1.9x

While our net debt to EBTIDA ratio increased in 2012, it remained comfortable. It reflects our continued prudent financial management and successful efforts to optimise our debt.



Iron Ore Concentrate Production

36,224KT

+1%

In 2012, we exceeded the previous year's record for iron ore concentrate production.

Coking Coal Production

11,623KT

+3%

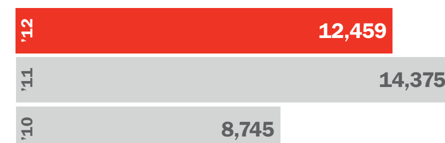
Production of coking coal increased last year, mainly due to additional capacity coming online at United Coal Company.

Crude Steel Production

12,459KT

-13%

Production of crude steel decreased amid a slowdown on the global steel market in 2012.



ACTION #1: WE HAVE ADAPTED OUR CAPITAL EXPENDITURE PLANS TO FOCUS ON THE MOST EFFICIENT INVESTMENTS IN LINE WITH OUR TECHNOLOGICAL STRATEGY

STRATEGIC ACTION #1: ADAPT CAPITAL EXPENDITURE

In 2012, we approved our long-term Technological and Financing strategies through 2022. We have designed both roadmaps to be flexible and responsive to the macroeconomic environment and our financial position. This allowed us to adjust our capital expenditure (CAPEX) plans in response to a slump in the steel market in 2012, especially in the second half of the year.

Our overall CAPEX in 2012, including investments and major repairs, amounted to US$765 million. While CAPEX declined compared with 2011, our Technological Strategy permits a flexible approach to our investment projects, enabling us to stay on track and meet our long-term strategic objectives.

In the short term, we are focused on projects that deliver cost savings and higher-quality products as well as enhance operational efficiency. We prioritise initiatives with the shortest payback periods and use the returns from completed projects to fund new ones. In each case, we refer to our Financing Strategy to preserve our conservative approach to debt. Before launching new projects, we ensure that sufficient guaranteed financing has been arranged to fund the committed part of the project. Last year, we decided to shift certain larger-scale projects to the second half of our 10-year planning horizon.

In the Metallurgical division, CAPEX totalled US$313 million in 2012. Key investments included the completion of construction and cold testing of the pulverised coal injection (PCI) unit at Ilyich Steel, which began hot testing in August. We also began building a PCI unit at Yenakiieve Steel. Both projects will allow us to eliminate the need for natural gas in the production process and use coke more efficiently.

Another project that had a positive effect on our business was the accelerated cooling unit at the plate mill at Azovstal. Completed in October, it allows us to expand our range of plates produced while lowering costs. In addition, the construction of a new turbine air blower at blast furnace no. 3 at Ilyich Steel increases the unit's productivity while reducing coke consumption.

One example of innovative approaches to investment is the project to build an air separation unit at Yenakiieve Steel to provide oxygen, nitrogen and argon for steel production. French company Air Liquide is building and will operate the unit, while Metinvest will provide the necessary infrastructure, reducing the need for upfront investment. We also began preparations to build a new, environmentally friendly sinter plant at Yenakiieve Steel, the first sinter plant project in Ukraine since it became independent over 20 years ago.

In the Mining division, CAPEX totalled US$426 million last year. Key investments included the construction of a crusher and conveyor system to maintain capacity and production levels at Northern GOK.

Meanwhile, we advanced plans to finish the fourth and last section of the Affinity Mining complex at United Coal Company in the US. When completed, it will provide 1.2 million tonnes of high-quality coking coal concentrate at lower cost. We also invested more than US$50 million at Krasnodon Coal in technology to maintain production and new safety and environmental protection systems.

These projects represent just some of the strategically important investments made in 2012 as part of our Technological Strategy.

NEXT STEPS

In 2013, we will continue to adjust our capital expenditure plans in line with market conditions, focusing on key strategic projects, including PCI technology at Yenakiieve Steel and Azovstal, and the new sinter plant and air separation unit at Yenakiieve Steel. This flexible approach to investments helps to ensure that we retain our competitive edge.

We are committed to maintaining momentum in our investments, as they are critical to the success of our corporate strategy. We believe that our flexible and modular approach will allow us to fulfil our long-term aims without sacrificing our conservative approach to debt and financial stability.

KEY INVESTMENT PROJECTS

METALLURGICAL DIVISION		EFFICIENCY	PRODUCT QUALITY	EXPANSION	ENVIRONMENT
ILYICH STEEL	Construction of PCI unit for blast furnaces nos. 1, 3, 4 and 5	■			
ILYICH STEEL	Construction of new turbine air blower no. 3 for blast furnace no. 3	■		■	
YENAKIIEVE STEEL	Construction of PCI unit for blast furnace no. 3	■			
YENAKIIEVE STEEL	Construction of new turbine air blower for blast furnaces nos. 3 and 5	■		■	
YENAKIIEVE STEEL	Construction of new Air Liquide air separation unit			■	
YENAKIIEVE STEEL	Construction of new sinter plant	■		■	■
AZOVSTAL	Construction of accelerated cooling system in plate mill	■	■		
MINING DIVISION		**EFFICIENCY**	**PRODUCT QUALITY**	**EXPANSION**	**ENVIRONMENT**
NORTHERN GOK	Construction of crusher and conveyor system	■			
UNITED COAL	Construction of Affinity mining complex	■	■	■	

ACTION #2: WE HAVE PURSUED GREATER EFFICIENCY, QUALITY AND CUSTOMER SATISFACTION THROUGH CONTINUOUS IMPROVEMENT AND LEAN PRODUCTION IMPLEMENTATION

STRATEGIC ACTION #2: PURSUE GREATER EFFICIENCY AND CUSTOMER SATISFACTION

We have implemented a continuous improvement (CI) programme across Metinvest Group as part of our lean production drive, to increase value and eliminate waste in manufacturing processes.

The CI programme encompasses various changes in business processes that allow us to improve the operational performance of our assets and the Group as a whole by taking a systematic approach to analysing problems and searching for solutions throughout the organisation. We estimate that the CI approach brought savings of around US$300 million in 2012.

One of the main objectives of the CI programme is to deliver sustainable cost savings at all levels of the Group. Last year, we worked to develop an overall methodology for the application of CI, as well as clear quantitative and qualitative goals for the Group.

On a strategic level, we are seeking to improve the sourcing and flow of raw materials, increase consumption of secondary Fe-containing materials in sinter production, optimise fuel consumption and introduce other key cost-saving measures across the Group.

On a tactical level, we are seeking a full transition to a 'total cost of ownership' approach. This looks at the total direct and indirect costs of a transaction when making decisions about the procurement of raw materials and equipment. We also intend to further centralise maintenance and other functions.

On an operational level, we are seeking to make changes in existing processes by optimising the number of employees, including technicians and workers. While each measure has a small effect by itself, together they bring a cumulative benefit and help us to improve working conditions, and increase safety, transparency and management efficiency.

Every member of our team plays an important part in the CI programme, and we have established mechanisms to engage employees in the process. These include a suggestion system for both small and large-scale 'bottom-up' improvements, 'CI teams' to deal with mid-range production issues and cross-functional working groups to manage larger and more complex tasks.

To measure progress, Metinvest has introduced tools and conducts internal and external benchmarking. We have also launched lean training programmes for all levels of management and CI team members. We have adjusted our motivational system, in particular KPIs, to take CI measures into account. Finally, we have developed a 'tool' to set targets and give enterprise managers a way to measure the involvement of their employees.

In 2011 and 2012, we implemented several CI projects in the Metallurgical division, including at Azovstal, Yenakiieve Steel, Ilyich Steel and Khartsyzk Pipe.

One example of a successful CI project is the implementation of the 'Rapid Reaction System' at our metallurgical plants. Under the system, employees identify problem areas in the production process, and a timeline and chain of responsibility for resolving the issue. As an example, the system helped to improve the first-pass rate, which measures the share of goods that do not have to be re-worked, at the rail and heavy long sections shop at Azovstal from less than 80% to around 95% by the end of 2012.

We also implemented pilot projects in the Mining division in 2012. We developed a CI system at Northern GOK together with McKinsey, while Boston Consulting Group (BCG) advised us on CI projects at Krasnodon Coal and United Coal Company. These test initiatives aim to develop our employees' abilities to analyse and solve problems in future projects.

NEXT STEPS

We will continue implementing steps to achieve the long-term goals defined for our CI programme to 2016. They included setting quantitative goals, with overall targeted economic effects distributed between enterprises in both divisions for each year. In qualitative terms, we have developed a CI system as the aggregate of processes and results that create the right conditions for changing the culture of production. This involves both managers and workers and has vast potential for delivering long-term cost savings and making the entire Group more resilient.

PART OF OUR LEAN PRODUCTION DRIVE, CONTINUOUS IMPROVEMENT ENCOMPASSES VARIOUS CHANGES IN BUSINESS PROCESSES THAT ALLOW US TO IMPROVE THE OPERATIONAL PERFORMANCE OF OUR ASSETS AND THE OVERALL GROUP BY ANALYSING PROBLEMS AND SEEKING SOLUTIONS SYSTEMATICALLY. WE ESTIMATE THAT THIS APPROACH BROUGHT SAVINGS OF AROUND US$300 MILLION LAST YEAR.

ACTION #3: WE HAVE LAUNCHED A MAJOR INITIATIVE TO OPTIMISE WORKING CAPITAL AND ENHANCE LIQUIDITY ACROSS THE GROUP

STRATEGIC ACTION #3:
OPTIMISE WORKING CAPITAL AND ENHANCE LIQUIDITY

In 2012, we launched a Group-wide programme to identify areas where our working capital, which represents the operating liquidity available to our business, could be used more efficiently. Working capital programmes have a material, positive effect on enterprise value, and improving cash flow is important in any economic environment, as it is the cheapest source of liquidity.

We began identifying the scope for optimising working capital and opportunities to unlock the hidden benefits in such processes as sales and cash collection, procurement and payments and stock management. To help us to conduct a thorough and independent analysis of the gaps between existing and best practices across the entire value chain, we brought in consultants from Ernst & Young.

During the assessment phase, we conducted a comprehensive statistical analysis of our working capital during 2011. We identified existing constraints, behaviours and areas where we could achieve gains, gaps between our current processes and leading practices, and measurable areas for improvement throughout.

For accounts receivable, we reviewed the entire process, from commercial policies and controls to sales force incentives, customer service, invoice processing, credit and collection management, dispute management, receivable terms, outstanding balances and past due amounts. For accounts payable, we analysed our purchasing policy, the categorisation of spending, payment triggers, frequency, timing, vendor payment terms and outstanding balances. Crucially, we also reviewed key inventory segmentation, classification and other supply chain elements, including the flow of information and signals for replenishment.

To ensure a thorough analysis of the value chain, we created a value-added map of our Group, identifying areas where our working capital processes could be more seamless and coordinated between assets. In all of these areas, we agreed on our findings and the potential savings with our enterprises, and conducted workshops to obtain the consent of key internal stakeholders and discuss the options for the implementation to achieve rapid results and succeed in longer-term opportunities.

In line with leading practices in working capital management and to eliminate waste and promote best practices, it is crucial to implement changes in our enterprise resource planning (ERP) and other supporting systems, create incentives linked to working capital and track and enforce changes in policy. Therefore, as part of this project, we have developed a 'roadmap' for our working capital system that provides specific action plans for all enterprises. We have already implemented some of the corresponding key performance indicators (KPIs), while others will go into effect as part of the pilot implementation of our Group-wide SAP ERP system.

With the right framework in place, we can now follow the progress of the working capital initiatives already under way. For example, we can closely monitor excess and slow-moving stocks, as well as key material flows between our enterprises based on 'on-time-in-full' (OTIF) principles, which are designed to deliver the exact orders on time to our customers.

NEXT STEPS

We see working capital as not only a great source of cash, but also a barometer of business process effectiveness. To sustain change, we will continue to monitor the outcomes of this project, as well as conduct similar assessments in the future. This will enable us to deliver improved working capital targets for the Group and keep our business aligned with leading practices in working capital management.

LAST YEAR, ACROSS THE GROUP, WE BEGAN IDENTIFYING THE SCOPE FOR OPTIMISING WORKING CAPITAL AND OPPORTUNITIES TO UNLOCK RESULTING HIDDEN BENEFITS IN BUSINESS PROCESSES. AS PART OF THIS PROJECT, WE HAVE DEVELOPED A 'ROADMAP' FOR OUR WORKING CAPITAL SYSTEM THAT PROVIDES SPECIFIC ACTION PLANS FOR ALL ENTERPRISES.

ACTION #4: WE HAVE ADJUSTED AND STRENGTHENED SALES BY EXPANDING OUR NETWORK, FOCUSING ON STRATEGIC MARKETS AND BALANCING OUR PRODUCT RANGE

STRATEGIC ACTION #4: ADJUST AND STRENGTHEN SALES

Volatility in the steel and iron ore markets placed significant pressure on sales volumes and margins last year, and we expect this to remain the case in 2013. We have responded to the challenge by expanding our sales network, focusing on strategic markets and increasing the share of value-added products in our sales mix, finished products now accounting for around 80% of overall output. This allowed us to preserve volumes and remain profitable, despite the difficult market conditions.

The acquisition of 49.9% in Zaporizhstal, one of Ukraine's largest steelmakers, has brought substantial additional capacity for rolled products. We were able to rapidly integrate its products into our existing sales channels in Ukraine and internationally.

In 2012, we also strengthened our sales and distribution network. We acquired Belgorodmetallsnab, our first service centre in Russia. We plan to expand with the market in Russia and focus on enhancing customer service, capturing what we believe to be additional value in our existing client base.

We also acquired four service centres in Western Ukraine, expanding our reach in the domestic market. Together with the additional output from Zaporizhstal, our strengthened sales coverage consolidates our position in Ukraine, which, despite the challenges, remains a primary focus and has vast long-term potential.

We also improved customer service and after-sales support, including the way in which we handle complaints.

In 2012, we began distributing our products in Europe through free zones in Bulgaria, Belgium and the UK. We delivered products to the zones and sold them through warehouses to ensure prompt delivery.

Importantly, we were able to adjust our iron ore sales to preserve margins. We increased the share of direct sales to end-users to more than 40% and boosted iron ore volumes to China, further from our other markets. We also concluded numerous long-term agreements to supply iron ore to Chinese customers.

Such contracts, which accounted for 18% of sales in 2012, give us guaranteed buyers for our iron ore and reduce our exposure to short-term price volatility on the spot market.

NEXT STEPS

In 2013, we intend to maintain our position in the key markets of Ukraine, Russia and Europe, while continuing to boost exports to the Middle East and North Africa and China. We are developing and streamlining our sales function to deliver superior customer service and focus on key account management. We also plan to apply our lean approach to sales and distribution, as we see substantial potential to streamline them further.

WE HAVE RESPONDED TO THE RECENT CHALLENGES BY EXPANDING OUR SALES NETWORK, FOCUSING ON STRATEGIC MARKETS AND INCREASING THE SHARE OF VALUE-ADDED PRODUCTS IN OUR SALES MIX. THE ACQUISITION OF ZAPORIZHSTAL, ONE OF UKRAINE'S LARGEST STEELMAKERS, HAS SECURED SUBSTANTIAL ADDITIONAL CAPACITY FOR ROLLED PRODUCTS.

SECTION II:
STRATEGIC OVERVIEW

IN DEVELOPING OUR LONG-TERM CORPORATE STRATEGY TO 2020, WE FACTORED IN VOLATILITY THROUGH TO 2016 AND FOCUSED ON INVESTING IN THREE KEY AREAS: OPTIMISING ENERGY CONSUMPTION, REDUCING OUR ENVIRONMENTAL FOOTPRINT AND ENHANCING PRODUCT QUALITY.

IN THIS SECTION:

CORPORATE STRATEGY 22
STRATEGIC OBJECTIVES 24
BUSINESS MODEL....................................26
VERTICAL INTEGRATION AND OPERATING MODEL 28
GLOBAL PRESENCE 30

IN CHALLENGING TIMES, O

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OUR VISION IS TO BE A LEADING EUROPEAN STEELMAKER, DELIVERING LONG-TERM RETURNS TO OUR INVESTORS AND CONTRIBUTING TO THE PROSPERITY OF THE COMMUNITIES WHERE WE WORK

Our strategy is to transform Metinvest from a mining and steel company into one of Europe's leading vertically integrated steelmaker with a focus on high value-added steel products, securing our position in our target markets for long and flat products. Our aim is to deliver maximum returns to our shareholders and investors, as well as build a better future for our employees and communities.

STRATEGY UPDATE

Our corporate strategy is built around a long-term vision to 2020 and is the foundation for our robust business model. Approved in 2010, it was designed to create a company fully adapted to long-term, structural trends in the global steel market, particularly the forecast shift in margins from raw materials to finished steel products and market consolidation.

The strategy envisions transforming the Group into Europe's leading steelmaker able to fully exploit its competitive advantages.

These include:

- **Vast resource base:** we are self-sufficient in iron ore and investing in covering our needs for high-quality coking coal
- **Low production costs:** our production base in Ukraine provides us with a skilled and relatively low-cost pool of labour and proximity to our raw material base
- **Favourable geographic location:** our position in both Europe and the CIS and our domestic rail and maritime transportation links give us access to key steel markets worldwide
- **Highly skilled management team:** our senior team has extensive experience in the steel industry, global financial markets and consulting, providing the right mix of skills for navigating turbulent conditions

Our long-term goal is to channel all of our iron ore resources, which cover more than 100% of our current internal requirements, into steelmaking. We also plan to expand our output of coking coal, which covered 65% of our needs in 2012, so that we are fully self-sufficient. From our expanded production base, we intend to increase the share of high-margin long and flat steel products to capture maximum value from the market.

Critical to the success of our strategy is increasing the quality and operational efficiency of production across the supply chain. We are addressing this proactively by investing in new technology and business processes, notably using lean principles and continuous improvement (CI).

In 2012, our drive to improve operational efficiency allowed us to weather the difficult global and domestic economic environment. Pilot projects in CI alone cut costs by around US$300 million in 2012, which was critical in maintaining profitability in a challenging macroeconomic environment.

We also continued to implement a new operating model aimed at streamlining processes and ensuring quality and accountability. This includes new processes for Sales and Operations Planning and the pilot introduction of an SAP system in 2013.

In 2012, Metinvest approved Technological and Financing strategies for the Group that set out investment plans for the next 10 years. Within this long-term framework, we intend to close all of our open-hearth furnaces. We envision producing all of our steel using continuous casting machines, and upgrading our rolling facilities to substantially reduce expenses and enhance quality. We believe that these measures will secure our position in our target markets for long and flat products.

Our Technological Strategy is designed to be both flexible and modular to take into account market conditions and our financial position. In the current environment, we have prioritised projects with a rapid payback period and substantial effects on efficiency. In line with our Financing Strategy, we are ensuring that projects already under way are completed and that funding is in place for any projects before they begin.

OUR STRATEGY IS DESIGNED TO CREATE A GROUP THAT IS FULLY ADAPTABLE TO LONG-TERM TRENDS IN THE GLOBAL STEEL MARKET. AS DEMONSTRATED IN 2012, OUR DRIVE TO IMPROVE OPERATIONAL EFFICIENCY HAS ALLOWED US TO WEATHER THE DIFFICULT ECONOMIC ENVIRONMENT.

Over the longer term, our Technological Strategy is focused on larger-scale initiatives delivering major gains in efficiency and higher value-added products. In the Metallurgical division, these include projects such as a pickling line, pre-painted galvanised iron (PPGI) line and hot-dip galvanised (HDG) line.

Our strategy also focuses on strengthening our own sales network in strategic markets. In terms of products, we aim to meet the needs of customers in full. In 2012, finished steel goods accounted for around 80% of our overall volumes. We invested in expanding our sales channels, including by acquiring new metals centres in Russia and Ukraine. In the Mining division, we have prioritised projects to boost the output of coking coal, improve the efficiency of iron ore processing and, most importantly, introduce measures to enhance worker safety.

VISION

We seek to become a leading vertically integrated steelmaker in Europe, delivering sustainable growth and profitability that are resilient to business cycles and providing investors with returns that are above industry benchmarks.

The headwinds faced in 2012 have not changed this; indeed, we believe that our strategy has allowed us to weather the external challenges presented by the commodity and business cycles.

In achieving our vision, we seek to adhere to the highest standards of business conduct and transparency, and have established a set of core values, set out below.

VALUES

Our values are an essential part of our vision and the crucial and non-negotiable components of our corporate culture.

They are:

- **Professionalism:** we strive to fulfil our responsibilities to the highest possible standards throughout
- **Client focus:** we pay the utmost attention to the needs of our customers
- **Life, health and the environment:** we seek to improve our well-being, our working conditions and the surroundings in which we live
- **Leadership:** we encourage initiative among employees primarily to develop and maintain a talent pool and encourage forward-thinking
- **Teamwork:** we foster a working culture of close cooperation and mutual concern among all personnel

OUR AIM IS TO APPLY OUR UNIQUE STRENGTHS TO DELIVER MAXIMUM VALUE FOR ALL STAKEHOLDERS

Our aim is to employ our vertically integrated business model to become a leading European integrated steelmaker by 2020, while delivering sustainable growth and profitability to shareholders. To achieve this, we have defined three clear objectives:

SUSTAIN OUR COMPETITIVE ADVANTAGE IN STEELMAKING

We possess a competitive advantage in steelmaking through our vertically integrated structure that takes advantage of our vast resource base. We also enjoy a favourable geographic location in both Europe and the CIS, with ready access to the markets of the Middle East and North Africa. Metinvest has also benefited from relatively low cost production.

We know that to become a leading European steelmaker, we must transition from reliance on low-cost production to global levels of efficiency and quality, through both investment to modernise our facilities under our Technological Strategy and implementation of world-class business processes.

We continue to invest in improving our raw material resource base. Our strategy envisions acquiring additional steel capacity to take advantage of our iron ore reserves through greenfield projects and M&A, as demonstrated by our acquisition of 49.9% in Zaporizhstal. We are also developing our production of coking coal, primarily through investments at United Coal Company in the US, and pursuing efficient supply strategies for PCI coal.

The development and implementation of lean production and the creation of a continuous improvement culture across the Group are another priority, as we seek to maximise the benefits of our existing capacity and adopt new technology.

STRENGTHEN OUR POSITION IN STRATEGIC MARKETS

We have a global sales presence: we market products in around 100 countries and our largest markets include Ukraine, Europe, the wider CIS, the Middle East and North Africa, and Asia. We have strong customer relationships that we are looking to leverage further by providing higher-margin finished steel goods through a strong distribution network and a customer-oriented approach to sales.

To meet our objective of increasing finished steel sales, we plan to upgrade and expand rolling steel capacity. We continue to develop our product strategy aimed at meeting client needs and focused on higher-margin steel products, such as galvanised sheets and coils, large-diameter pipes and rails. Finished steel products accounted for around 80% of production in 2012, and we are looking to increase this share further.

Our objective is to strengthen sales in our domestic market and key regional markets by developing our distribution network. The acquisitions of a metals centre in Belgorod in Western Russia, a warehouse in Penza and four metals centres in Western Ukraine in 2012 provide us with extended coverage in these key markets.

We are also building a strong product and customer-focused sales function. Since 2012, we have been developing a new technical support system for clients and improved systems for handling customer complaints.

ACHIEVE BUSINESS EXCELLENCE

We are committed to implementing outstanding practices in managing the Group and delivering results on behalf of all of our stakeholders. Metinvest is a multinational group with large assets that have long and proud histories. Our objective is to create a single, streamlined operating model based on best practices.

Examples of this work include our strategic project to implement an SAP ERP system across the entire Group. This system, which will be implemented across several parts of the business in 2013, will eventually provide us with a single system for monitoring performance, reporting and planning.

Investing in health, safety and the environment (HSE) is another critical aspect of our ambition to achieve business excellence. Achieving global best practices in HSE is in line with our values and an essential part of building an efficient organisation that meets or exceeds European standards.

We are also investing in people with the aim of delivering business excellence. In 2012, we opened our Corporate University, which is designed to instil key management skills in line with our corporate values of: professionalism; client focus; life, health and the environment; leadership; and teamwork.

CORPORATE GOALS, STRATEGIC OBJECTIVES AND INITIATIVES

METINVEST'S GOALS	STRATEGIC OBJECTIVES	STRATEGIC INITIATIVES
1 SUSTAIN OUR COMPETITIVE ADVANTAGE IN STEELMAKING	Match best practices in steelmaking	1 Develop Technological Strategy
		2 Develop capabilities to implement Technological Strategy
	Continue to improve self-sufficiency in raw materials	3 Implement modernisation CAPEX projects
		4 Pursue efficient supply strategies in hard coking coal
		5 Pursue efficient supply strategies in PCI coal
	Increase steelmaking capacity to maximise the value of iron ore reserves	6 Pursue efficient supply strategies in scrap/direct reduced iron
		7 Build effective logistics
	Establish and sustain a continuous improvement culture	8 Acquire more steel capacity through M&A or greenfield projects
		9 Develop and implement lean manufacturing
2 STRENGTHEN OUR POSITION IN STRATEGIC MARKETS	Increase the share of finished steel sales	10 Upgrade and expand re-rolling steelmaking capacity
	Grow steel sales in domestic and international markets	11 Improve product strategies and product management processes
		12 Build a stronger distribution network
	Become the preferred supplier of steel products to key customers	13 Build a product and customer-oriented steel sales function
3 ACHIEVE BUSINESS EXCELLENCE	Implement best-in-class practices in managing the Group and delivering results	14 Build a high-performance operating model
		15 Implement SAP
		16 Build a shared corporate culture
		17 Develop and implement a talent management system
		18 Build a people engagement and performance management system
		19 Implement best standards in functional support for the business

OUR BUSINESS MODEL IS OUR BACKBONE

Comprising a combination of fundamental values and established strengths, our business model helps us to stand firm in turbulent times. Together, these qualities drive the development of our business, as we seek to maximise long-term value for all of our stakeholders.

STRENGTHS

Profitable Products and Services

We continue to expect a fundamental shift in industry margins from raw materials to finished steel products and this shapes our product strategy, which aims to deliver the highest value-added goods. Our investments in new technology for iron ore processing and steelmaking allow us to deliver products more tailored to clients' needs, while consuming fewer resources and generating less pollution. Even in turbulent times, we are expanding and streamlining our sales network, while our major project to optimise working capital is designed to improve the profitability of our operations wherever possible.

Financial Conservatism

We have consistently maintained a prudent financial strategy of low debt, as measured by our ratio of debt to equity or EBITDA, and periodic refinancing to reduce servicing costs and extend maturity. In our long-term Financing and Technological strategies, our two key investment roadmaps, we have allowed sufficient room for flexibility, enabling us to react promptly to changes in market conditions. Thanks to our considered approach, our performance indicators are above those implied by our assigned credit ratings, which themselves are capped by Ukraine's sovereign rating.

Geographic Location

Metinvest's main production assets are in Eastern Ukraine, which has well developed railway and sea transportation links. As such, we are ideally positioned to supply the growing domestic market, the EU and Russia. Our home region has low labour costs and a strong skill base for our industry, which has been concentrated in Eastern Ukraine for over a century. Ready access to the Black Sea allows us to reach the wider European, Middle Eastern and North African regions and key shipping routes to fast-growing markets worldwide. In addition, our US coal assets substantially contribute to resource security and create an arbitrage option on the coal market.

Corporate Social Responsibility

We take our corporate social responsibility seriously, as it is a key factor influencing our sustainability as a business. We work hard to support our local communities: we are Ukraine's largest employer, we work to reduce our environmental footprint, and we provide social assistance. To drive our progress, we set ourselves ambitious targets and issue a dedicated social report in accordance with global reporting standards.

Experience and Expertise

Having an experienced team on board is vital, particularly when weathering a storm. Our managers and employees at all levels have years of expertise, most having successfully navigated through two difficult decades of economic transition for the Ukrainian steel industry and having created a highly profitable and competitive business. Together, our executives have an impressive blend of cross-industry knowledge and international experience and qualifications, a vital strength as we pursue our ambition of being a leader in the European steel industry.

Strong Governance

Metinvest is committed to maintaining the highest standards of corporate governance, based on the principles of transparency and accountability at all levels. Alongside oversight by the Supervisory Board and its committees, we have established compliance and risk management functions at the executive level. Our rigorous corporate governance both enhances our performance and inspires confidence from the financial community, giving us access to capital markets on favourable terms.

Solid Relationships

Our close relationships with our customers and other stakeholders are based on trust, mutual respect and dialogue, and we work constantly to maintain them. With our customers, this includes bringing production and sales into close alignment to fulfil their needs. We are also investing in long-term social partnership programmes with our local communities, ones that involve them in deciding how best to improve the quality of life and the local business environment.

Investing in People

One of our greatest strengths is our employees, and we strive to give each of them every opportunity to reach their full potential. We invest in training both in-house, through our new Corporate University and on-site training, and through programmes with outside universities and companies. We provide our people with clear performance targets, a pathway to future growth and success, and incentives for improvement. We also provide benefits for them and their families. The reason for this is simple: we recognise that the success of Metinvest is tied to the success of its employees.

Vast Resources

Our substantial resource base is a major competitive advantage in maximising returns from the value chain. In 2012, we remained fully self-sufficient in iron ore concentrate and pellets, enabling us to both supply our steelmaking facilities and generate additional revenue on the commodities markets. We also continued to expand our coal production, particularly at United Coal's Affinity mine in the US. Ultimately, we envisage that our resources will fully meet the needs of our steelmakers.

Effective Risk Management

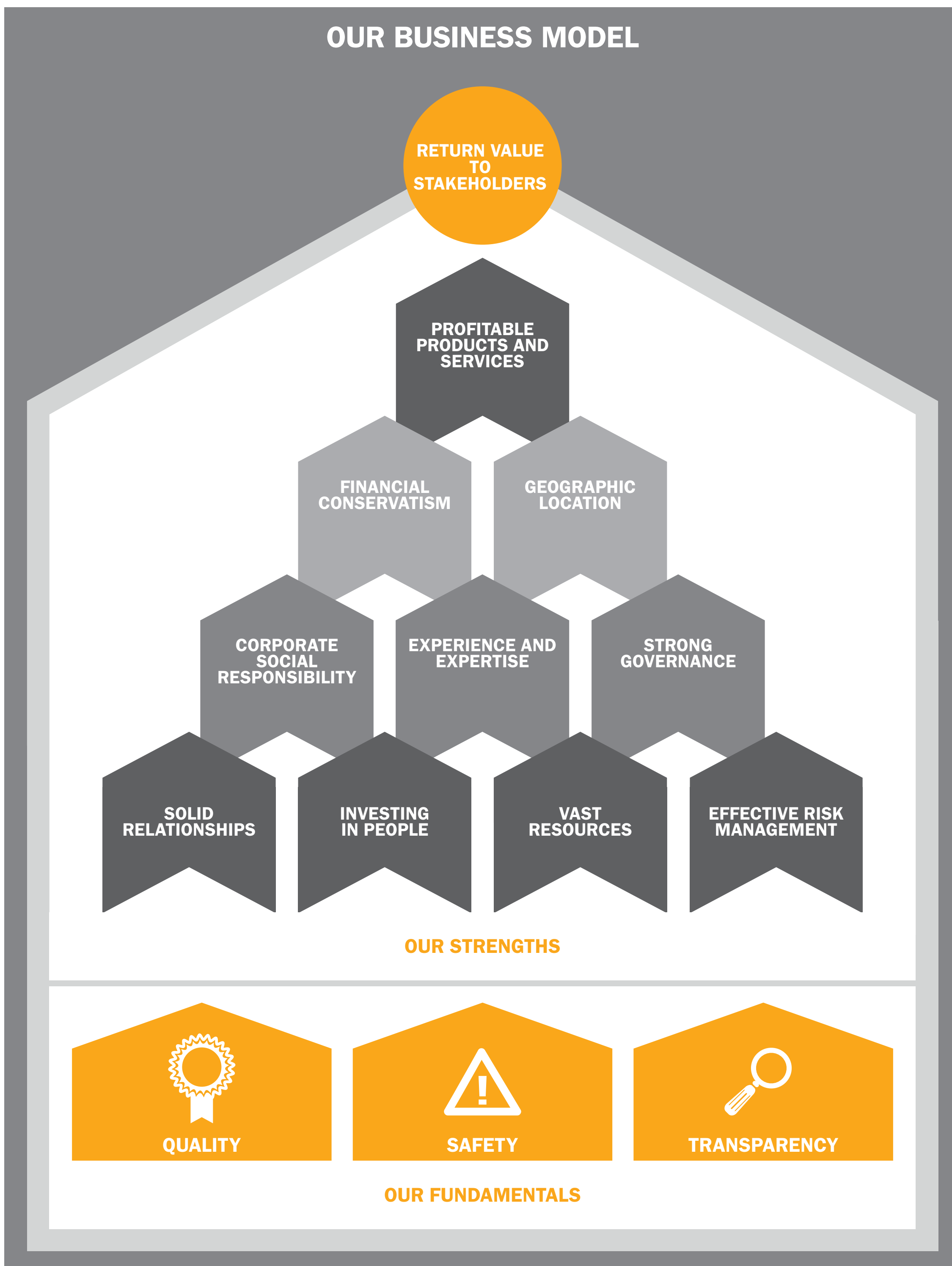
We live in an uncertain and changing world and to succeed we must recognise and mitigate the risks in our business wherever possible. We maintain a risk management function that constantly monitors emerging risks and develops plans to overcome them. We are open about the threats that we face, and we build risk management into all of our business plans. By planning for market, financial and operational risks, we can counter and even turn them into opportunities, giving us a competitive advantage over peers.

FUNDAMENTALS

Quality
Quality is critical in all aspects of our business – our products, services and processes – and one of the key catalysts in our drive to be present in every part of the value chain. While we are proud of the quality in our work, we always seek to do better, notably through our adoption of continuous improvement principles.

Safety
Safety is our single most important responsibility, and our investments in this area demonstrate that commitment. We have come a long way in instilling and promoting safety throughout our business, as shown by key performance indicators, and we will continue to do so.

Transparency
Transparency is key, as it inspires confidence. We believe that our policy of openness and accountability makes us more efficient, responsible and dedicated. It also gives investors and other stakeholders assurance, which is particularly important in volatile times.



VERTICAL INTEGRATION IS KEY TO SUSTAINABLE MARKET LEADERSHIP

Our long-term strategy envisions developing Metinvest as a truly integrated steelmaker to leverage our competitive advantages and control our value chain, which we consider the key to ultimate market leadership. We aim to deliver superior results, both operational and financial, at each step of the value chain, from mining and processing iron ore and coal to making and selling semi-finished and finished steel products. Thanks to vertical integration, the Group is able to react to changes in the market environment, improve product quality and achieve impressive economies of scale.

One of our primary objectives is to build on Metinvest's competitive advantages in steel production by increasing vertical integration still further. We intend to expand our steel output by processing all of our iron ore, which currently covers more than 100% of our internal needs, into higher value-added steel products. We also aim to secure stable and efficient supplies of other key raw materials, primarily high-quality hard coking coal, and we are doing this by developing our Ukrainian and US coal mines, especially United Coal Company where we continue to expand production through investments in new mines.

Today our organisational structure reflects our vertically integrated structure, consisting of two main divisions, Metallurgical and Mining. Our Metallurgical division focuses on steel and coke production. Our Technological Strategy, approved in 2012, provides a 10-year roadmap for continued technology investments, such as the implementation of PCI technology at our steel mills, to improve our efficiency and lower costs. Alongside this, we are also pursuing M&A to increase production capacity, as seen in our recent acquisition of 49.9% in Zaporizhstal, one of Ukraine's largest steel producers.

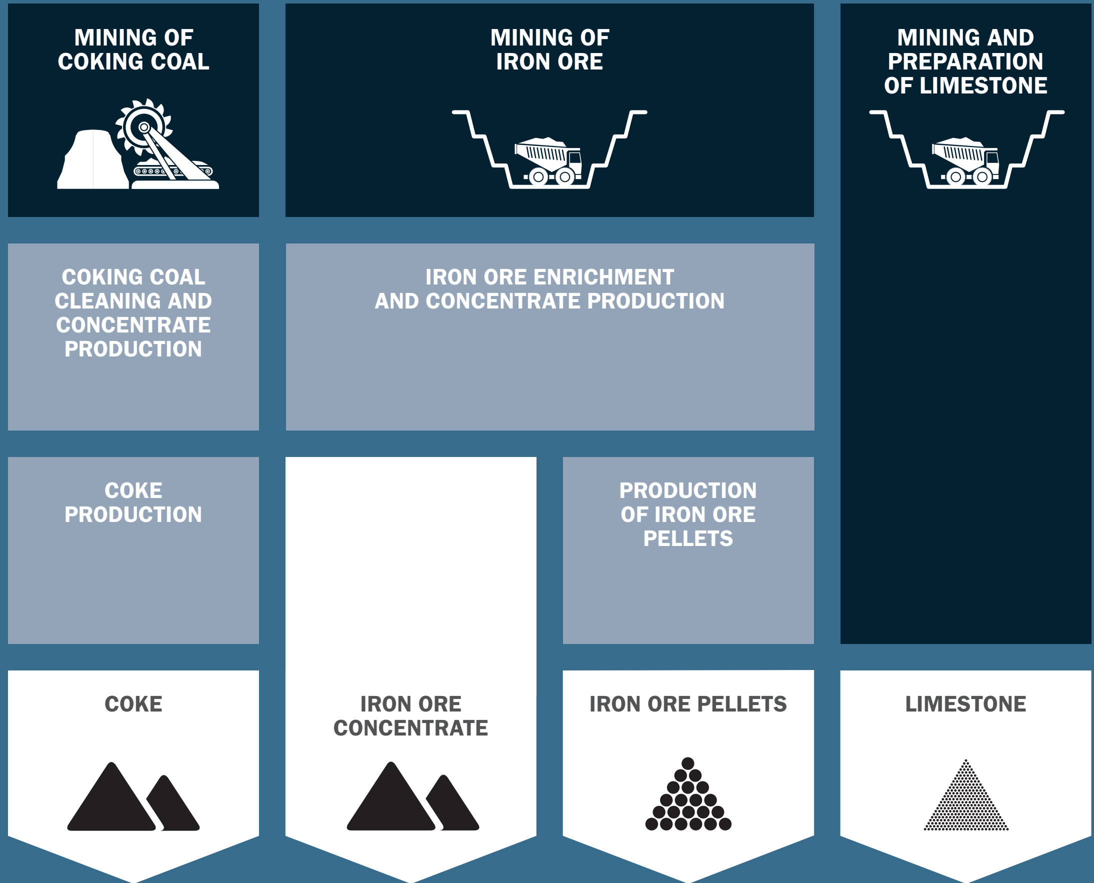
Our Mining division oversees the development of our raw material enterprises with the aim of increasing the quality and efficiency of iron ore production and boosting supplies of coking coal. In turn, this provides our metallurgical enterprises with a vast resource base to meet our long-term growth ambitions. The division is also the subject of major technology investments under our Technological Strategy to increase efficiency and, most importantly, safety, given the particular challenges of mining.

We are transforming how we manage our supply chain to create a centralised system at the Group level. Transformations in our Sales and Operations Planning (S&OP) processes provide us with more transparent and efficient planning and identify and implement cost-effective solutions. One example of this approach is the launch of the Single Purchasing Calendar, a centralised platform for purchasing materials and services that is open to all qualified potential providers. This allows us to ensure transparency and the most competitive prices when tendering.

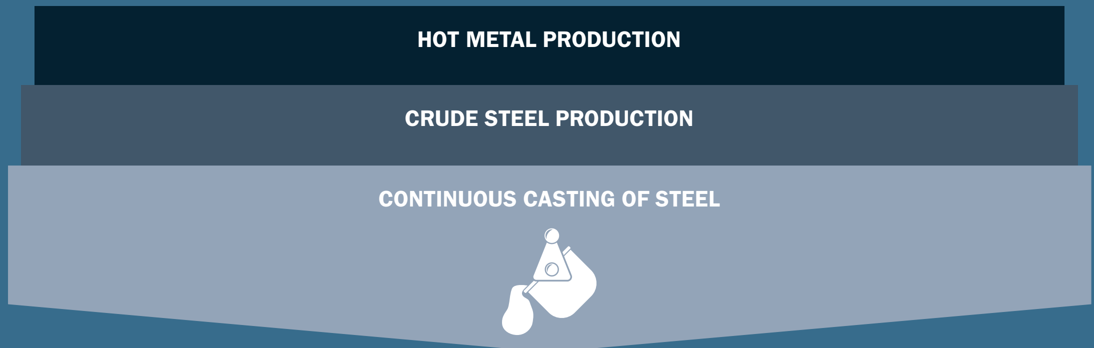
We continue to strengthen our Sales and Distribution function, which is centralised at the Group level and has a global reach, to provide downstream sales of steel products and, at present, iron ore and chemical products. Our centralised sales function, with the expanded distribution network, is able to offer higher-quality services to clients.

Throughout our vertical production chain, we have implemented a lean approach to manufacturing and are expanding this methodology to sales and distribution, inculcating continuous improvement solutions at each level of the Group. We see improving business processes as a crucial way to reduce costs and unlock the potential of our vertically integrated business, making us a stronger and more competitive steelmaker.

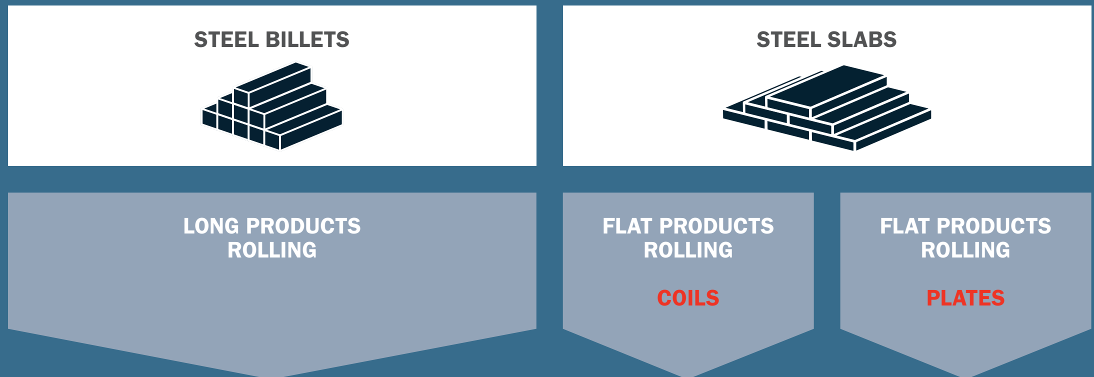
MINING



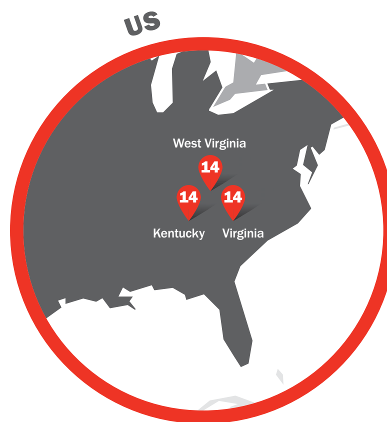
STEEL PRODUCTION



SEMI-FINISHED PRODUCTS



FINISHED PRODUCTS



WE ARE WELL POSITIONED TO MEET OUR CLIENTS' NEEDS WORLDWIDE

OUR NETWORK, PRODUCT MIX AND QUALITY, AND CUSTOMER SERVICE REFLECT OUR MISSION TO BE A EUROPEAN LEADER SERVING A GLOBAL MARKET.

We are a leading steel company in the CIS and one of the top 30 steelmakers and top 10 iron ore producers in the world. Most of our assets are located in a low-cost production region, while our unique geographic position ensures access to key markets in Europe, the CIS and the Middle East and North Africa. We have mining, steelmaking and rolling assets in Ukraine, Italy, Bulgaria, the UK and the US, as well as a global distribution network and sales offices in key regions, serving around 100 countries.

PRODUCTION ASSETS

METALLURGICAL DIVISION	Output in 2012
1 ILYICH STEEL	
Crude steel	5,138KT
2 AZOVSTAL	
Crude steel	4,589KT
3 YENAKIIEVE STEEL	
Crude steel	2,732KT
4 KHARTSYZK PIPE	
Large-diameter pipes	384KT
5 FERRIERA VALSIDER	
Hot-rolled plates and coils	630KT
6 METINVEST TRAMETAL	
Hot-rolled plates	495KT
7 SPARTAN UK	
Hot-rolled plates	147KT
8 PROMET STEEL	
Shapes and bars	236KT
9 AVDIIVKA COKE	
Metallurgical coke (dry)	3,665KT

MINING DIVISION	Output in 2012
10 INGULETS GOK	
Iron ore concentrate	15,277KT
11 NORTHERN GOK	
Iron ore concentrate	14,558KT
12 CENTRAL GOK	
Iron ore concentrate	6,389KT
13 KRASNODON COAL	
Coking coal (raw)	5,394KT
14 UNITED COAL	
Coking coal (raw)	6,229KT
Steam coal (raw)	507KT

SALES OFFICES

1 **CHINA**
2 **SINGAPORE**
3 **TURKMENISTAN**
4 **UNITED ARAB EMIRATES**
5 **RUSSIA** (13 OFFICES)
6 **LEBANON**
7 **UKRAINE** (24 OFFICES)
8 **TURKEY**
9 **BULGARIA** (2 OFFICES)
10 **LITHUANIA**
11 **SERBIA**
12 **ITALY** (2 OFFICES)
13 **TUNISIA**
14 **GERMANY** (2 OFFICES)
15 **SWITZERLAND**
16 **BELGIUM**
17 **UNITED KINGDOM**
18 **DOMINICAN REPUBLIC**
19 **CANADA**
20 **UNITED STATES**

Key to map:
- Location of production assets
- Existing markets
- Potential markets

OUR FINANCIAL AND OPERATIONAL RESULTS REFLECT THE CHALLENGES THAT ALL STEELMAKERS FACED IN 2012. WE MAINTAINED SALES VOLUMES AND OUR MARKET PRESENCE TO ENSURE THAT WE ARE WELL PLACED FOR A RECOVERY.

IN THIS SECTION:

INDUSTRY AND MARKET OVERVIEW............34
CHIEF FINANCIAL OFFICER'S REVIEW..........36
DIVISIONAL REVIEW: MINING.....................40
DIVISIONAL REVIEW: METALLURGICAL........42

IN THE FACE OF VOLATI

RESI

LITY, WE HAVE PROVED
LIENT

GLOBAL STEEL INDUSTRY GROWS MODESTLY, BUT THE OUTLOOK REMAINS UNCERTAIN

STEEL PRODUCTION AND CONSUMPTION

Despite economic turbulence in certain regions, particularly the EU, global steel consumption inched higher to set another record in 2012, driven mainly by rising demand in Southeast Asia and the North American Free Trade Agreement (NAFTA) countries.

China remains the largest consumer of steel by far, accounting for over 45% of global demand, followed by Japan (7%) and the US (around 6%). While concern about a slowdown in China again dominated the headlines, the International Monetary Fund (IMF) reported that world GDP climbed by 3.2% last year.

The World Steel Association (WSA) estimates that global steel production reached 1,548 million tonnes in 2012, up 1.2% year-on-year. At the same time, the average capacity utilisation ratio fell to 78.8%, down from 80.7% in 2011.

In terms of prices, Steel Business Briefing calculates that the monthly average was US$559 a tonne in 2012, compared with US$629 in 2011.[7] After reaching a high of US$610 a tonne in April, prices declined for most of the following months, recovering only slightly in November and December.

While steel demand remained strong in Southeast Asia, the NAFTA area and some select countries, it slumped in other regions. As the debt crisis continued to rage in the EU, apparent steel use (ASU) there plummeted by almost 9% year-on-year, the WSA estimates. After two years of recovery, Ukraine was also hit hard, ASU reportedly dropping by 1.4% compared with 2011, as the pre-Euro 2012 construction boom ended and concerns mounted about domestic economic growth and the country's ability to raise financing in a difficult environment.

In its latest World Economic Outlook, published in April 2013, the IMF estimates that world GDP will grow by 3.3% this year. As any recovery in the EU and the US could be prone to setbacks, we intend to remain flexible in adapting our product mix to changes in the global market.

RAW MATERIALS

Destocking, along with an increase in overall supply and decline in consumption, created significant pressure on bulk commodities in 2012. Prices collapsed in the third quarter, before recovering slightly in the fourth. This affected both iron ore and coal, which Metinvest both consumes and sells to third parties.

The Commodities Research Unit (CRU) reported that global production of iron ore decreased marginally in 2012, falling by 1% to 1,818 million tonnes. Australia increased production by far more than any market, its output rising by 41 million tonnes. Prices followed a much bumpier trajectory, however. After maintaining the lows of late 2011 in the first quarter, the benchmark spot price for iron ore peaked at US$150 a tonne in April. From there, it tumbled, hitting US$101 a tonne in September before rising to US$131 in December, giving an average for the year of US$130.[8]

The picture was similar on the coal market. Prices for hard coking coal (HCC) held steady for the first three months, before declining, finding a bottom in September and then regaining some ground in the final quarter. Over the year, the benchmark spot price for HCC varied widely, from US$235 a tonne throughout the first quarter to US$144 in September, averaging US$194 overall.[9]

As regards volumes of HCC, CRU calculates that global production increased to 608 million tonnes in 2012, around 3% year-on-year.

OUTLOOK

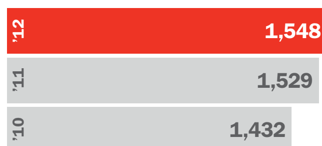
Our long-term outlook through to 2020 remains in place, with some adjustments: we expect a shift in margins along the value chain from raw materials to steel, although we now forecast that this will take place from 2016 as opposed to 2014. At the same time, last year was a reminder of how short-term turbulence can affect our key markets. On this basis, we intend to remain flexible and maximise the advantages of our vertically integrated model to benefit from consolidation in the global steel market.

Two of our key markets are Ukraine and Russia, and we have expanded our sales network to extend our reach in both. While the economy in Ukraine remains fragile, we see huge potential over the long term and intend to take full advantage of our dominant market position. As for Russia, major upcoming infrastructure projects, including the 2014 Winter Olympics in Sochi and the 2018 Football World Cup, as well as buoyant domestic demand for cars, should continue to drive steel consumption.

7 Steel Business Briefing (Semi-finished products/billet prices, FOB, at Black and Baltic sea ports).
8 Platts IODEX (62% Fe spot, China).
9 Platts TSI (Hard coking coal spot, FOB, Australia).

Global Production of Crude Steel

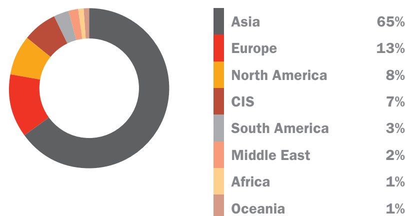
1,548MT



Source: World Steel Association

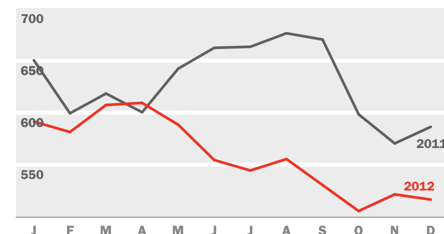
2012 Global Production of Crude Steel

1,548MT



Source: World Steel Association

Indicative Steel Prices (US$/Tonne)



Source: Steel Business Briefing (Semi-finished products/billet, FOB, Black and Baltic sea ports)

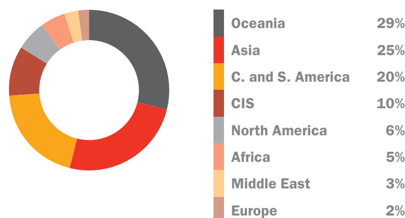
Global Production of Iron Ore

1,818MT

Source: CRU, includes production of pellets, lump and iron ore fines

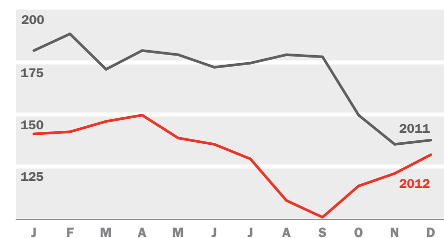
2012 Global Production of Iron Ore

1,818MT



Source: CRU, includes production of pellets, lump and iron ore fines

Indicative Iron Ore Prices (US$/Tonne)



Source: Platts IODEX (62% Fe spot, China)

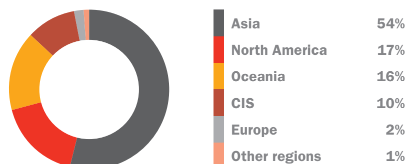
Global Production of Hard Coking Coal

608MT

Source: CRU

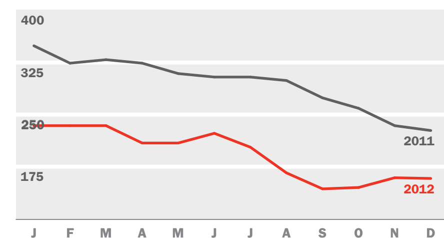
2012 Global Production of Hard Coking Coal

608MT



Source: CRU

Indicative Hard Coking Coal Prices (US$/Tonne)



Source: Platts TSI (Hard coking coal spot, FOB, Australia)

CHIEF FINANCIAL OFFICER'S REVIEW
SERGIY NOVIKOV

FACING MARKET CHALLENGES WITH DISCIPLINE AND RESILIENCE

Objectively, last year was challenging due to conditions in the markets for steel and bulk commodities. After remaining at already low levels in the first quarter, prices of steel, iron ore and coal products declined sharply until the fourth quarter, when they recovered modestly. Our financial results reflected both the difficult conditions in our industry and the strength of our business, as we preserved sales volumes and our positions in key markets.

OVERVIEW

While the pricing environment and overall macroeconomic situation in some of our main markets, including Europe, impacted our headline financial results, we were quick to introduce cost-cutting initiatives, remained flexible in our approach to capital expenditure and were successful in securing new borrowing facilities.

The slump in prices for our key products brought our profitability under pressure. EBITDA amounted to US$1,985 million for 2012, yielding an EBITDA margin of 16%.

We maintained our conservative approach to borrowing. Our net debt to EBITDA ratio stood at 1.9, and our ability to secure new sources of financing indicates the continued confidence of lenders. Last year, we repaid a US$1.5 billion five-year global refinancing facility, our largest-ever borrowing. We also repaid, ahead of schedule, a €410 million seven-year senior facility agreement as part of a drive to optimise our corporate debt. In addition, we arranged two new three-year pre-export finance facilities, for US$325 million and US$300 million – both of which were oversubscribed – and a debut €25 million 10-year export credit agency facility. In 2012, we generated net cash from operating activities of US$1,146 million. At the year-end, our cash balance stood at US$530 million.

Overall, our financial position remains solid, reconfirming the ability of our experienced management team to respond prudently during periods of turbulence.

While the outlook for our key markets, particularly Europe, looks uncertain, we are prepared for such an environment. Our ongoing investments in more modern production technology are delivering notable cost and efficiency gains, while our flexible business model and conservative debt management have helped us to maintain a steady financial footing.

REVENUES

In 2012, Metinvest's consolidated revenues totalled US$12,565 million, down 11% compared with US$14,189 million in 2011. The drop was due to a decline in revenues of 12% for the Metallurgical division and 10% for the Mining division. The Metallurgical division accounted for 74% of external sales and the Mining division for 26% (similar to the figures for 2011).

Overseas sales accounted for 67% of sales, down 4 percentage points (pp), due to a corresponding increase in the share of sales in Ukraine. The share of the Middle East and North Africa (MENA) rose by 4 pp in 2012, that of the CIS remained stable, while that of Europe fell by 7 pp.

Despite a challenging environment in key markets, we preserved sales volumes in the Metallurgical division last year. External sales of steel and coke products dipped by just 1% to 13,765 thousand tonnes.

Revenues from sales of semi-finished products fell by 33% year-on-year to US$1,418 million, primarily as a result of slab sales volumes declining by 1,154 thousand tonnes.

Last year, slab revenues fell to US$689 million, down 55% year-on-year, of which 49 pp was attributable to lower sales volumes and 6 pp to lower average prices. The decline in volumes was the result of unprofitable sales driven by the unfavourable market conditions and low buying activity in key slab consumption regions (Europe and Southeast Asia). As such, an oversupply of slabs mainly from Russian producers (and greater competition as a result), along with a continuing decline in flat product prices, caused slab prices to fall by an average of US$100 a tonne from January to December.

At the same time, sales of square billets soared by 57% year-on-year to US$480 million, mainly due to a rise in sales volumes of 344 thousand tonnes. The square billet market was influenced by trends in the raw materials and long products markets. Prices were volatile, with lower annual average rates and a steep decline in the fourth quarter. According to Steel Business Briefing (SBB), the monthly average for steel prices was US$559 a tonne in 2012, compared with US$629 a tonne in 2011.[10] Prices peaked in April, at US$610 a tonne, falling to a low of US$506 a tonne in October

10 Steel Business Briefing (Semi-finished products/billet prices, FOB, Black Sea Port).

amid a weak fourth quarter caused by concerns about a slowdown in the Chinese construction sector and continued weakness in Europe.

Despite the fall in prices year-on-year, the square billet market was more favourable than the slab market. While volume sales of billets began to decline from April due to weaker demand and falling scrap prices, short-term demand grew in August and November thanks to the relatively favourable situation in the Middle East (the main billet consumption region) and a positive trend in the scrap market.

As a result of these contrasting trends, billet prices were an average of US$80 per tonne higher than slab prices in 2012.[11]

Sales of finished products fell by 16% year-on-year to US$6,560 million in 2012, mainly due to decreases in sales volumes and average prices for flat and tubular products.

Revenues from sales of flat products dropped by 19% year-on-year, of which 8 pp was attributable to lower sales volumes and 11 pp to a fall in average prices. Sales of flat products were affected by adverse market conditions and persistent low buying activity. The market was influenced by strong competition between Russian and Ukrainian suppliers due to a drop in demand from the European Union (EU imports of flat products fell by 31% in 2012, while exports from the region increased by 15%), tougher sanctions against Iran, a more difficult political situation in the Middle East and North Africa and aggressive exports from Asian suppliers (China, Japan and Korea). These factors caused market prices to fall to a level at which sales in this segment were unprofitable throughout 2012.

Revenues from sales of tubular products decreased by 37% in 2012, of which 29 pp was attributable to lower sales volumes and 8 pp to a fall in average prices. Sales volumes of tubular products dropped by 188 thousand tonnes due to the completion of the Beineu-Shymkent project (Kazakhstan), the rescheduling of the next phase of the East-West project (Turkmenistan), and low demand for large-diameter pipes (LDPs) on the Russian market. Stronger competition from Russian and other international LDP producers drove down sales prices in all markets, causing the Group’s revenues from LDP sales to fall by US$311 million year-on-year.

Revenues from long product sales declined by 7% year-on-year in 2012, primarily due to a 6% fall in the average prices for long products, a result of deteriorating global market conditions and stagnation in the construction sector. Notably, long product sales decreased at a slower pace compared with those of flat products due to stable demand in key strategic markets: Ukraine, Russia and MENA.

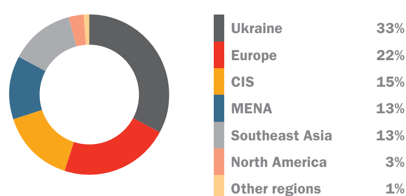
Revenues from railway product sales grew by 50% in 2012 amid an increase in sales prices and volumes (by 64 thousand tonnes). The main contributor to the growth was a rise in rail orders from CIS consumers.

11 Based on Free carrier (Incoterms rules).

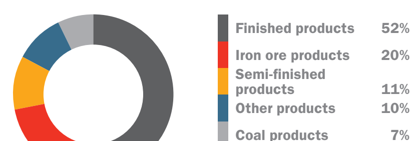
Total Sales

US$**12,565**M

By Region



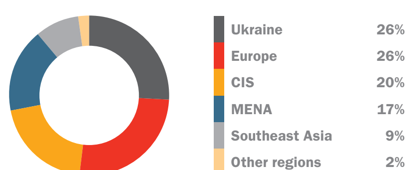
By Product



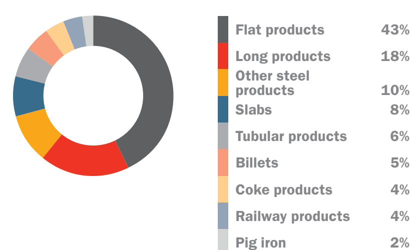
Metallurgical Division

US$**9,265**M

By Region



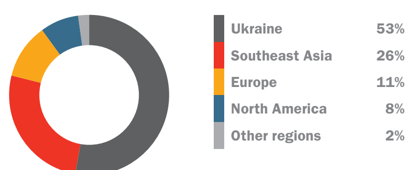
By Product



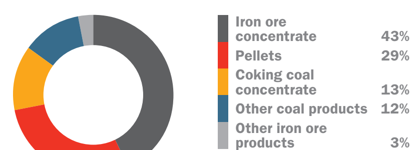
Mining Division

US$**3,300**M

By Region



By Product



Ukraine, Europe, the CIS and MENA remained our key strategic markets in 2012. At the same time, we saw some changes in our geographic sales mix due to growth in certain markets. Ukraine, the CIS and MENA drove the performance of steel products. The share of sales in Ukraine and MENA rose by 5 pp each, the CIS figure was up 2 pp, while Europe's share dropped by 8 pp and Asia's by 4 pp. Notably, we were able to maintain sales volumes of steel products, despite the product mix being affected by economic conditions in the steel industry.

As a result of these changes in our geographic sales mix, in 2012, 26% of the Metallurgical division's sales went to Europe, 26% to Ukraine, 20% to the CIS, 17% to MENA, 9% to Southeast Asia and 2% to other regions.

Sales volumes of iron ore products increased by 5% year-on-year to 25,895 thousand tonnes. The growth was driven mainly by the reallocation of 1,591 thousand tonnes of iron ore products to third parties (including 881 thousand tonnes of pellets and 710 thousand tonnes of concentrate) due to a reduction in internal consumption. Despite the rise in sales volumes, the price for iron ore concentrate remained unstable and relatively low, especially late in the third quarter and throughout the fourth.

Iron ore prices remained weak throughout 2012, indicative monthly spot prices averaging US$130 a tonne, compared with US$169 a tonne in 2011.[12] Monthly average spot prices reached a nadir of US$101 a tonne in September 2012. The sharp decline in concentrate prices in early September, together with a drop in the average price in the second half compared with the first, was the main reason for the Group's iron ore sales declining by US$319 million (down 11%).

One reason we were able to maintain sales volumes of iron ore was significantly greater efficiency in the distribution chain, which allowed us to increase iron ore sales to China without sacrificing margins. In addition, after signing our first long-term supply contracts in China in 2011, we increased the share of long-term contracted deliveries to 18% last year. We use the formula method of pricing for key clients, making sales more efficient.

In 2012, sales of coking coal concentrate decreased by 8% year-on-year to US$436 million. Revenues in this segment were affected by a fall in sales volumes of 302 thousand tonnes (down 12%) due to weak demand in the US market.

Spot prices of hard coking coal were also substantially lower in 2012, averaging US$194 a tonne, compared with US$296 in 2011.[13]

Sales of steam coal concentrate declined by 974 thousand tonnes (down 70%) in 2012. This was due to weak demand for steam coal in the US market, which prompted a reduction in output at United Coal Company's mines.

COST OF SALES

Last year, the cost of sales amounted to US$10,078 million, 3% higher than US$9,783 million in 2011. The main driver of the rise was higher resale volumes of Zaporizhstal's products, which accounted for US$607 million of the absolute increase. At the same time, the gain was substantially

12 Platts IODEX (62% Fe spot, China).
13 Platts TSI (Hard coking coal spot, FOB, Australia).

OUR OVERALL FINANCIAL POSITION REMAINS SOLID, RECONFIRMING THE ABILITY OF OUR EXPERIENCED MANAGEMENT TEAM TO RESPOND PRUDENTLY DURING TIMES OF TURBULENCE. OUR CONSERVATIVE APPROACH TO DEBT MANAGEMENT AND LEVERAGE HAS HELPED US TO MAINTAIN A STEADY FINANCIAL FOOTING.

limited by a US$614 million cutback in raw materials and energy amid declining crude steel production. Cost of sales as a share of consolidated revenues increased from 69% in 2011 to 80% in 2012.

DISTRIBUTION, GENERAL AND ADMINISTRATIVE EXPENSES

Distribution expenses consist largely of transportation costs, salaries paid to sales and distribution employees, commissions and the cost of materials. Distribution expenses totalled US$1,122 million last year, up 7% compared with US$1,049 million in 2011, mainly due to a year-on-year increase in railway tariffs in Ukraine.

General and administrative expenses consist largely of salaries paid to administrative employees; consultancy fees; audit, legal and banking services expenses; insurance costs; and lease payments. General and administrative expenses remained unchanged year-on-year at US$394 million in 2012, representing 3% of consolidated revenues.

OTHER OPERATING INCOME/ EXPENSES

Other operating expenses consist primarily of bad debt costs, foreign exchange gains less losses, sponsorship and other charity payments, gains on disposals of property, plant and equipment (PPE) and maintenance costs for social infrastructure.

Last year, Metinvest had other operating income of US$8 million, primarily attributable to gains on foreign exchange and disposals of PPE.

EBITDA

Metinvest's consolidated EBITDA amounted to US$1,985 million in 2012, down 46% compared with US$3,655 million in 2011. The EBITDA margin contracted from 26% to 16% due to the deterioration on the global steel markets throughout the year and relatively low iron ore prices in the second half. The Mining division generated a margin of 43% and the Metallurgical division of negative 3%.

FINANCE INCOME

Metinvest's finance income represents interest and other income. Finance income amounted to US$52 million in 2012, or 0.4% of consolidated revenues.

FINANCE COSTS

Metinvest's finance costs include interest expenses on bank borrowings and debt securities, imputed interest on seller's notes, and interest on retirement benefit obligations. These costs fell to US$321 million in 2012, down 10% from US$355 million in the previous year.

The share of finance costs in consolidated revenues remained unchanged year-on-year at 3%.

INCOME TAX EXPENSE

In 2012, Metinvest's income tax expense dropped by 59% year-on-year to US$266 million due to the 72% fall in profit before tax. The effective tax rate increased from 26% in 2011 to 38% in 2012 due to higher losses of metallurgical companies carried forward at the rate of 16% causing the consolidated effective tax rate to rise.

NET PROFIT

The bottom line amounted to US$435 million in 2012, down 77% year-on-year, giving a net margin of 3%.

CONSOLIDATED CASH FLOW

Cash generated from operations dropped to US$1,994 million in 2012, 35% lower than US$3,079 million in 2011. Net cash from operating activities amounted to US$1,146 million, down 41% compared with US$1,944 million in 2011.

Net cash used in investing activities fell to US$1,094 million, down 25% from US$1,454 million in 2011. This was primarily attributable to a decrease in purchase of PPE of US$378 million in 2012.

LIQUIDITY AND CAPITAL RESOURCES

The Group seeks to maintain an optimal capital structure to reduce the cost of financing, thereby ensuring its long-term stability and ability to deliver returns to shareholders and benefits to other stakeholders.

Metinvest's cash balance stood at US$530 million as at 31 December 2012, compared with US$792 million a year earlier. Proceeds from bank loans and bonds issued decreased to US$721 million last year, down 66% compared with the US$2,140 million in 2011. The Group arranged a US$85 million revolving loan with ING Bank in April, two three-year pre-export facilities (PXFs) – of US$325 million in June and US$300 million in December – and a debut €25 million 10-year export credit agency (ECA) facility.

Repayments of bank loans, bonds and seller's notes totalled US$500 million, compared with US$1,508 million in 2011. Notably, Metinvest completed the repayment of a US$1.5 billion five-year global refinance facility agreement, arranged in July 2007; and, ahead of schedule, a €410 million seven-year senior facility agreement, arranged in January 2008 and used to buy Trametal (Italy) and Spartan UK (UK).

Net debt (loans, borrowings and seller's notes less cash and equivalents) stood at US$3,748 million on 31 December 2012, compared with US$3,189 million a year earlier.

Metinvest's credit is rated by two international ratings agencies, Fitch ('B') and Moody's ('B3'), and Ukraine's sovereign rating currently caps the Group's ratings.

CAPITAL EXPENDITURE

Capital expenditure decreased by 34% year-on-year to US$765 million[14] in 2012. The Metallurgical division accounted for 42%[15] of capital expenditure and the Mining division for 58%.[15]

14 Includes corporate overheads of US$26 million in 2012.
15 Excludes corporate overheads.

WE MAINTAINED PRODUCTION OF IRON ORE AND COKING COAL, WHILE CONTINUING TO INVEST IN DELIVERING SAFETY AND EFFICIENCY GAINS

Despite the difficult overall market conditions, we boosted output of iron ore concentrate and coking coal slightly last year. We also continued to invest in advanced safety systems, as well as upgraded technology designed to increase efficiency amid rising external costs and volatile product prices.

HIGHLIGHTS

- **Record output of iron ore concentrate of 36,224 thousand tonnes (up 1% year-on-year)**
- **Coking coal output of 11,623 thousand tonnes (up 3% year-on-year)**
- **Successful pilot project to introduce continuous improvement (CI) at Northern GOK**
- **Ongoing implementation of enhanced safety systems and standards at Krasnodon Coal**

PRODUCTION ASSETS

Metinvest's main iron ore facilities are Ingulets GOK, Northern GOK and Central GOK, which produce concentrate and pellets. In addition, we own Komsomolske Flux Plant, a large Ukrainian producer of limestone and flux that has three active quarries and two crushing and beneficiation plants. We have around 7,433 million tonnes of long-life mineral resources, including 1,867 million tonnes of proven and probable iron ore reserves.[16]

In 2012, we were fully self-sufficient in iron ore and pellets. Major external buyers include Arcelor Mittal, the Industrial Union of Donbas, US Steel Kosice and Donetsk Steel. Alongside these, we sell iron ore concentrate to Chinese customers.

Our main coal production facilities are Krasnodon Coal in the Donbas region of Ukraine and United Coal in the US. We met around 65% of our internal coking coal needs last year. As of 31 December 2012, we had coal reserves of 627 million tonnes.[17]

Both domestic and foreign coke producers buy our US coal products. In Ukraine, they are Donetsk Coke, Yenakiieve Coke and Evraz' coke plants.

We maintain a quality management system that is certified by Bureau Veritas and Ukrainian state enterprise Krivbasstandartmetrologiya as meeting the standards required for producers of merchant iron ore concentrate and pellets. The system is also certified in accordance with ISO 9001.

PERFORMANCE

In 2012, our output of iron ore concentrate reached 36,224 thousand tonnes, up 1% year-on-year and marking a new record. Excluding intragroup sales and utilisation, the figure increased by 13% to 14,144 thousand tonnes. Our production of pellets amounted to 6,863 thousand tonnes, 10% higher than in 2011.

Last year, we mined 11,623 thousand tonnes of coking coal, up 3% year-on-year and another record, as additional capacity came online at United Coal in the US.

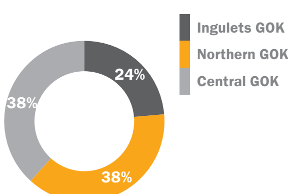
A major focus for the division was reducing costs while improving productivity and safety. As part of our drive to improve production efficiency, we implemented pilot continuous improvement (CI) projects in the Mining division in 2012. We developed a CI system at Northern GOK with McKinsey and increased operational efficiency at Krasnodon Coal in a project involving Boston Consulting Group (BCG). BCG also consulted on the project to improve operational efficiency at United Coal, which was completed in 2012.

All of these were organisational projects, aimed at creating a CI system at enterprises by teaching our people to analyse the causes of issues encountered in meeting standards, targeting incentives and developing skills for solving problems using lean methods. The next stage of the projects involves the identification of concrete CI initiatives and projects.

Last year, we also developed a three-year programme for industrial and occupational safety at Krasnodon Coal, based on technical and behavioural audits. As detailed in the Health and Safety section of this report, we trialled new high-tech safety systems to remotely monitor gas levels and track the position of employees at the Sukhodolska mine, as well as a project to assess and develop solutions for the safety and integrity of mineshafts,

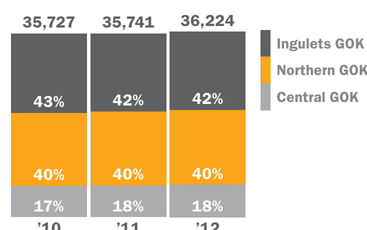
Iron Ore Reserves[16]

1,867MT



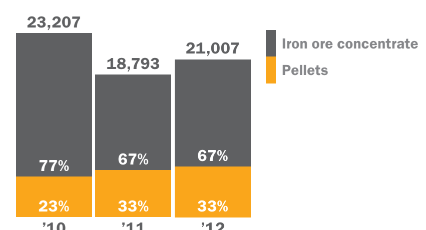
Production of Iron Ore Concentrate

36,224KT



Output of Iron Ore Products[18]

21,007KT



16 As of 31 December 2009, according to JORC standards.
17 As of December 2012 (unaudited).
18 Excludes intra-group sales and use.

among others. Despite the turbulent market conditions, we continued to implement long-term investment plans in 2012, and the division's capital expenditure totalled US$426 million. Major projects included the construction of a crusher and conveyor system at Northern GOK, as well as transportation systems, as part of a multi-year project that will enable us to maintain capacity and production volumes at current levels and reduce the cost of iron ore production and transportation. We invested US$34 million in the project last year, and the overall budget is US$315 million. We also advanced preparations to extend the crusher and conveyor system at Ingulets GOK.

Another important investment project was the reconstruction of the Lurgi 278-B pelletising machine at Northern GOK to reduce the cost of pellet production. Last year, we spent US$8 million on the project, the total cost of which is US$82 million.

At Ingulets GOK, we completed adjustment works for the second stage of the magnetic floatation refining facility launched in 2011. This involved investment of US$7 million in 2012, giving a total cost of US$42 million. The completion and launch of the facility resulted in an increase in concentrate production to 6.1 million tonnes per annum (tpa), from 3.1 million tpa in 2011, and we expect to boost output further in the future.

Meanwhile, we launched three new sections at the Affinity mining complex in the US, which now operates at 65% of capacity. We plan to open a fourth section in 2013. The expansion of Affinity will secure a greater supply of high-quality coking coal, in line with our long-term strategy.

Overall investment in Affinity stands at around US$150 million, with US$47 million spent in 2012.

Last year, the division played a major role in developing and approving a United Nations Development Programme designed to investigate health and safety issues facing miners in Krasnodon. More details can be found in the Environment and Communities section of this report.

OUTLOOK AND STRATEGY

The adoption of the Technological and Financing strategies in 2012 was a major development for the Mining division, as it established a clear, long-term investment agenda for the next 10 years. The Technological Strategy envisages investments in iron ore mining and processing that will increase the efficiency of our quarries, sustain current iron ore mining and concentrate production, reduce costs and make our crushing and concentration facilities more efficient.

Regarding coal, our strategy is to concentrate on decreasing production costs, increase output to cover the needs of our Metallurgical division, continue to improve safety and reduce our environmental footprint.

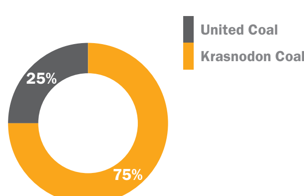
Specifically, in 2013 we plan to build on last year's work to improve both safety and efficiency at Krasnodon Coal. Our project to ensure the greatest possible industrial and workplace safety remains an absolute priority. We are also studying opportunities to invest in directed drilling technology. This dramatically improves efficiency while reducing risk by extracting methane, which can then be recycled through co-generation technology.

We are also reviewing our internal and third-party costs for repair work at our mining assets. In particular, we are examining how to eliminate equipment breakdowns through more preventative monitoring and maintenance work.

Finally, we plan to take our successful CI practices from each asset and apply them at our other mining assets, in line with our overall strategy of introducing lean production processes.

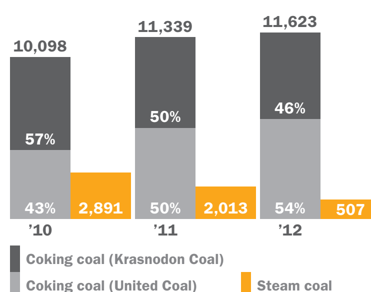
Coal Reserves[19]

627MT



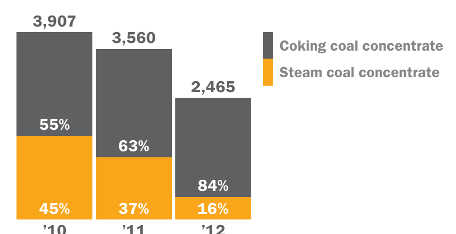
Mining of Coal

11,623KT



Output of Coal Products[20]

2,465KT



19 As of December 2012 (unaudited).
20 Excludes intra-group sales and use.

WE MAINTAINED STRONG STEEL OUTPUT LEVELS, WHILE INVESTING IN MORE EFFICIENT AND HIGHER-MARGIN PRODUCTION

Last year, amid challenging market conditions, our Metallurgical division contained a fall in output, while implementing cost-cutting measures and executing key projects under our Technological Strategy. One key event was the acquisition of a 49.9% stake in Zaporizhstal, which gives us significant additional capacity for the future and a product mix oriented to our key markets, particularly Ukraine and Western Russia.

HIGHLIGHTS

- **Steel production of 12,459 thousand tonnes (down 13% year-on-year)**
- **Increased share of higher-margin finished products to around 80%**
- **Acquisition of a 49.9% stake in Zaporizhstal, one of Ukraine's leading steelmakers**
- **Major investments under the Technological Strategy at our key assets**
- **Closure of three coke batteries and mothballing of the sinter plant at Azovstal, which substantially reduced emissions**

PRODUCTION ASSETS

Responsible for the Group's steel and coke products, our Metallurgical division has the capacity to produce around 15 million tonnes of steel a year. In 2012, our steelmaking assets included: three hot facilities (Ilyich Steel, Azovstal and Yenakiieve Steel) and a pipe plant (Khartsyzk Pipe) in Ukraine; and four rolling mills in Europe (Ferriera Valsider, Metinvest Trametal, Promet Steel and Spartan UK).

In addition, the Metallurgical division includes Avdiivka Coke and the plants at Azovstal that produce coke, as well as Inkor Chemicals, which makes chemical products. Metinvest is 100% self-sufficient in coke for its steelmaking.

In 2011-12, as a result of different transactions, Metinvest acquired 49.9% in Zaporizhstal Iron and Steel Works (Zaporizhstal), one of Ukraine's largest steelmakers. As of 31 December 2012, Metinvest's investment in Zaporizhstal is classified as a joint venture.

Zaporizhstal's metallurgical facilities comprise a sinter shop (six sinter machines), blast furnace complex (four blast furnaces), an open-hearth furnace facility (nine furnaces) and a shop that prepares ingot-mould trains for steel pouring. In addition, there are four rolling mill shops for producing hot-rolled and cold-rolled flat products, steel strips, tinplate and cold-roll-formed sections. Zaporizhstal also manufactures semi-finished steel products. Its main customers are: welded tube producers; automotive, agricultural and transport engineering companies; and manufacturers of domestic appliances. Last year, Zaporizhstal produced 3,777 thousand tonnes of crude steel.

The acquisition of the stake in Zaporizhstal is fully in line with Metinvest's strategy of boosting steel output, moving along the value chain by increasing the share of finished products and expanding and diversifying the customer base. We were pleased to see that our sales channels rapidly absorbed Zaporizhstal's products in 2012.

The Metallurgical division makes an extensive range of products, including finished flat (hot-rolled plates and coils, cold-rolled and hot-dip galvanised coils), long (light, medium and heavy hot-rolled sections, rebars, merchant bars and wire rods), railway and tubular products and semi-finished products (slabs and square billets).

We maintain ISO 9001:2008-certified quality management systems at all of our major steelmaking facilities.

PERFORMANCE

In 2012, the downturn in the global steel industry caused the Metallurgical division's output of crude steel to fall by 13% year-on-year to 12,459 thousand tonnes. At the same time, we continued to increase the share of value-added finished products in our output, the figure reaching around 80%.

Key to combating the difficult market conditions were cost reductions and adjustments to our product mix. As a result, we mitigated the impact of rising external costs (of gas and electricity, for example) and experienced only a relatively small drop in production in 2012.

While we adjusted the Group's capital expenditure overall, the Metallurgical division successfully completed major investment projects and launched new ones in 2012. Overall investment in the Metallurgical division last year amounted to US$313 million. This included capital repairs to conversion equipment and blast furnaces, as well as other important investment projects designed to increase efficiency, improve product quality and reduce our environmental impact, all part of the Technological Strategy approved in 2012.

We continued to implement two major projects at Ilyich Steel: the construction of a PCI unit for the blast furnaces and a new turbine air blower. As part of the PCI project, we completed cold testing and the installation of equipment and we began hot testing in August 2012. PCI technology eliminates the need to use natural gas in blast furnaces and reduces coke consumption.

In 2012, the new turbine air blower went into operation at blast furnace no. 3 at Ilyich Steel. The project is designed to increase productivity while decreasing coal consumption. Overall investment last year amounted to US$11 million, and the total expected project cost will be around US$28 million.

In July, we completed all of the major work for the grade-II major repair of the blast furnace at Ilyich Steel, which is due to be re-launched in the second half of 2013. Overall investment in the project amounted to US$18 million in 2012.

We also completed the construction of an accelerated cooling unit (ACU) in the plate mill at Azovstal. The aim of this project is to expand the product range, increase output of high-strength low-alloy steel grades and reduce production costs. We spent US$8 million on the project last year, and the overall budget was around US$60 million.

At Yenakiieve Steel, we continued to install infrastructure for the air separation unit (ASU). The project is an example of an innovative and highly efficient approach to capital investments, as French company Air Liquide will construct and operate the unit, while we provide the accompanying infrastructure, limiting the advance investment needed from us for the project. We plan to launch the ASU, which will be able to produce around 1,400 tonnes of oxygen, nitrogen and argon a day, in 2014. Overall investment in the project will amount to US$33 million, including the US$6 million spent in 2012.

In 2012, we also approved a project to build a PCI unit at Yenakiieve Steel. During the year, we undertook planning and design work for the project and signed a contract for the main technological equipment. The budget for the project is US$116 million, including US$1 million in 2012.

Elsewhere, we invested more than US$16 million in developing capacity at Avdiivka Coke. We also spent around US$1 million on additional measures to improve workplace and industrial safety, as well as protect the environment.

The closure of three obsolete coke batteries and the mothballing of the sinter plant at Azovstal in 2012 were major steps forward in reducing our environmental impact. We accelerated this already planned project to address acute environmental issues.

In March 2012, following planning work, we began preparations to build a new, environmentally friendly sinter plant at Yenakiieve Steel, the first sinter plant project in Ukraine since it became independent over 20 years ago.

During the year, we continued to implement continuous improvement (CI) practices across the Metallurgical division aimed at reducing costs and enhancing processes through a systematic approach to analysing and solving problems at all levels. In 2011 and 2012, we began CI projects at Azovstal, Yenakiieve Steel, Ilyich Steel and Khartsyzk Pipe. One example is the ‘Rapid Reaction System’, an initiative implemented at our steel plants that provides employees with a forum to identify problem areas and sets clear deadlines and responsibility for eliminating bottlenecks.

The acquisition of 49.9% in Zaporizhstal represents an important step forward in our long-term strategy of increasing steel output and exploiting our self-sufficiency in iron ore as a vertically integrated steelmaker. Zaporizhstal has been one of the Group’s largest third-party iron-ore customers. Its mix of high-quality rolled products strengthens our position in both Ukraine and Western Russia, two of our priority markets, as well as other CIS countries.

Having conducted a detailed analysis of Zaporizhstal, we are working in partnership with our fellow shareholders to develop a strategy for modernising the plant to unlock its vast potential.

OUTLOOK AND STRATEGY

In line with our strategy, we remain committed to increasing operational efficiency and quality, while reducing costs. We are also continuing our drive to improve business processes and implement a lean production approach at our steel assets to improve productivity.

In terms of our divisional Technological Strategy, over the next five years we will focus on projects with the shortest payback period. Over the longer term, we will focus on larger-scale initiatives that aim to deliver major gains in efficiency and higher value-added products. These include projects such as pickling, pre-painted galvanised iron (PPGI) and hot-dip galvanised (HDG) lines.

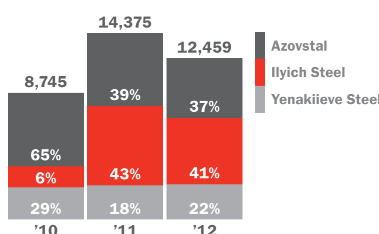
Major investment projects in 2013 include the further development of the plans to build a PCI unit and new sinter plant at Yenakiieve Steel, as well as the refurbishment of the existing sinter plant at Ilyich Steel with new filters. We also plan to conduct a major overhaul of converter no. 1 at Yenakiieve Steel, similar to the work completed on nos. 2 and 3 over the past three years.

In our Technological and Financing strategies, we have adopted a flexible and balanced approach to investments. Thanks to this, we will be able to adjust our capital expenditure plans in light of market conditions and concentrate our efforts on projects with an immediate benefit for operational efficiency.

Another major priority for 2013 is to devise a long-term plan to develop Zaporizhstal as a joint venture with the other shareholders, in line with our broader strategy.

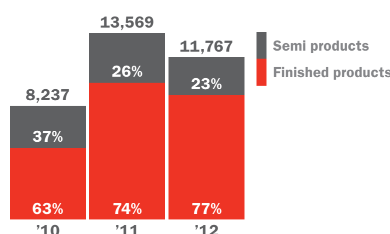
Production of Crude Steel

12,459KT



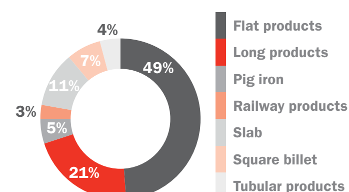
Semi vs Finished Products

11,767KT



Output of Steel Products

11,767KT



SECTION IV:
OUR GOVERNANCE

OUR HIGHLY EXPERIENCED MANAGEMENT TEAM HAS SUCCESSFULLY NAVIGATED THROUGH TURBULENCE IN STEEL AND FINANCIAL MARKETS IN THE PAST. OUR STRONG CORPORATE GOVERNANCE INSTITUTIONS AND ROBUST APPROACH TO RISK MANAGEMENT HELP TO ENSURE THAT WE CAN WEATHER TOUGH TIMES.

IN THIS SECTION:

CORPORATE GOVERNANCE........................46
MANAGEMENT TEAM.................................48
RISK MANAGEMENT..................................52

CALL FOR THE RIGHT
RSHIP

SOLID CORPORATE GOVERNANCE INSTITUTIONS

Metinvest aims to build corporate governance institutions that are as strong as those of the best run publicly listed companies. Our institutions are designed to serve the interests of not only our shareholders and bondholders, but also all our other stakeholders, including local communities and employees.

We believe that a transparent and robust system of checks and balances throughout the Group leads to greater operational efficiency, sound financial management and a safer workplace for everyone. In addition, our track record of proactive engagement with the investor community, information disclosure and sound financial oversight strengthens our investment case and helps us to secure capital on attractive terms.

In 2012, we continued to develop our corporate governance institutions, including drafting a Group Code of Ethics aimed at helping our employees at all levels to understand compliance requirements and their obligations. In addition, we established a confidential hotline allowing employees to report concerns about compliance or safety.

WE BELIEVE THAT A TRANSPARENT AND ROBUST SYSTEM OF OVERSIGHT THROUGHOUT THE GROUP LEADS TO GREATER OPERATIONAL EFFICIENCY, SOUND FINANCIAL MANAGEMENT AND A SAFER WORKPLACE FOR EVERYONE.

OUR PRINCIPLES

Metinvest's vertically integrated structure lends itself to clear lines of governance. The Group is managed according to a defined set of core principles that are closely linked to its strategic approach.

They are:

Specialisation – We focus on the strategic management of the mining and steel businesses, and we strive to do so better than our peers. This increases our efficiency and enhances shareholder value and investment attractiveness.

Vertical Integration – We control all elements of the metals and mining production cycle, from extracting coal and iron ore to selling finished products worldwide. This reduces our exposure to market volatility and thus provides greater stability.

Unified Strategic Management – We carry out unified and consistent strategic planning and management across all of our enterprises. This helps to maximise synergies among our businesses and enhances shareholder value.

Centralisation – We continue to streamline our centralised organisational structure and reduce layers of management. This helps us to optimise management costs, unifies business processes and technology and enhances overall efficiency.

Growth and Investments – We believe that making ongoing, careful investments in our business enables us to prosper in international markets.

Global Best Practices – We study international best practices in business, steelmaking and mining, carefully selecting the most effective management, production and IT approaches for our operations. This helps us to maximise returns on investment and compete in the global marketplace.

Tradition and Innovation – We maintain the best traditions in steelmaking, enriching them with modern knowledge and technologies. This ensures that our customers receive the best products.

Commitment to Leadership – We aim for excellence and foster leadership among our people. This stimulates long-term growth and maintains a pool of talented leaders.

Personal Commitment – We promote a corporate culture based on personal commitment to work. This means that employees take responsibility for their actions and care for others.

POLICIES

Metinvest's corporate governance policies are overseen by an informal Supervisory Board, which is responsible for strategic management, and Executive Committee, which monitors operations.

SUPERVISORY BOARD

The Supervisory Board consists of nine directors, including two independent ones. It is responsible for key decisions related to Metinvest's activities, including:

- Devising strategies and business plans
- Comparing results with objectives
- Appointing senior managers, setting their key performance indicators (KPIs), and approving their compensation plans and bonuses
- Appointing the external auditor
- Approving annual reports and financial statements
- Selecting mergers and acquisitions
- Approving investment projects with budgets over US$20 million (up to US$1 billion)
- Endorsing external financing of over US$50 million
- Approving annual work plans and reports of Board committees

BOARD COMMITTEES

Four committees assist the Supervisory Board in its work:

- Strategy and Investment
- Audit and Finance
- Health, Safety and Environment
- Remuneration and Nomination

STRATEGY AND INVESTMENT COMMITTEE

The Strategy and Investment Committee's main responsibility is to conduct reviews and provide recommendations to the Supervisory Board regarding:

- Strategic objectives, including new and existing businesses
- Mergers and acquisitions
- Investment projects exceeding US$20 million

AUDIT AND FINANCE COMMITTEE

The Audit and Finance Committee's main objective is to ensure the ongoing supervision of all aspects of the Group's financial and audit activities in the interests of the shareholders and on behalf of the Supervisory Board. Its main responsibilities include overseeing the:

- Budget and budget system
- Preparation, approval, audit, filing and publication of the financial statements
- Systems of internal accounting and financial control and reporting, including any relevant IT solutions
- Integrity of internal management accounts prepared by the Executive Committee
- Policy and system of risk management and internal control, and the risk monitoring and assessment system
- Development, supervision and control of the internal audit function and audit system and practice
- Financing of the Group's activities and businesses
- Assessment of the auditor's competence and independence, as well as the auditor's remuneration and terms of engagement

The Audit and Finance Committee is assisted in its work by the Internal Audit Directorate.

INTERNAL AUDIT DIRECTORATE

The Internal Audit Directorate consists of professional managers with expertise in internal control, audit and accounting. It reports to the Audit and Finance Committee and senior management regularly. The directorate's main functions include independently evaluating the risk management, control and governance systems and providing reasonable assurance that they are functioning as intended. It reports any shortcomings directly to the Audit and Finance Committee and makes recommendations about how to improve operations. In addition, with consultation from the Chief Legal Officer, it evaluates the Group's compliance with regulatory and legal requirements, both internal and external.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

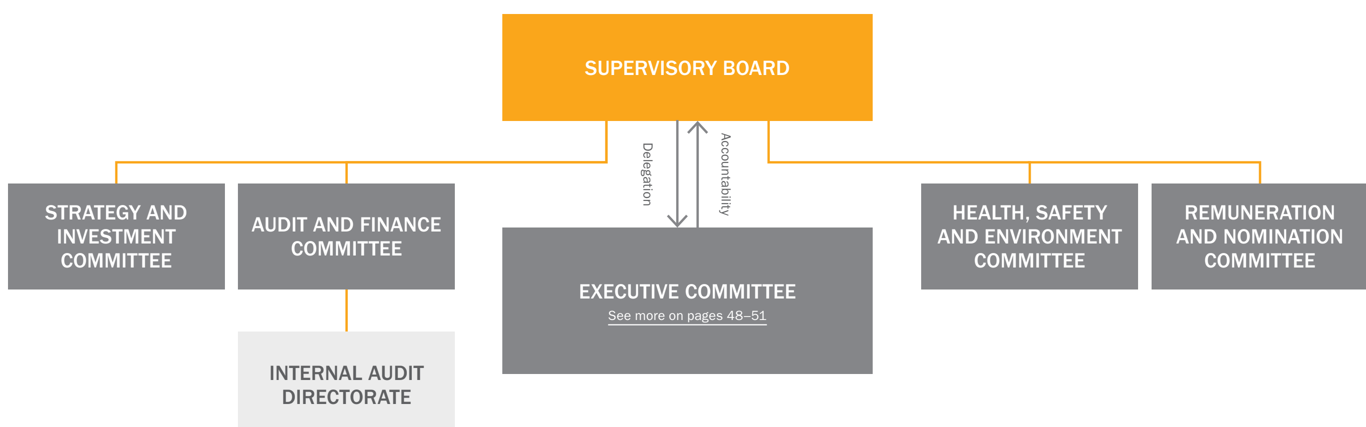
The Health, Safety and Environment Committee's objective is to maintain the highest international standards in the area. Its main responsibilities include:

- Leading the development and implementation of the HSE strategy
- Participating in key HSE projects, including analysing and approving plans and budgets
- Maintaining a world-class HSE managerial reporting system
- Reviewing investigations and preliminary conclusions regarding fatal and other serious on-site and off-site incidents involving harm to health and/or the environment
- Uncovering the underlying causes of fatal and other serious incidents and developing plans to minimise future risks
- Identifying, assessing and reducing environmental risks in investment projects and operations
- Conducting both scheduled and ad hoc site visits to check HSE practices at facilities

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee oversees the appointment and terms of employment of senior executives and directors. Its responsibilities include:

- Defining the framework for remunerating members of the Supervisory Board and its committees, the General Director, members of the Executive Committee, heads of key enterprises and other senior executives
- Establishing terms and conditions of employment contracts for the Supervisory Board
- Recommending appointments and changes to the Supervisory Board
- Making recommendations regarding KPIs and annual bonuses for senior managers
- Establishing the Group's succession policy
- Maintaining the system for motivation, assessment and compensation



OUR HIGHLY EXPERIENCED AND QUALIFIED MANAGEMENT TEAM REPRESENTS A CORE STRENGTH AND A KEY COMPETITIVE ADVANTAGE

Leveraging the calibre of our management team is an important part of our strategy. Their deep industry and financial expertise, coupled with their backgrounds in leading international companies and educational institutions, has been crucial in guiding Metinvest through difficult global market conditions. Reporting to the Supervisory Board, our senior managers are responsible for implementing our strategies and business model to ensure long-term sustainable growth.

As of 31 December 2012, our Executive Committee consisted of nine members.

IGOR SYRY

Committee Chairman,
General Director

Igor Syry has been General Director of Metinvest since 2006. Before joining the Company, he worked as a Senior Manager at SCM from 2002 to 2006 and as a Senior Consultant at PricewaterhouseCoopers from 1999 to 2002. From 1995 to 1997, he was a Credit Manager at the Western NIS Enterprise Fund.

Igor obtained an MBA from Cornell University in 1999. He holds the Chartered Financial Analyst® designation and is a member of the Association of Chartered Certified Accountants (ACCA).

SERGIY NOVIKOV

Committee Member,
Chief Financial Officer

Sergiy Novikov has been CFO of Metinvest since 2006. Before that, he was CFO at Azovstal Iron and Steel Works from 2004 to 2006. He held the position of Financial Director at Bunge Ukraine from 2003 to 2004 and at Japan Tobacco International from 2001 to 2003.

Sergiy graduated from Kharkiv State University in 1993 with an MA in Foreign Languages (English and Spanish). He obtained his MBA from the University of Cincinnati in 1995. He holds the Chartered Financial Analyst® designation and is a member of the Association of Chartered Certified Accountants (ACCA).

RUSLAN RUDNITSKY

Committee Member,
Chief Strategy Officer

Ruslan Rudnitsky has been Chief Strategy Officer since 2010. Before that, he headed the Strategy and Investment department in the Iron Ore division from 2006 to 2010. He was also an Industry Group Manager at SCM from 2003 to 2006 and an Auditor at PricewaterhouseCoopers from 2001 to 2003.

Ruslan holds an MSc in International Investment Management from Kyiv National University of Economics. He became a member of the Association of Chartered Certified Accountants (ACCA) in 2006 and a fellow in 2011.

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MANAGEMENT TEAM
CONTINUED

ALEXANDER POGOZHEV

Committee Member,
Director of Metallurgical division

Alexander Pogozhev has been the Director of the Metallurgical division since October 2011. Previously, he was Director of the Steel and Rolled Products division from October 2010. He has extensive professional experience at large enterprises in the metals industry. He served as Chief Operations Director of Severstal International (US) from 2008 to 2010 and worked at Severstal from 1991 to 2008, where he held several executive positions, including Chief Operating Officer.

Alexander holds a degree in Financial Management from the Moscow State Academy of Management (Russia) and an MBA from the Business School of Northumbria University (UK).

MYKOLA ISHCHENKO

Committee Member,
Director of Mining division

Mykola Ishchenko has been Director of the Mining division since October 2011. Previously, he was Director of the Iron Ore division from March 2010. Before that, he was General Director at Ingulets GOK from July 2009 to March 2010 and Deputy Director of the Iron Ore division at Metinvest from July 2007 to July 2009. He was Chairman of the Management Board and CEO of Kryvbassvzryvprom, an industrial production enterprise, from September 2000 to July 2007. He also worked as an Economist, Deputy Head of Planning and Economics, and Deputy Director of Marketing and Economics at Kryvbassvzryvprom from 1987 to 2000.

Mykola has two degrees: in 1985, he graduated from Kyiv National University of Economics with a degree in Economics; and in 1992, he graduated from the Kryvyi Rih Mining Institute with a diploma in Mining Engineering. He has a Ph.D. in Economics.

VOLODYMYR GUSAK

Committee Member,
Supply Chain Director

Volodymyr Gusak became Supply Chain Director in October 2011, having previously been Director of the Coke and Coal division from 2006. Before that, he was a Manager at SCM from 2002 to 2005 and a Financial Analyst and Deputy Head of Restructuring at Deloitte Touche Tohmatsu from 2000 to 2002. In 1999, he worked as an Accountant with the Centre for Economic Reform and Privatisation and, in 1998, as a Project Administrator for consulting company Chenomics in the US. From 1994 to 1996, he was an Adviser to Soros-Aslund Economic Advisory Group for the Ukrainian government.

Volodymyr graduated from Kyiv's Taras Shevchenko National University in 1996 with an MA in Foreign Languages (English and German). He received his MSc in Economics from Texas A&M University (US) in 1998.

NATALIYA STRELKOVA

Committee Member,
Director of Human Resources and Social Policy

Nataliya Strelkova has been Director of Human Resources and Social Policy since June 2010. Before that, she held the same post at MTS (Russia) from 2006 to 2010 and was Director of HR Policy at MTS from 2004 to 2006. She was a Senior Specialist in the HR Policy department at Yukos (Russia) from 2001 to 2004 and Director of HR at the ESN Group (Russia) from 1997 to 2001.

Nataliya obtained a diploma in Physics from the Moscow Institute of Engineering and Physics in 1992, and graduated with a diploma in Organisational Psychology from Moscow State University in 1996. She obtained an MBA from IMD (Lausanne, Switzerland) in 2010.

DMITRY NIKOLAYENKO

Committee Member,
Sales Director

Dmitry Nikolayenko became Sales Director in October 2011, having previously headed the same function in the Steel and Rolled Products division since 2010. Before that, he was a Director at Metinvest-SMC, a sales unit, from 2007 to 2010; SM Leman, its predecessor, from 2003 to 2007; and Energostal from 1996 to 2003.

Dmitry holds a degree in Economics from the Kyiv-Mohyla Academy and obtained an MBA from IMD (Lausanne, Switzerland) in 2002.

SVETLANA ROMANOVA

Committee Member,
Chief Legal Officer

Svetlana Romanova joined Metinvest in 2012. Before that, she was a Partner in the Kyiv office of Baker and McKenzie CIS Limited, the global law firm's regional business, from 2008 to 2012, having previously served as a lawyer there from 2000. Svetlana also worked as a lawyer covering CIS issues at Cargill in the US from 1998 to 2000. From 1997 to 1998, she was an Assistant in Legal Studies in the University of Iowa's College of Law.

Svetlana has a master's degree in International Law and Translation (English) from Kyiv's Taras Shevchenko National University, as well as an LLM in International and Comparative Law from the University of Iowa's College of Law. She has also completed coursework in International Management at the University of St Thomas' Graduate School of Business (St Paul, Minnesota, US).

ROBUST RISK MANAGEMENT LIES AT THE CORE OF OUR STRATEGY

Like any multinational company operating in both emerging and developed markets, Metinvest faces various risks in conducting its business, and it closely monitors and manages them on a daily, medium-term and long-term basis. The identification and mitigation of potential threats is an integral part of our long-term strategy. Risk management is applied at every level of the Group's decision-making.

OVERVIEW

Our Internal Control and Risk Management system has been developed on the basis of leading international best practices and guidelines. The key external framework that underpins our risk management system is 'Enterprise Risk Management – Integrated Framework', developed by the Committee of Sponsoring Organisations of the Treadway Commission.

Reporting to the Chief Financial Officer, the Internal Control and Risk Management department oversees all aspects of risk management at the Group. These include monitoring operations and mapping strategic, operational and financial risks, both external and internal. The department updates the risk map regularly, after which potential risks and mitigation measures are discussed with the key managers involved and the Executive Committee.

When we detect a potential risk, we estimate the probability of it occurring within the next three years. We then measure its potential impact on key aspects of our business, including revenue and cash flow, health and safety, the environment and our long-term value. We also evaluate potential cross-dependencies that might affect the risk. The next stage of the process is risk mitigation, where (if necessary) we seek to eliminate or minimise the impact on our business.

Our Internal Control and Risk Management department works in collaboration with our business functions to develop responses to risks identified. To ensure that they are executed, their successful implementation is a criterion in our annual performance management system. The Executive Committee and Supervisory Board regularly monitor the risk map to evaluate our responses.

In 2012, we made significant progress in developing our risk management function. To enhance internal compliance procedures across the Group, we created a Governance, Compliance and Ethics Committee, consisting of the General Director, Chief Financial Officer, Chief Legal Officer, Director of Human Resources and Social Policy, Director of Security, Director of Internal Audit and Director of Internal Control and Risk Management. In response to the market conditions, we applied more stringent counterparty checks and tightened our credit terms.

FINANCIAL

RISK	Limited debt market capacity and liquidity risk	Counterparty risk (clients and financial institutions)	Interest-rate fluctuations	Foreign-exchange fluctuations
DESCRIPTION	Metinvest may fail to generate adequate liquidity from its operating activities to meet its business needs and financial obligations. Deteriorating debt market conditions may also affect the Group's ability to meet existing debt maturities and forward cash requirements.	The bankruptcy or insolvency of a client or banking partner, or a broader systemic banking crisis, could adversely affect Metinvest's business.	Interest rates paid by Metinvest on its borrowings are either fixed or variable. Both are exposed to the risk of changes in the interest rate: variable ones through links to a benchmark rate, such as LIBOR; fixed ones at the time of refinancing.	Metinvest is exposed to exchange-rate risks as a result of payments made or received in various currencies. It also faces exchange-rate exposure when translating assets and liabilities into other currencies for the purposes of financial reporting.
MITIGATION	Metinvest monitors and manages its forecast cash position constantly. If funding is not available, commitments are not assumed. The Group has long-term funding facilities in place. In 2012, we approved a 10-year Financing Strategy that is committed to optimising our debt profile and improving our overall financial position to ensure long-term financial sustainability. In addition, we also adopted a Technological Strategy that is flexible to ensure that investments do not threaten our financial stability.	Metinvest has developed and implemented procedures for monitoring the credit risk of clients, and we strengthen our checks during periods of economic volatility. Where necessary, we obtain guarantees and modify payment terms according to the risk involved. Last year, for example, we increased the frequency of our reviews of credit limits provided to clients to every three months. The Group holds its liquid assets in first-class international banks, subject to established limits. The risk management function monitors the profile of partners and the broader banking and financial market environment.	Metinvest maintains a diversified debt portfolio in terms of both interest rates (fixed and floating) and maturity, and it works with a diverse group of international banking partners. We have also implemented procedures for monitoring and taking advantage of various opportunities for hedging interest rates.	Like much of its financing, the major part of Metinvest's export sales are in US dollars, providing it with a significant natural hedge. As part of its risk management process, the Group assesses its exchange-rate exposure and, if necessary, uses hedging instruments, including swaps and forward contracts, to minimise risk.

OPERATIONAL				
RISK	**Post-M&A integration**	**Effectiveness of capital investments**	**Logistics**	**Health, safety and the environment**
DESCRIPTION	Metinvest has grown rapidly, partly through acquiring production and trading assets, and it has plans to pursue selective M&A opportunities in the future. There is thus a risk that the Group may fail to integrate these assets within the planned timeframes and budgets.	Metinvest's substantial capital investment programme may not be implemented on schedule or within budget due to a lack of capacity or qualified contractors.	Metinvest has comprehensive inbound and outbound logistic routes, as well as intra-group delivery. As such, we are dependent on the availability of railway transport, ports, vessels, etc.	Metinvest operates industrial facilities that process heavy metals and other hazardous materials. As such, they could pose major risks to the health and safety of employees and the neighbouring population, as well as the surrounding environment. Industrial accidents have and could lead to liabilities for damages to people, property and the environment.
MITIGATION	The Group's strategy focuses on organic growth as well as selective acquisitions to strengthen the existing business. Metinvest has demonstrated its ability to smoothly integrate new assets, such as Ilyich Steel, acquired in late 2010. We also acquired 49.9% in Zaporizhstal last year, classified it as a joint venture and are rapidly integrating its products into our existing sales channels. We are now working with the other shareholders to develop next steps for the plant.	In the short to medium term, our 10-year Technological Strategy prioritises projects with the shortest payback period and ones that can finance future projects. We are flexible in our capital expenditure commitments. The main condition for launching a new project is that there is sufficient guaranteed financing to fund the committed part of the project. A specially established Capital Investment Directorate checks to ensure that projects are on schedule and meet all of our objectives. In addition, the Group's Strategy and Investment Committee monitors all key investment projects regularly.	Metinvest pays significant attention to managing the supply chain. We have a dedicated Supply Chain Directorate at the Group level. We continue to strengthen our Group logistics function and negotiate the most competitive rates with transportation providers. We have also diversified our transport service providers to reduce our risk exposure to supplier concentration.	Metinvest has made health, safety and the environment a Board-level function and has integrated provisions into every level of strategic and day-to-day decision-making. We have achieved significant reductions in lost time due to accidents by investing heavily in extensive training, facilities and personal protection equipment for employees. In 2012, the closure of three obsolete coke batteries and the mothballing of the sinter plant at Azovstal significantly reduced emissions from the plant. Additional planned investments will further reduce CO_2 and other emissions and the risk of releasing other pollutants.

	MARKET			POLITICAL
RISK	**Cyclicality of demand and selling price volatility**	**Fluctuations in the prices of raw materials, energy and other cost factors like transportation (purchase price volatility)**	**Highly competitive marketplace**	**Political risk factors in countries where assets are based and in key sales markets**
DESCRIPTION	As demonstrated by the price volatility of steel, iron ore and coal products in 2012, steel and mining industries are cyclical, which can lead to fluctuations in demand and prices for Metinvest's products. Sectors that are the main consumers of steel, including construction, are similarly cyclical.	Global energy prices remained high in 2012, and Ukraine, as an importer of gas, faces ongoing risks of continued price increases due to contracts with Russian gas suppliers. By contrast, coking coal prices fell in 2012 amid reduced demand from the global steel industry, although they remain another source of potential volatility.	The global steel industry is highly competitive: there are major international steel companies with greater capital resources and more efficient production facilities. Metinvest also faces competition in the CIS and, increasingly, other emerging markets where production costs are low.	Metinvest carries out its activities in Ukraine, the wider CIS, North America, Europe, North Africa, the Middle East and Asia. These countries and regions have different political climates, as well as varying effectiveness and enforcement of legislation governing contracts and property rights. Another potential issue when operating worldwide is exposure to trade disputes.
MITIGATION	Metinvest carefully monitors current demand and prices, maps potential price volatility and forecasts changes in price and consumption patterns. Our low production costs reduce overall exposure to selling price volatility. We have reduced our costs across the supply chain, increasing the efficiency of our sales. In addition, we have increased the share of long-term iron ore contracts, reducing our exposure to pricing volatility. We are implementing a centralised Sales and Operations Planning (S&OP) function at the Group level to create added value and improve processes. Our Technological Strategy includes investment programmes that help retain this competitive advantage, make production more efficient, and focus on higher-value products.	Metinvest's vertically integrated business means that it can source virtually all of its iron ore and a significant part of coking coal internally. Expansion of coal production through investments in capacity at United Coal is helping to reduce reliance on buying coking coal from third parties to meet internal demand. In addition, the Group has a successful energy consumption reduction programme in place at its production assets and technological investments, such as PCI, will continue to make operations more energy-efficient.	Metinvest has historically competed on the basis of low-cost production and it has a unique location between the EU and CIS markets, as well as relative proximity to markets in the Middle East and North Africa. Our long-term strategy envisions exploiting these advantages, while investing in advanced production equipment, introducing lean manufacturing processes, and improving our product mix and sales function to compete in terms of quality and service with the top European steelmakers.	As the largest taxpayer in Ukraine, which is home to the majority of its production assets, Metinvest maintains a positive working relationship with the local and national authorities and considers this risk to be low. We incorporate careful assessments of political risks into our investment decisions. Our strategy includes further diversification of international sales markets to limit exposure to any single market or region.

SECTION V:
SUSTAINABILITY

WE INVEST IN OUR COMMUNITIES BECAUSE THEY ARE WHERE WE LIVE AND WORK, AND THEY WILL PRODUCE THE NEXT GENERATION OF EMPLOYEES AND LEADERS. WE ARE COMMITTED TO OFFERING OUR PEOPLE A SAFE WORKPLACE WHERE THEY CAN REALISE THEIR FULL POTENTIAL.

IN THIS SECTION:

HEALTH AND SAFETY......58
OUR PEOPLE......60
ENVIRONMENT AND COMMUNITIES......62

IN OUR COMMU

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SAFETY IS AT THE HEART OF OUR BUSINESS

The safety of our employees and quality of their working conditions are strategic priorities for our business and values behind everything we do. Since our inception, we have achieved significant, long-term reductions in fatalities and injuries at our plants. We have made major investments in safety equipment and training and our long-term drive to modernise production assets, part of the Technological Strategy, is creating a safer work environment.

SAFETY-DRIVEN CULTURE

Our goal is to create a safety-driven culture throughout the Group and ensure accountability. The Supervisory Board's Health, Safety and Environment (HSE) Committee oversees Metinvest's safety systems, verifying compliance with local legislation and international best practice. A senior manager reporting to the General Director oversees HSE across the Group, while each of our facilities has a dedicated health and safety team.

When we identify unsafe working conditions or an injury occurs, we conduct route-cause analysis to identify where the system failed and to prevent any repeat in the future. We notify the General Director within two hours of any fatal incident and within 24 hours of any lost-time incident.

Alongside careful oversight, we also believe that all employees must take personal responsibility for the safety of themselves and their colleagues. Part of this involves having the right instruction, and our 'Train the Trainer' programme plays an invaluable role in transferring expertise. Under the initiative, retired managers with vast experience and knowledge of particular plants receive training in the latest corporate safety standards and then instruct other personnel.

RESULTS IN 2012

Last year, Metinvest spent US$161 million on health, employee protection and safety (1.3% of annual revenues), compared with US$168 million in 2011. The number of lost-time incidents at our Ukrainian facilities fell from 289 in 2011 to 212 last year. Between 2009 and 2012, the lost-time injury frequency rate (LTIFR)[21] at our domestic assets dropped from 2.178 to 1.164.

Over 15,000 workers underwent training in corporate HSE standards in 2012, including in Hazard Identification (HAZID),[22] Environmental Impact Identification (ENVID),[23] LOTOTO[24] (Lock out, Tag out, Try out) and permit-to-work.

Our strategy envisions obtaining OHSAS (Occupation Health and Safety Assessment Series) 18001 and ISO 14001 certification for all of our assets. Azovstal, Yenakiieve Steel, Khartsyzk Pipe, Northern GOK, Central GOK, Ingulets GOK, Krasnodon Coal, Komsomolske Flux and Inkor Chemicals are already certified in accordance with OHSAS 18001 standards.

In 2012, using HAZID, HAZOP[25] and ENVID, we began to introduce procedures for assessing safety risks in production processes and investment projects at all of our assets. While requiring substantial advance investment in expertise and time, over the long term, the endeavour will be a highly effective, preventative approach across the Group.

Following the accident at the Sukhodolska mine in 2011, we conducted a major programme to improve safety at Krasnodon Coal last year, based on independent technical audits by IMC Group Consulting. We began to implement, test and obtain state certification for a major new system that integrates safety into production processes. It includes an electronic positioning system for tracking personnel underground, automated warning systems, remote control of equipment and transmission of real-time data from the mine to the surface.

21 LTIFR is the ratio of lost-time injuries per million hours worked. It is calculated using the total number of incidents leading to the loss of one day/shift or more of work.
22 HAZID study is a tool for hazard identification that is used early in a project, as soon as process flow diagrams, draft heat and mass balances and plot layouts are available.
23 Environmental (Hazard) Identification is conducted like HAZID but with the aim of identifying environmental issues.
24 LOTOTO (Lock out, tag out, try out): a standard that is used to isolate hazardous energy during repair and maintenance work.
25 HAZOP (hazard and operability study) is a structured and systematic examination of a planned or existing process or operation. It aims to identify and evaluate problems that may represent risks to personnel or equipment, or prevent efficient operation.

NEW TECHNOLOGY INTRODUCED IN 2012 INCLUDES AN ADVANCED SYSTEM FOR REAL-TIME REMOTE MONITORING OF GAS LEVELS AT SUKHODOLSKA. IN 2013, WE EXPECT TO DEPLOY THE SYSTEM IN ADDITIONAL MINES AT KRASNODON COAL.

New technology introduced in 2012 also includes an advanced system for real-time, remote monitoring of gas levels at Sukhodolska. Among other capabilities, it allows us to stop equipment remotely when a build-up of methane is detected, reducing the risk of explosion or fire. In 2013, we expect to deploy the system in additional mines at Krasnodon Coal.

As part of this upgrade, we enhanced the monitoring of electrical equipment to prevent it from being an explosion hazard in our mines. We also conducted work to identify and suppress sources of coal dust in our mines, another primary cause of blasts. In addition, since 2011, we have introduced four underground sick bays in the Sukhodolska, Molodogvardiyska, Samsonivska-Zakhidna and Barakova mines to provide immediate, on-site treatment for workers.

Last year, we signed a contract with RAG Mining Solutions to conduct a safety audit of our mining shafts and develop technical solutions for strengthening them. Alongside the abovementioned investments in technology, we implemented the recommendations of a behavioural audit at Krasnodon Coal.

Meanwhile, we introduced a new ‘Working at Heights’ standard aimed at preventing falls by providing clear guidelines for all types of work at heights. We also implemented a set of simple and effective standards for safe conduct, ‘Cardinal Rules’, the violation of which could expose employees or their colleagues to safety risks. The rules have been explained clearly in advance and applied consistently and fairly during transition periods.

Another standard established was for employees in critical jobs, such as vehicle and crane operators, where sudden incapacity could directly threaten the safety of others. The standard mandates more in-depth, regular medical examinations, including using more advanced diagnostic equipment, for those categories of personnel. When issues of concern are uncovered, employees are sent for further treatment of the underlying issues and, where appropriate, moved to jobs where their potential health risks are managed and should not pose a danger to others.

OUTLOOK FOR 2013

This year, we are committed to continuing the sustained reduction in lost-time incidents, while directing our long-term efforts at fostering a truly safety-driven culture.

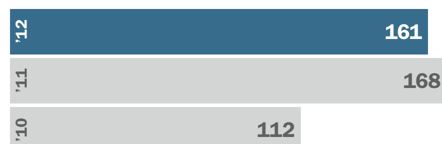
We will continue to dedicate considerable resources to implementing international best practices and technology at Krasnodon Coal and at our other mines. We are also focusing closely on more recent acquisitions Ilyich Steel and Zaporizhstal, which require substantial investment in technology and training to bring them fully in line with our safety culture.

Alongside implementing the new standards described above, we plan to introduce new guidelines for working in confined spaces, in line with international best practices. We will also review and analyse employee absenteeism due to illness, to understand and deal with the issue better from an occupational health perspective.

Spending on Health and Safety

US$**161**M

-4%



WE INVEST TO HELP OUR PEOPLE MAXIMISE THEIR POTENTIAL

OVERVIEW

We are Ukraine's largest employer. We have more than 100,000 personnel worldwide, and we take responsibility for every one of them. We invest in training and further education to ensure that our employees reach their full potential, while increasing productivity and creating a knowledge-driven workforce for the future.

BUILDING THE RIGHT TEAM

Last year we continued to implement our corporate Human Resources (HR) Strategy, adopted in 2011, and improve the systems already introduced. The strategy's core aim is to create an integrated HR management system across the Group, replacing outdated practices with modern HR approaches adapted to the culture and location of each enterprise. Alongside focusing on training and development, these include implementing unified standards for setting key performance indicators (KPIs), evaluating employee performance, defining remuneration based on a grading system, and creating a talent pool for future leadership roles and a system for managing talent.

Another key part of our strategy is to foster a common corporate culture. We have formalised a set of five corporate values that encapsulate our approach to clients, colleagues and stakeholders. They are: professionalism; client focus; life, health and the environment; leadership; and teamwork. These values define our work and form the basis for our unified corporate competencies model, introduced in 2012.

RESULTS IN 2012

In line with our strategy, we opened our Corporate University last year. The key goal is to provide an integrated, high-quality and consistent training system for managers at all levels of the Group. The institution is organised around modules designed to instil managerial skills and key business disciplines.

Based in Donetsk, the university now operates at nine of our largest enterprises. It allows us to train our next generation of leaders in a way consistent with our corporate requirements and values. We have already prepared internal trainers for our Corporate University and around 25 are working today at our enterprises.

Last year, we continued to develop our annual review system and introduce it at more enterprises across the Group. In 2012, almost 54,000 employees, over half of our workforce, took part in annual appraisals at 19 enterprises, compared with 48,500 staff at 12 assets in 2011. We believe in a two-way approach to employee engagement and feedback from personnel is a critical way to identify potential issues and areas requiring further attention. Last year, we conducted our first Group-wide employee engagement survey, in which 59,929 people, 88% of those invited, took part. The survey gathered opinions about such issues as corporate culture, motivation, management, workplace organisation and our continuous improvement approach to work processes, among others.

Meanwhile, we launched a key project to upgrade administrative facilities and amenities at our enterprises, to improve the workplace atmosphere and morale. The Workers' Amenities Improvement Programme focuses on renovating facilities such as break areas, dining facilities, changing rooms and other spaces used by our employees. Under the initiative, we invested US$4.2 million in renovating 758 facilities (totalling 48,400 m^2) in 2012.

We also launched a major long-term plan, running to 2020, to improve productivity at our enterprises and optimise headcount. Developed with the assistance of McKinsey, the initiative is a considered response to the challenging market conditions and in line with our longer-term drive to reduce costs and improve efficiency.

Part of the drive involves working with our production assets to implement a major project to streamline managerial levels, eliminate the duplication of job functions and optimise positions and production processes (combining positions) across the Group, while reviewing opportunities to outsource non-core business functions. This includes a detailed analysis of operational and management processes to identify the potential for productivity gains.

As part of our long-term plans to optimise headcount through technology and enhanced productivity, we eliminated around 7,300 positions in 2012, including 5,200 in our Metallurgical division and 2,100 in our Mining division. We are taking a responsible approach to the process: we are committed to acting in accordance with Ukrainian labour legislation and provide outgoing employees with assistance during the transition.

We also established a modernised incentive system of results-based bonuses and KPIs for workers at our production assets. Previously, the system was based solely on output, while since April 2012, it includes indicators for quality and production cost. In addition, within

IN LINE WITH OUR HR STRATEGY, WE OPENED OUR CORPORATE UNIVERSITY IN 2012. THE KEY GOAL IS TO PROVIDE AN INTEGRATED, HIGH-QUALITY AND CONSISTENT TRAINING SYSTEM FOR MANAGERS AT ALL LEVELS OF THE GROUP.

the context of our lean manufacturing approach, we piloted a new system at Azovstal, Yenakiieve Steel and Khartsyzk Pipe to promote healthy competition. It will ultimately be introduced at all of our plants.

Through our newly opened Corporate University, we continued to provide training aimed at strengthening our business and educating our employees about our most important processes, strategy and corporate values. We established the 'Management DNA' programme for mid-level managers, including the modules 'Orientation Seminar', 'Basics of Economics and Finance' and 'Basics of Lean Enterprises'. Meanwhile, more than 9,000 managers from across the Group have taken part in our orientation seminar, designed to explain our strategy and values and their role in communicating them to their teams.

In 2012, we developed our leadership talent pool programme, the Leadership Academy, to produce candidates for future senior management roles in the Group. We developed the programme in partnership with the Ernst & Young Academy of Business. Alongside training, participants also undertake project work. Nearly 150 members of the talent pool studied modules dedicated to lean manufacturing, strategy and finance last year.

We also introduced a new mentoring programme for managers, pairing them with top managers, including Board members, who acted as their mentors in honing the skills needed to reach the top. Some 30 pairs of managers took part in the programme.

Another major project launched in 2012, which continues in 2013, is to create a new model for managing the Group's 759 social facilities. The aim is to run them more efficiently and concentrate resources where needed. We have categorised them according to function, including: leisure, catering, medical and health, sport, culture and housing.

Finally, we started using our new approach with the creation of Zdravnitsa Plus, which unifies our social facilities, reducing costs, increasing occupancy and giving our employees greater choice regarding their leisure time. More than 14,000 people, including 1,800 children, used the facilities run by Zdravnitsa Plus last year, and the occupancy rate was 77%, compared with an average of 64% for the Group's social facilities in 2011.

OUTLOOK

Our agenda for 2013 is full. We will continue to build on the achievements of the last two years in developing and implementing our HR Strategy and creating an integrated Group-wide HR system based on our values.

One priority for this year will be the further development of HR planning. We intend to create a strategic staffing system, a long-term approach to personnel requirements across the Group, in line with our long-term strategy.

Following the initial success of our Zdravnitsa Plus project, we will continue to develop our long-term plans for managing our social facilities. We envisage streamlining costs while delivering a superior service for our employees and their families.

Another area for development is non-material incentives and recognition of employees. Building on our employee engagement survey in 2012, we plan to improve staff feedback channels and create a unified system of two-way communication. These endeavours will accompany efforts to increase employee engagement and we are developing plans to that end for each division.

In addition, our goals include further optimisation of employee numbers, training and development and a new systematic approach to managing personnel costs.

Full-Time Employee Headcount

103,000

-5%

WE ARE TACKLING OUR ENVIRONMENTAL OBJECTIVES IN PARTNERSHIP WITH COMMUNITIES

As one of Ukraine's largest industrial companies, we understand that our operations have an environmental impact that we must mitigate. In our view, our greatest contribution to reducing our environmental footprint over the long term will be through the investment projects in our Technological Strategy. They aim to introduce more efficient technologies that will help us to meet or even surpass European standards and contribute to the long-term sustainability of our business and local communities. We seek transparent cooperation with stakeholders in our local communities, especially regarding our actions to address environmental issues, as well as collaboration on social investments.

TAKING ACTION TO REDUCE POLLUTION

Last year, we spent US$455 million[26] on the environment, compared with US$463 million in 2011. In addition, the approval of our Technological and Financing strategies in 2012 established a sustainable and flexible roadmap for technology investments over the long term, one that will make a lasting contribution to reducing our emissions.

Over the year, particularly in response to feedback from the Mariupol community, we made an important and unprecedented strategic decision to prioritise and significantly accelerate our plans to close facilities that had the greatest impact on the local environment.

At Azovstal, we closed three coke batteries and mothballed the sinter plant. The decommissioning is expected to reduce waste gas emissions by 6,162 tonnes a year or 50% of the total emissions from Azovstal's coke shop. The mothballing of the sinter plant will reduce emissions by an estimated 32,875 tpa, or 22% of the total emissions from Azovstal.[27]

At Yenakiieve Steel, we began preparations to build a new, environmentally friendly sinter plant – the first in the 20 years since Ukraine's independence – that meets the highest standards of environmental efficiency. We also began preparations for the reconstruction of gas cleaning equipment at the sinter plant of Ilyich Steel.

While all of these initiatives already featured in our Technological Strategy, a combination of factors, including the environmental situation, led us to reassess and accelerate them. For example, most of the sinter plants in Ukraine were built more than 30 years ago, so the decisions represent major progress in modernising the national steel industry. They also underline how the flexibility of our Technological Strategy and capital expenditure allows us to implement important projects in response to changes. At present, eight of our production assets and Zaporizhstal have ISO 14001 environmental management certification. We will continue the certification process at our remaining facilities.

CSR DEVELOPMENT

Despite a challenging year for the industry, we kept our commitment to work with the communities where we operate, at national, regional and local levels. Our long-term success and the well-being of our local communities are inextricably linked.

Metinvest works on a national level in Ukraine to achieve long-term improvements in social conditions through encouraging positive engagement among business, government and civil society. We are a general partner in Enterprise 2020, an important initiative developed in cooperation with the Ukrainian Centre for Corporate Social Responsibility Development and based on the EU's Europe 2020 strategy and Vision 2050 report by the World Business Council for Sustainable Development.

In 2012, Metinvest ranked among the top three companies in the Transparency Index Ukraine for transparency of CSR activities, as measured using the criteria in the Global Transparency Index (www.gtindex.net). Our score took into account a broad range of factors, including the availability of CSR information and non-financial reporting according to Global Reporting Initiative (GRI) standards.

On the international level, in June 2012, we participated in the United Nations Conference on Sustainable Development, Rio+20, where we presented our CSR strategy and shared insights with peers from around the world. In addition, we held our second annual international conference on health, safety and the environment last year. It featured representatives from more than 90 companies, associations and government bodies from Ukraine, Russia, the EU and beyond.

WORKING WITH COMMUNITIES

In our work with local communities, we combine ambitious goals with a rigorous and transparent approach to social investments, one that prioritises

26 Includes operating expenses (US$354 million), capital expenditure (US$87 million), spending on environmental measures (US$14 million).
27 The calculations are based on the maximum annual emissions for these units and do not factor in potential variation based on actual production levels in a given year.

the involvement of residents, external experts, and partners from the government, NGOs and multilateral sectors on every level. Our largest shareholder has set us the strategic objective of achieving European standards of living and urban environment in all of the cities where we operate. Last year, we spent around US$12 million on this goal.

At the end of 2011, we approved a policy for social investment that underpins our social partnership programme. It underlines our commitment to projects that will have long-term benefits for our communities, particularly regarding quality of life and the local business environment. The policy will ensure a consistent and methodical approach to all of our social investments in the places where we operate.

Our partnership programme is enshrined in social partnership agreements among Metinvest, our local assets and public bodies in the cities where we are present.

Last year, as part of our social partnership programme, we signed cooperation agreements with nine administrative areas: the cities of Avdiivka, Khartsyzk, Komsomolske, Kryvyi Rih, Makiivka, Mariupol, Dzerzhynsk and Yenakiieve, and the Luhansk region (including the city of Krasnodon). To make these partnerships more efficient, we created expert committees to identify priorities for social investments and monitor the progress of projects. The committees consist of local stakeholders such as local government authorities, NGOs, SMEs and others.

In Kryvyi Rih, we continued to implement a major infrastructure project involving investment of US$4 million. As part of the agreement, we finished rebuilding two of the city's thoroughfares, Pobeda Prospekt and Ulitsa Armavirskaya, and renovating Komsomol Ukraina Park. The projects were in line with our commitment to improving the urban environment and quality of life in our local communities.

With the administration of Luhansk region, we signed a social partnership agreement totalling just over US$1 million, double the amount in 2011. We spent US$0.3 million on healthcare provision in Krasnodon, as well as US$0.2 million on medical equipment for the Luhansk Regional Burns Centre. We also supported an important United Nations Development Programme (UNDP) project aimed at identifying health and safety risks that miners face and developing a community action plan to mitigate them.

In the cities of Mariupol and Yenakiieve, where our key assets are located, we made social investments of more than US$5 million last year. In Mariupol, we improved pavements, installed playgrounds, and renewed tens of thousands of square metres of roads, pavements and flowerbeds in the city and neighbouring towns. We continued supporting the city's clinics and hospital by repairing trauma and surgery departments and buying two modern ambulances. We also gave the two cities four new trams worth almost US$2 million.

In 2011, Metinvest began encouraging the cities where its assets are located to devise long-term development strategies. Last year, building on the successful experience in Krasnodon, we began preparing strategies running through to 2020 in cooperation with the local governments in Avdiivka and Khartsyzk. This approach allows the cities to focus resources on the most important projects, as well as to invest in large-scale urban developments.

Last year, we implemented numerous corporate social programmes in the cities where we operate. We developed our football programme for children and young people in partnership with FC Shakhtar Donetsk, investing around US$5 million in 2012. As part of the initiative, a new artificial football pitch was laid in Makiivka and we held a children's football tournament in Donetsk, with youth teams from our local communities competing at the famous Donbas Arena. Branches of youth football academies operate in every city where Metinvest is present and provide training for around 1,500 children.

We are particularly proud of the 'The City – Our Hands' initiative, which aims to foster public participation and local community development by allowing local residents, town officials and NGOs to access funding for their own projects. Last year, we provided around US$0.4 million for 61 projects in the Donetsk, Dnipropetrovsk and Luhansk regions. We supported a further 37 local environmental projects as part of our 'A Healthy Environment Is Everybody's Business' initiative.

We are also pleased to support the individual volunteer efforts of Metinvest employees. At the end of last year, we organised our first volunteer programme in 11 Ukrainian cities. Around 900 personnel in 77 teams took part, and the initiative won the 'Improving Quality of Life' category in the National Corporate Volunteering Contest. We see this as further progress towards a more formalised system for supporting and channelling employees' volunteering efforts.

OUTLOOK FOR 2013

For this year, our social partnership programmes with communities focus closely on providing healthcare and other facilities, as well as developing social infrastructure and community involvement initiatives. In line with our policy for social investment, we will target projects based on an analysis of the socio-economic conditions in each city, including research to identify residents' most pressing needs.

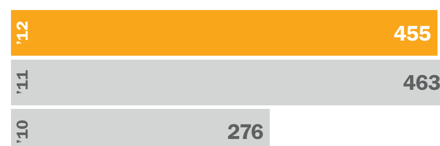
In 2013, we also plan to publish our latest Corporate Social Responsibility Report, which will detail our social responsibility and investments in accordance with GRI standards.

On the environmental front, we will continue to implement our Technological Strategy, while remaining in close dialogue with our local communities to identify areas of particular concern and keep them informed about our progress in reducing waste and emissions.

Spending on the Environment[24]

US$**455**M

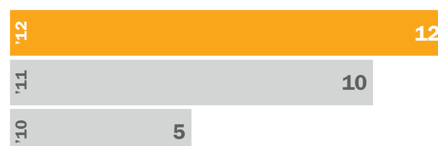
-2%



Spending on Communities

US$**12**M

+21%



SECTION VI:

ABBREVIATED IFRS CONSOLIDATED FINANCIAL STATEMENTS 2012

GIVEN THE CONDITIONS ON GLOBAL STEEL MARKETS, WE DELIVERED A COMMENDABLE PERFORMANCE LAST YEAR, WHILE CONTINUING TO IMPLEMENT OUR INVESTMENT PROGRAMME. OUR CONSERVATIVE APPROACH TO DEBT CONTINUES TO PROVE ITSELF IN TURBULENT TIMES.

IN THIS SECTION:

ABBREVIATED IFRS CONSOLIDATED FINANCIAL STATEMENTS 66

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METINVEST B.V.
ABBREVIATED IFRS CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2012

CONTENTS

ABBREVIATED IFRS CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report 67
Abbreviated Consolidated Balance Sheet 68
Abbreviated Consolidated Income Statement 69
Abbreviated Consolidated Statement of Comprehensive Income 70
Abbreviated Consolidated Statement of Cash Flows 71
Abbreviated Consolidated Statement of Changes in Equity 72

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS

1 Metinvest B.V. and its operations 73
2 Operating environment of the Group 74
3 Basis of preparation and significant accounting policies 74
4 Critical accounting estimates and judgements in applying accounting policies 82
5 Adoption of new or revised standards and interpretations 83
6 Segment information 84
7 Goodwill 87
8 Other intangible assets 88
9 Property, plant and equipment 89
10 Investments in associates and joint venture 90
11 Other non-current assets 91
12 Inventories 92
13 Trade and other receivables 92
14 Cash and cash equivalents 94
15 Share capital 94
16 Other reserves 95
17 Loans and borrowings 95
18 Seller's notes 96
19 Retirement benefit obligations 97
20 Other non-current liabilities 98
21 Trade and other payables 98
22 Expenses by nature 99
23 Other operating expenses/(income), net 99
24 Finance income 100
25 Finance costs 100
26 Income tax 100
27 Balances and transactions with related parties 103
28 Contingencies, commitments and operating risks 105
29 Financial risk management 106
30 Capital risk management 108
31 Fair values of financial instruments 109
32 Reconciliation of classes of financial instruments with measurement categories 109
33 Events after the balance sheet date 109

INDEPENDENT AUDITOR'S REPORT

TO: THE GENERAL MEETING OF SHAREHOLDERS OF METINVEST B.V.

The accompanying summary financial statements, which comprise the summary consolidated balance sheet as at 31 December 2012, the summary consolidated income statement, the statements of comprehensive income, statement of changes in equity and cash flow statement for the year then 1 ended, and related notes, are derived from the audited financial statements of Metinvest B.V. for the year 2012. We expressed an unqualified audit opinion on those financial statements in our report dated 11 April 2013. Those financial statements, and the summary financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on those financial statements. The summary financial statements do not contain the Company financial statements as required by International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code. Reading the summary financial statements, therefore, is not a substitute for reading the complete audited financial statements of Metinvest B.V.

DIRECTOR'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

OPINION

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

Amsterdam, 11 April 2013
PricewaterhouseCoopers Accountants N.V.

Original signed by
A.J. Brouwer RA

ABBREVIATED CONSOLIDATED BALANCE SHEET

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

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

Originally signed by **Igor Syry** – Director B

Originally signed by **John W. Macdonald** – Director A

ABBREVIATED CONSOLIDATED INCOME STATEMENT

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

ABBREVIATED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

ABBREVIATED CONSOLIDATED STATEMENT OF CASH FLOWS

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

ABBREVIATED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company						
All amounts in millions of US dollars	Share capital	Share premium	Other reserves	Retained earnings	**Total**	Non-controlling interest (NCI)	**Total equity**
Balance at 1 January 2011	**–**	**5,461**	**(3,527)**	**5,140**	**7,074**	**984**	**8,058**
Share in other comprehensive income of associates	–	–	(31)	–	**(31)**	(2)	**(33)**
Revaluation of property, plant and equipment	–	–	(2)	–	**(2)**	–	**(2)**
Currency translation differences	–	–	(56)	–	**(56)**	(4)	**(60)**
Other comprehensive income for the period	**–**	**–**	**(89)**	**–**	**(89)**	**(6)**	**(95)**
Profit for the period			–	1,359	**1,359**	495	**1,854**
Total comprehensive income for the period	**–**	**–**	**(89)**	**1,359**	**1,270**	**489**	**1,759**
Realised revaluation reserve	–	–	(202)	202	**–**	–	**–**
Unwinding of discount on dividends	–	–	–	(28)	**(28)**	(3)	**(31)**
Dividends declared by non-wholly-owned subsidiaries	–	–	–	–	**–**	(269)	**(269)**
Balance at 31 December 2011	**–**	**5,461**	**(3,818)**	**6,673**	**8,316**	**1,201**	**9,517**
Revaluation of property, plant and equipment (Notes 9, 22)	–	–	893	–	**893**	178	**1,071**
Income tax relating to components of other comprehensive income (Note 26)	–	–	(149)	–	**(149)**	(29)	**(178)**
Currency translation differences	–	–	27	–	**27**	2	**29**
Other comprehensive income for the period	**–**	**–**	**771**	**–**	**771**	**151**	**922**
Profit for the period	–	–	–	184	**184**	251	**435**
Total comprehensive income for the period	**–**	**–**	**771**	**184**	**955**	**402**	**1,357**
Realised revaluation reserve	–	–	(191)	191	**–**	–	**–**
Acquisition of non-controlling interest in subsidiaries				4	**4**	(9)	**(5)**
Dividends declared by non-wholly-owned subsidiaries	–	–	–	–	**–**	(434)	**(434)**
Balance at 31 December 2012	**–**	**5,461**	**(3,238)**	**7,052**	**9,275**	**1,160**	**10,435**

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012

1 METINVEST B.V. AND ITS OPERATIONS

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

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

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

In November 2007 the Company acquired from parties known as Smart Group ('SMART' or 'Smart Group') 82% of JSC Inguletskiy Mining and Processing Works in exchange for the transfer to SMART of 25% of the of the Company. SCM Cyprus and SMART additionally agreed that SMART would contribute their equity interest in JSC Makeyevka Steel Plant ('MMZ') and JSC Promet Steel. In exchange SMART would acquire certain veto rights over the management of the Company. Due to the complexity of the transaction, Promet Steel was acquired in 2009 and MMZ in October 2010. Both MMZ and Promet Steel have been consolidated from 1 January 2009. Following this transaction, Metinvest B.V. was owned 75% by SCM Cyprus and 25% by SMART. It was further agreed that SCM Cyprus will sell/contribute remaining equity interests in certain subsidiaries owned by SCM as at 31 December 2007 and certain other equity investments to Metinvest B.V. As at 31 December 2012, SCM's carrying value of such assets totalled US$665 million (31 December 2011: US$754 million). As of the date of preparation of these financial statements, the shareholders are undecided on the exact mechanism, and at which value these assets will be brought into the Group.

In 2011, as part of the acquisition of Ilyich Group, the Company issued 5% of its share capital to the sellers of Ilyich Group.

As of 31 December 2012, Metinvest B.V. is owned 71.25% by SCM Cyprus and 23.75% by companies of the Smart Group, and 5% by a company linked to previous owners of Ilyich Group.

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

	Effective interest as at 31 December			
Name	**2012**	2011	Segment	Country of incorporation
Metinvest Holding LLC	**100.0%**	100.0%	Corporate	Ukraine
MetalUkr Holding Limited	**100.0%**	100.0%	Corporate	Cyprus
PJSC Azovstal Iron and Steel Works	**96.1%**	95.9%	Metallurgical	Ukraine
PJSC Yenakiieve Iron and Steel Works	**90.7%**	90.6%	Metallurgical	Ukraine
JV Metalen LLC	**100.0%**	100.0%	Metallurgical	Ukraine
PJSC Khartsyzsk Pipe Plant	**98.0%**	97.6%	Metallurgical	Ukraine
Ferriera Valsider S.p.A.	**70.0%**	70.0%	Metallurgical	Italy
Metinvest Trametal S.p.A.	**100.0%**	100.0%	Metallurgical	Italy
Spartan UK Limited	**100.0%**	100.0%	Metallurgical	UK
Metinvest International SA	**100.0%**	100.0%	Metallurgical	Switzerland
Metinvest Eurasia LLC	**99.0%**	99.0%	Metallurgical	Russia
Metinvest Service Metal Centres LLC	**100.0%**	100.0%	Metallurgical	Ukraine
Metinvest Ukraine LLC	**100.0%**	100.0%	Metallurgical	Ukraine
JSC Promet Steel	**95.3%**	95.3%	Metallurgical	Bulgaria
PJSC Makiivka Iron and Steel Works	**90.2%**	90.2%	Metallurgical	Ukraine
PJSC Ilyich Iron and Steel Works	**99.2%**	99.1%	Metallurgical	Ukraine
PSC Ilyich Steel	**100.0%**	100.0%	Metallurgical	Ukraine
PJSC Avdiivka Coke Plant	**92.6%**	91.7%	Metallurgical	Ukraine
PJSC Northern Iron Ore Enrichment Works	**63.3%**	63.3%	Mining	Ukraine
PJSC Central Iron Ore Enrichment Works	**76.0%**	76.0%	Mining	Ukraine
PJSC Ingulets Iron Ore Enrichment Works	**82.5%**	82.5%	Mining	Ukraine
PJSC Komsomolske Flux Plant	**99.7%**	99.7%	Mining	Ukraine
United Coal Company LLC (UCC)	**100.0%**	100.0%	Mining	US
PJSC Krasnodon Coal Company	**92.5%**	91.6%	Mining	Ukraine

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
CONTINUED

1 METINVEST B.V. AND ITS OPERATIONS (CONTINUED)

As at 31 December 2012, the Group employed approximately 103 thousand people (31 December 2011: 108 thousand).

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

The consolidated financial statements of Metinvest B.V. for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors on 29 March 2013.

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

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

2 OPERATING ENVIRONMENT OF THE GROUP

The Group is one of the largest mining and steel companies globally and is the largest steel producer in Ukraine.

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

Metinvest's financial performance is largely dependent on the global price of and demand for steel and steel products, iron ore and coal. The prices of steel products are influenced by many factors, including global economic conditions, demand, worldwide production capacity, capacity utilisation rates, raw material costs, foreign exchange rates and improvements in steel making processes. In recent years steel prices have experienced significant fluctuations.

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

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

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

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

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

i. assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;
ii. income and expenses for each income statement are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
iii. all resulting exchange differences are recognised as a separate component of equity. All the components of consolidated equity at each balance sheet date are translated at the closing rate, except for retained earnings, which is stated at historical rates. The balancing figure goes to cumulative currency translation reserve in other reserves in equity.

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

Exchange restrictions in Ukraine are limited to compulsory receipt of foreign accounts receivable within 90 days of sales. Foreign currency can be easily converted at a rate close to the National Bank of Ukraine rate. At present, the UAH is not a freely convertible currency outside of Ukraine.

Property, plant and equipment. Property, plant and equipment is stated using the revaluation model. Fair values are based on valuations by external independent valuers. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Subsequent additions to property, plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. As at 31 December 2012 and 31 December 2011, property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment, if required.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the other reserves in equity. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Decreases that offset previous increases in the carrying amount of the same asset decrease the previously recognised revaluation reserve through other comprehensive income; all other decreases are charged to the income statement.

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

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

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

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

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

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

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

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

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

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

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

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

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

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

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Classification of financial assets. The Group classifies financial assets as loans and receivables.

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

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

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

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

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

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

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

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

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
CONTINUED

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue. If settlement of a dividend liability exceeds 12 months from the balance sheet date it is included within long-term liabilities and measured at the present value of the future cash flows required to settle the liability using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The effect of initial discounting and subsequent accretion of the discount is recognised directly in equity.

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

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

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

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

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

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

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

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

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

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

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

3 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

The recoverable amounts of goodwill and cash-generating units were estimated based on the fair value less costs to sell. Additional information is disclosed in Note 7.

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

Deferred income tax asset recognition. The recognised deferred tax asset represents income taxes recoverable through future deductions from taxable profits and is recorded in the statement of financial position. Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on the long-term strategy prepared by management. The strategy is based on management's expectations that are believed to be reasonable under the circumstances and are disclosed in Note 7. In addition, a number of tax planning opportunities are available to the Group to recover the deferred tax asset recognised.

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

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

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on the current market conditions. Additional information is disclosed in Note 19.

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (Note 28).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

Functional currency. Judgement was applied in determining the functional currency of Metinvest B.V., which is a holding company for operations of the Group in Ukraine, Italy, the US and other countries. The functional currency of Metinvest B.V. was determined on the basis that (i) in management's opinion Metinvest B.V. is not an extension of and is not integral to the Ukrainian operations; (ii) the primary economic exposures are to a number of countries; and (iii) Metinvest B.V. retains cash and obtains financing in US dollars. Management therefore determined the US dollar as the functional currency of Metinvest B.V. Should a different functional currency be determined, additional translation gains/losses would arise on loans and other payables with no significant effect on total equity reported. Amount of loans and other payables of Metinvest B.V totalled US$3,180 million as at 31 December 2012 (31 December 2011: US$3,306 million).

5 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

There no new standards, amendments to standards or interpretations that are effective for the first time for the financial periods beginning on or after 1 January 2012 that would be expected to have any significant effect on the Group's consolidated financial information.

The following new standards and amendments to standards which are relevant to the Group's consolidated financial statements have been issued, but are not effective for the financial periods beginning on or after 1 January 2012 and have not been early adopted by the Group:

- IFRS 9, Financial Instruments Part 1: Classification and Measurement (issued in November 2009, further amended in October 2010 and effective for annual periods beginning on or after 1 January 2015).
- IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- Amended IAS 28, Investments in Associates and Joint Ventures (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 11, Joint arrangements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 12, Disclosure of Interest in Other Entities (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014).
- IFRS 13, Fair Value Measurement (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 1, Presentation of Financial Statements (issued in June 2011 and effective for annual periods beginning on or after 1 July 2012).
- Amended IAS 19, Employee Benefits (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013). The impact of the standard will be as follows: actuarial gains and losses will be recognised in the balance sheet immediately, with a charge or credit to other comprehensive income in the periods in which they occur. Past service costs will be recognised in profit or loss in the period of a plan amendment. Retrospective application of the amended standard is required.

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
CONTINUED

5 ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS (CONTINUED)
The impact of the amended IAS 19 on the Group's financial statement will be as follows:

- As at 31 December 2011, retirement benefit obligations in the balance sheet will increase by US$106 million to US$643 million with corresponding decrease in equity due to recognition of actuarial gains/losses and past service costs which are unrecognised under current IAS 19;
- Other comprehensive income for 2012 will be lower by US$35 million due to immediate recognition of actuarial losses occurred in the period;
- Profit for 2012 will by higher by US$9 million because there will be no impact of actuarial losses recognised under 'corridor' approach in current IAS 19;
- Accordingly, retirement benefit obligations in the balance sheet as at 31 December 2012 will increase by US$132 million (Note 19).

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

6 SEGMENT INFORMATION
In August 2011 the Group approved a new operating model, comprising two operating divisions: metallurgical and mining. The structure and format of management reporting has changed in 2012 and, accordingly, format of segments disclosure has changed compared to the latest annual financial statements and comparative information was restated.

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

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

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

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

All amounts in millions of US dollars	Metallurgical	Mining	Corporate overheads	Eliminations	**Total**
Capital expenditure	313	426	26	–	**765**
Significant non-cash items included into adjusted EBITDA:					
– Net change in retirement benefit obligations	(31)	(13)	–	–	**(44)**

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

6 SEGMENT INFORMATION (CONTINUED)

Analysis of revenue by category:

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

All amounts in millions of US dollars	Metallurgical	Mining	Corporate overheads	Eliminations	**Total**
2011					
Sales – external	10,538	3,651	–	–	**14,189**
Sales to other segments	80	2,874	–	(2,954)	**–**
Total of the reportable segments' revenue	10,618	6,525	–	(2,954)	**14,189**
Adjusted EBITDA	**50**	**3,727**	**(119)**	**(3)**	**3,655**
Reconciling items:					
Depreciation and amortisation					(832)
Sponsorship and other charity payments					(18)
Impairment and devaluation of PPE					(15)
Share of result of associates					(10)
Finance income					78
Finance costs					(355)
Other					1
Profit before income tax					**2,504**

All amounts in millions of US dollars	Metallurgical	Mining	Corporate overheads	**Total**
Capital expenditure	473	684	8	**1,165**
Significant non-cash items included into adjusted EBITDA:				
– Impairment of trade and other receivables	39	–	–	**39**
– Net change in retirement benefit obligations	(81)	(51)	–	**(132)**

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

6 SEGMENT INFORMATION (CONTINUED)

Analysis of revenue by category:

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

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

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

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

7 GOODWILL

The movements of goodwill were as follows:

All amounts in millions of US dollars	**2012**	2011
Book amount as at 1 January, net	**961**	**974**
Currency translation differences	**19**	(13)
Book amount as at 31 December, net	**980**	**961**

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

All amounts in millions of US dollars	**2012**	2011
Metallurgical	**634**	615
Mining	**346**	346
Total	**980**	**961**

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

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

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

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

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

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

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
CONTINUED

7 GOODWILL (CONTINUED)

As at 31 December 2012 Metallurgical division recoverable amount exceeds its carrying amount by US$435 million (2011: US$1,045 million). The table below summarises the impact of changes in main assumptions with all other variables held constant to the impairment of goodwill related to the Metallurgical division:

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

With regard to impairment testing of the goodwill related to Mining division, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value to materially exceed the recoverable amount.

8 OTHER INTANGIBLE ASSETS

The movements of other intangible assets were as follows:

All amounts in millions of US dollars	Coal reserves	Long-term sales contracts	Licenses and mining permits	Other intangible assets	**Total**
As at 1 January 2011					
Cost	418	144	724	45	**1,331**
Accumulated amortisation	(8)	(112)	(116)	(23)	**(259)**
Net carrying amount	**410**	**32**	**608**	**22**	**1,072**
Additions	–	–	4	3	**7**
Amortisation	(7)	(21)	(54)	(4)	**(86)**
Disposal of subsidiaries	–	–	–	(2)	**(2)**
Currency translation differences	–	–	(2)	–	**(2)**
As at 31 December 2011					
Cost	418	144	726	46	**1,334**
Accumulated amortisation	(15)	(133)	(170)	(27)	**(345)**
Net carrying amount	**403**	**11**	**556**	**19**	**989**
Additions	–	–	–	24	**24**
Amortisation	(8)	(11)	(52)	(5)	**(76)**
As at 31 December 2012					
Cost	418	–	726	70	**1,214**
Accumulated amortisation	(23)	–	(222)	(32)	**(277)**
Net carrying amount	**395**	**–**	**504**	**38**	**937**

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

The coal reserves and long-term sales contracts were acquired as part of the acquisition of UCC. The coal reserves are being amortised using the units-of-production method over their useful life of approximately 30 years.

9 PROPERTY, PLANT AND EQUIPMENT

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

All amounts in millions of US dollars	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	**Total**
Cost or valuation						
As at 1 January 2011	**75**	**2,438**	**4,396**	**123**	**756**	**7,788**
Additions	–	–	–	–	1,158	**1,158**
Transfers	3	346	619	2	(970)	**–**
Disposals	–	(14)	(47)	(7)	(19)	**(87)**
Currency translation differences	(2)	(11)	(25)	(1)	(4)	**(43)**
As at 31 December 2011	**76**	**2,759**	**4,943**	**117**	**921**	**8,816**
Additions	–	–	–	–	741	**741**
Transfers	1	196	461	57	(715)	**–**
Disposals	–	(37)	(33)	(6)	(18)	**(94)**
Disposal of subsidiaries	–	(3)	(4)	–	(1)	**(8)**
Reclassification to inventory	–	–	–	–	(11)	**(11)**
Elimination against gross carrying amount	–	(308)	(933)	(20)	–	**(1,261)**
Revaluation	1	476	504	4	–	**985**
Currency translation differences	–	2	5	1	–	**8**
As at 31 December 2012	**78**	**3,085**	**4,943**	**153**	**917**	**9,176**
Accumulated depreciation and impairment						
As at 1 January 2011	**–**	**(191)**	**(572)**	**(12)**	**(18)**	**(793)**
Charge for the year	–	(176)	(547)	(23)	–	**(746)**
Disposals	–	6	21	4	1	**32**
Impairment	–	(22)	(5)	–	10	**(17)**
Currency translation differences	–	1	6	–	–	**7**
As at 31 December 2011	**–**	**(382)**	**(1,097)**	**(31)**	**(7)**	**(1,517)**
Charge for the year	–	(183)	(612)	(28)	–	**(823)**
Disposals	–	38	17	1	1	**57**
Transfers	–	10	–	(10)	–	**–**
Elimination against gross carrying amount		308	933	20	–	**1,261**
Currency translation differences	–		(2)	–	–	**(2)**
As at 31 December 2012	**–**	**(209)**	**(761)**	**(48)**	**(6)**	**(1,024)**
Net book value as at						
31 December 2011	**76**	**2,377**	**3,846**	**86**	**914**	**7,299**
31 December 2012	**78**	**2,876**	**4,182**	**105**	**911**	**8,152**

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

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

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
CONTINUED

9 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

The assets transferred to the Ukrainian subsidiaries of the Group upon privatisation did not include the land on which the Group's factories and buildings are situated. The Group has the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. Ukrainian legislation does not specify an expiry date to this option. As at 31 December 2012, the Group has not filed any application to exercise the purchase option. Total payments under land lease agreement for 2012 and 2011 were insignificant.

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

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

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE

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

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

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

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

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

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

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

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

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

10 INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (CONTINUED)

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

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

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

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

All amounts in millions of US dollars	Segment	% of ownership	Total assets	Total liabilities	Revenue	Profit/(loss)
2011						
Zaporizhstal	Metallurgical	12.5%	1,862	854	2,238	(43)
IMU	Metallurgical	49.9%	49	–	–	–
JSC Donetskkoks	Metallurgical	37.5%	61	19	123	7
JSC Zaporozhkoks	Metallurgical	25.0%	203	115	441	(28)

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

All amounts in millions of US dollars	**Non-current assets**	**Current assets**	**Non-current liabilities**	**Current liabilities**	**Revenue**	**Profit/(loss)**
2012						
Zaporizhstal	1,383	406	159	881	1,973	(81)

11 OTHER NON-CURRENT ASSETS

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

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

All amounts in millions of US dollars	**2012**	2011
Balances neither past due nor impaired:		
– Related parties	**222**	189
– Other	**42**	37
Total non-current and not impaired	**264**	**226**

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

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
CONTINUED

12 INVENTORIES

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

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

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

13 TRADE AND OTHER RECEIVABLES

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

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

	2012		2011	
All amounts in millions of US dollars	**Trade receivables**	**Other financial receivables**	Trade receivables	Other financial receivables
Provision for impairment at 1 January	**112**	**24**	**68**	**27**
Net impairment during the year	**–**	**–**	39	–
Reclassification	**6**	**(6)**	3	(3)
Currency translation differences	**–**	**–**	2	–
Provision for impairment at 31 December	**118**	**18**	**112**	**24**

13 TRADE AND OTHER RECEIVABLES (CONTINUED)

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

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

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

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

14 CASH AND CASH EQUIVALENTS

All amounts in millions of US dollars	**2012**	2011
Current accounts	**518**	782
Bank deposits up to 3 months	**12**	10
Total cash and cash equivalents	**530**	**792**

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

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

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

15 SHARE CAPITAL

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

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

16 OTHER RESERVES

All amounts in millions of US dollars	Revaluation of available-for-sale investments and share in OCI of associates	Revaluation of property, plant and equipment	Merger reserve	Cumulative currency translation reserve	Total
Balance as at 1 January 2011	**18**	**1,788**	**(2,987)**	**(2,346)**	**(3,527)**
Total comprehensive income for the period	(31)	(2)	–	(56)	**(89)**
Depreciation transfer, net of tax	–	(202)	–	–	**(202)**
Balance as at 31 December 2011	**(13)**	**1,584**	**(2,987)**	**(2,402)**	**(3,818)**
Total comprehensive income for the period	–	744	–	27	**771**
Depreciation transfer, net of tax	–	(191)	–	–	**(191)**
Balance as at 31 December 2012	**(13)**	**2,137**	**(2,987)**	**(2,375)**	**(3,238)**

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

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

17 LOANS AND BORROWINGS

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

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

All amounts in millions of US dollars	**2012**	2011
Loans and borrowings due:		
– Within 1 year	**1,384**	1,057
– Between 1 and 5 years	**1,915**	1,877
– After 5 years	**739**	737
Total borrowings	**4,038**	**3,671**

17 LOANS AND BORROWINGS (CONTINUED)

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

All amounts in millions of US dollars	**31 December 2012**		31 December 2011	
In % per annum	**USD**	**EUR**	USD	EUR
Bank borrowings	**4%**	**2%**	4%	4%
Bonds issued	**9%**	**–**	9%	–
Trade finance	**3%**	**3%**	3%	3%
Reported amount	**3,842**	**196**	**3,331**	**340**

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

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

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

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

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

As at 31 December 2012, the fair value of bonds was US$1,245 million (31 December 2011: US$1,135 million) as determined by reference to observable market quotations. The fair value of bank borrowings was US$1,907 million (31 December 2011: US$1,593 million) as estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 December 2012, the fair value of trade finance borrowings is approximately equal to their carrying value.

18 SELLER'S NOTES

All amounts in millions of US dollars	**2012**	2011
Non-current portion	**150**	220
Current portion	**90**	90
Total seller's notes	**240**	**310**

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

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

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

19 RETIREMENT BENEFIT OBLIGATIONS

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

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

All amounts in millions of US dollars	**2012**	2011
Current service cost	**25**	34
Recognised cost of past service	**–**	(105)
Interest cost	**81**	90
Recognised actuarial losses	**9**	8
Total	**115**	**27**

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

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

During 2011 certain amendments to the pension legislation in Ukraine were introduced. Principal changes relate to the rules of indexation, calculation and recalculation of pensions and to increase of pension age for women. Cumulatively these changes led to decrease in defined benefit obligation as of 31 December 2011 which was presented as negative past service cost of US$157 million. Out of this amount, US$105 million related to benefits which were already vested was recognised immediately in accordance with the requirements of IAS 19.

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

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

The principal actuarial assumptions used were as follows:

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

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

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
CONTINUED

19 RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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

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

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

All amounts in millions of US dollars	**2012**	2011
Nominal discount rate increase/decrease by 1%	**(36)/41**	(42)/48
Nominal salary increase/decrease by 1%	**20/(19)**	24/(22)

20 OTHER NON-CURRENT LIABILITIES

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

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

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

21 TRADE AND OTHER PAYABLES

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

22 EXPENSES BY NATURE

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

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

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

All amounts in millions of US dollars	**2012**	2011
Audit of the financial statements (including audit fee of the signing firm of US$0.1 million)	**3**	3
Tax services	**–**	–
Other non-audit services	**1**	–
Total	**4**	**3**

23 OTHER OPERATING (INCOME)/EXPENSES, NET

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

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

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
CONTINUED

24 FINANCE INCOME

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

All amounts in millions of US dollars	**2012**	2011
Net foreign exchange gain	**1**	–
Interest income:		
– Bank deposits	**5**	3
– Imputed interest on other financial instruments	**10**	43
– Loans issued	**36**	29
Other finance income	**–**	3
Total finance income	**52**	**78**

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

25 FINANCE COSTS

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

All amounts in millions of US dollars	**2012**	2011
Net foreign exchange loss	**–**	11
Interest expense:		
– Borrowings	**89**	89
– Bonds	**112**	112
– Seller's notes	**16**	9
– Imputed interest on Seller's notes	**19**	33
Loss on origination of financial assets	**–**	4
Interest cost on retirement benefit obligations	**81**	90
Other finance costs	**4**	7
Total finance costs	**321**	**355**

26 INCOME TAX

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

All amounts in millions of US dollars	**2012**	2011
Current tax	**380**	923
Deferred tax	**(114)**	(273)
Income tax expense	**266**	**650**

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

26 INCOME TAX (CONTINUED)

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

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

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

Differences between IFRS and Ukrainian and other countries' statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases.

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

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
CONTINUED

26 INCOME TAX (CONTINUED)

All amounts in millions of US dollars	1 January 2011	Credited/ (charged) to income statement	Charged to other comprehensive income	Currency translation difference	31 December 2012
Tax effect of deductible temporary differences					
Property, plant and equipment and intangible assets	96	(2)	–	–	94
Long-term receivables	47	55	–	–	102
Inventory valuation	52	21	–	1	74
Trade and other accounts receivable	25	5	–	–	30
Accrued expenses	33	8	–	–	41
Tax losses carried forward	92	95	–	–	187
Retirement benefit obligations	114	(14)		–	100
Pre-payments received	110	(66)	–	–	44
Other	16	4	–	–	20
Gross deferred tax asset	**585**	**106**	**–**	**1**	**692**
Less offsetting with deferred tax liabilities	(389)	(23)	–	–	(412)
Recognised deferred tax asset	**196**	**83**	**–**	**1**	**280**
Tax effect of taxable temporary differences					
Property, plant and equipment and intangible assets	(404)	19	–	(1)	(386)
Accounts receivable valuation	(109)	109	–	–	–
Advances paid	(97)	57	–	–	(40)
Inventory tax differences	(29)	18	–	–	(11)
Borrowings and long-term payables	(75)	(44)	–	–	(119)
Other	(10)	8	–	–	(2)
Gross deferred tax liability	**(724)**	**167**	**–**	**(1)**	**(558)**
Less offsetting with deferred tax assets	389	23	–	–	412
Recognised deferred tax liability	**(335)**	**190**	**–**	**(1)**	**(146)**

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

	2012			2011		
All amounts in millions of US dollars	**Before tax**	**Deferred tax charge**	**After tax**	Before tax	Deferred tax charge	After tax
Revaluation of property, plant and equipment	**1,071**	**(178)**	**893**	–	–	–
Other comprehensive income	**1,071**	**(178)**	**893**	–	–	–

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

27 BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

Unless stated otherwise, other related parties are related through common control of SCM, or are associates of SCM. As at 31 December 2012 and 2011 significant balances outstanding with related parties are detailed below:

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

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

27 BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

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

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

27 BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

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

All amounts in millions of US dollars	Associates	Joint venture	Other related parties	Total
2011				
Purchases, including:	**262**	**–**	**1,180**	**1,442**
Metal products	62	–	–	62
Coke and coking coal	197	–	109	306
Raw materials and spare parts	2	–	358	360
Electricity	–	–	648	648
Fuel	–	–	2	2
Services	–	–	44	44
Other	1	–	19	20

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

28 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

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

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

Bankruptcy proceedings. During 2006, bankruptcy proceedings were initiated against the Group's subsidiary JSC Krasnodonugol. The majority of the creditors' claims summarised by the external manager relate to the Group. As at 31 December 2012, the amount of the liabilities recorded in these financial statements is US$29 million. The Group recognised US$23 million as non-current liability related to the bankruptcy moratorium (Note 20). For the remaining balance the Group is continually negotiating early settlement and thus recorded those as part of trade and other payables. In addition to that, US$10 million is not recognised as a liability because, based on the previous court decisions made, management of the Group believes that claims in respect of this amount will be rejected by the court.

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

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
CONTINUED

28 CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

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

Capital expenditure commitments. As at 31 December 2012, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling US$157 million (31 December 2011: US$168 million). The Group has already allocated the necessary resources in respect of these commitments. Management of the Group believes that future net income and funding will be sufficient to cover this and any similar commitments.

Guarantees issued. As at 31 December 2012, the Group has no outstanding guarantees to third parties (31 December 2011: US$11 million).

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including increase in the cost of borrowings and declaration of default. As at 31 December 2012 and as at 31 December 2011 and during 2012 and 2011 the Group was in compliance with the covenants.

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

29 FINANCIAL RISK MANAGEMENT

Financial risk management

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

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

(a) Market risk

(i) Foreign exchange risk

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

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed through (i) borrowings denominated in the relevant foreign currencies; (ii) different treasury operations like forward, swap and other. Fair value of derivatives as at 31 December 2012 and 2011 is immaterial.

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

At 31 December 2012, if the UAH had strengthened/weakened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been US$94 million (2011: US$45 million at 10% change) higher/lower, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated trade receivables and foreign exchange gains/losses on translation of US dollar denominated borrowings.

(ii) Price risk

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

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(iii) Cash flow and fair value interest rate risk
The Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long-term and short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced borrowings portfolio of fixed and floating rate instruments. As at 31 December 2012, 31% of the total borrowings were provided to the Group at fixed rates (31 December 2011: 34%). During 2012 and 2011, the Group's borrowings at variable rate were denominated in USD and EUR.

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

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

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

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

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

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

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

The maximum exposure to credit risk at 31 December 2012 is US$3,555 million (2011: US$3,543 million) being the carrying value of long and short-term loans issued and receivables and cash. In order to reduce credit risk on receivables, the Group uses letters of credit, guarantees and trade insurance. The Group does not hold any collateral as security.

Management believes that credit risk is appropriately reflected in impairment allowances recognised against assets, and management does not expect any significant losses from non-performance by these counterparties.

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

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

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2012
CONTINUED

29 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

All amounts in millions of US dollars	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At 31 December 2012				
Bank borrowings	582	802	685	–
Trade finance	835	–	–	–
Bonds	117	117	718	761
Seller's notes	102	97	93	–
Trade and other payables	1,476	–	–	–
Guarantees issued	–	–	–	–
At 31 December 2011				
Bank borrowings	302	364	1,116	–
Trade finance	787	–	–	–
Bonds	117	117	769	827
Seller's notes	106	102	190	–
Trade and other payables	1,319	–	–	–
Guarantees issued	11	–	–	–

30 CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

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

The Group needs to comply with certain restrictive covenants such as maintaining certain financial ratios determined by the loan agreements (e.g. gearing). Covenants are monitored by the management and there were no cases of non-compliance with the covenants at 31 December 2012 and 31 December 2011.

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 1–5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has credit ratings assigned by two international rating agencies, Fitch and Moody's, B and B3, updated in July 2012 and December 2012 respectively, capped by the Sovereign rating.

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

31 FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

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

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

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

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

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (‘demandable liabilities’) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid (Notes 17, 18 and 20).

32 RECONCILIATION OF CLASSES OF FINANCIAL INSTRUMENTS WITH MEASUREMENT CATEGORIES

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

33 EVENTS AFTER THE BALANCE SHEET DATE

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

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GLOSSARY AND ABBREVIATIONS

TECHNICAL METALS AND MINING TERMS

Accelerated cooling unit (ACU)
A unit that accelerates the cooling of steel plates, allowing the production of leaner, high-strength alloys and an expanded range of goods, as well as contributing to the productivity of the plate mill.

Air separation unit (ASU)
A unit that separates atmospheric air into its component elements, including oxygen and nitrogen. In the steelmaking process, the unit provides the large volumes of oxygen needed to ignite carbon dissolved in steel and remove unwanted chemical elements.

Batteries
Coke ovens are constructed in batteries of 10-100 ovens.

Beneficiation
A series of unit operations to liberate and then separate ore minerals from gangue minerals. The products of beneficiation are referred to as: concentrates (enriched in ore minerals), tailings (depleted of ore minerals) and slimes (fines rejected by washing).

Blast furnace
A towering cylinder lined with heat-resistant (refractory) bricks, used by integrated steel mills to smelt iron from ore. Its name comes from the 'blast' of hot air and gases forced up through the iron ore, coke and limestone that load the furnace.

Coils
Steel sheets that have been wound. A slab, once rolled in a hot-strip mill, can be more than 1 mile long; coils are the most efficient way to store and transport sheet steel.

Coke
The basic fuel consumed in blast furnaces in the smelting of iron. Coke is a processed form of coal. About 450kg of coke is needed to process a tonne of hot metal, an amount that constitutes more than 50% of an integrated steel mill's total energy use. Coke is used because metallurgical coal burns sporadically and reduces into a sticky mass. Processed coke, however, burns steadily inside and out, and is not crushed by the weight of the iron ore in the blast furnace. It is produced inside the narrow confines of a coke oven, in which coal is heated without oxygen for 18 hours to drive off gases and impurities.

Coking coal
A grade of coal that meets the requirements for making coke. It must have a low ash and sulphur content and form a coke that is capable of supporting the charge or iron ore and limestone in a blast furnace.

Cold-rolling
Cold-rolling occurs with the metal below its re-crystallisation temperature (usually at room temperature), which increases the strength via strain hardening up to 20%. It also improves the surface finish and supports tighter tolerances. Commonly cold-rolled products include sheets, coils and strips.

Concentrate
Material that has been processed to increase the percentage of valuable minerals in order to facilitate transportation and downstream processing.

Continuous casting
A method of pouring steel directly from a ladle through a tundish (a container with holes in the bottom) into a mould shaped to form billets or slabs. Continuous casting avoids the need for large mills to roll ingots into slabs. Continuous cast slabs also solidify in a few minutes, versus several hours for ingots. Because of this, the chemical composition and mechanical properties are more uniform.

Continuous improvement (CI)
An aspect of lean production, CI encompasses various changes in business processes that aim to improve operational results by taking a systematic approach to analysing problems and finding solutions throughout an organisation.

Crude steel
Steel in the primary form of hot molten metal.

Crusher and conveyor system
A transportation system used to move bulk materials from mine shafts to the surface for further processing.

Downstream
In manufacturing, this term refers to processes that occur later in a production sequence or production line.

Environmental Impact Identification (ENVID)
A systematic approach designed to identify and reduce the risk of incidents that can damage the surrounding environment, and to limit the environmental impact throughout the production process.

Fe content
The source of the chemical symbol for iron, Fe, is the Latin word ferrum. Fe content refers to the iron content of an ore.

Ferroalloy
A metal product commonly used as a raw material feed in steelmaking, usually containing iron and other metals that improve the physical and chemical properties of the final steel product.

Finished products
Products obtained through the hot-rolling or forging of semi-finished steel (blooms/billets/slabs). These cover two broad categories of products, namely long and flat products.

Flat product
A product that is formed by rolling with smooth surfaces and a range of dimensions, varying in thickness and width. Flat products are used in the automotive and white goods industries, in the production of large welded pipes, and in ship building, construction, major works and boilers. They include hot-rolled quarto plates, hot-rolled heavy plates, and hot-rolled, cold-rolled and hot-dip galvanised sheets and coils.

Galvanised steel sheet
Steel coated with a thin layer of zinc to provide corrosion resistance in underbody car parts, rubbish bins, storage tanks and fencing wire. Sheet steel normally must be cold-rolled prior to the galvanising stage.

Hard coking coal (HCC)
Hard coking coal is a type of coking coal with better coking properties than semi-soft coking coal.

Hazard and Operability Study (HAZOP)
A structured and systematic examination of a planned or existing process or operation, aiming to identify and evaluate problems that may represent risks to personnel or equipment, or prevent efficient operation.

Hazard Identification (HAZID)
A systematic approach designed to identify and reduce the risk of dangerous incidents, and to ensure safety throughout the production process.

Heavy plate
A steel sheet with a width of up to 5m and a thickness of at least 5mm. It is mainly used for construction, heavy machinery, ship building or large-diameter pipes.

Hot-rolling mill
A rolling mill that reduces hot slab into a coil of specified thickness; the whole production process is carried out at a relatively high temperature (when the steel is still red).

Hot-rolling
Hot-rolling is a process that is used to shape metal. Typically, semi-finished products are heated to above their re-crystallisation temperature and processed. After the grains deform, they re-crystallise.

Integrated steelmaking plant
A steel plant using iron ore as the basic raw material for the production of crude steel, which is further rolled into finished shapes in-house. Conventionally, these plants also have captive coke ovens and the sensible heat of the outgoing gases from iron/coke making is utilised as fuel for various applications. It therefore includes units with in-house coke making (optional) and iron making, followed by the production of crude steel and finished steel. Thus, all integrated steel plants adopting the BF-BOF route, and major producers adopting Corex-BOF, DRI-EAF or MBF-EOF technology fall under this category of mill.

Iron ore
A mineral containing enough iron to be a commercially viable source of the element for use in steelmaking.

Iron ore concentrate
Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed.

JORC Code
The 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Lean production
An approach to manufacturing processes that focuses on creating value for the end user and eliminating waste that has no value.

Limestone
A sedimentary rock composed largely of the mineral calcite (calcium carbonate or $CaCO_3$). It is used in the blast furnace to form slags, which are then used in construction and other applications.

Long products
A classification of steel products that include hot-rolled sections (light, medium, heavy), rebars, merchant bars and wire rods that are 'long' rather than 'flat' and that are produced from blooms or billets.

LOTOTO
Lock out, tag out, try out: a standard that is used to isolate hazardous energy during repair and maintenance work.

LTIFR
An internationally recognised safety indicator, the LTIFR is the ratio of lost-time injuries per million hours worked. It is calculated using the total number of incidents leading to the loss of one day/shift or more from work.

Lurgi machine
The Lurgi process is an above-ground coal liquefaction and oil shale extraction technology. It is classified as a hot recycled solids technology.

Magnetic flotation
A method for mineral upgrading or concentration, in which a gangue-associated mineral having a hydrophobic surface and being in particulate form is contacted with particles of a magnetic material also having a hydrophobic surface, whereby the mineral particles become attached to the surface of the magnetic particles, the magnetic particles with the attached mineral particles are separated from the gangue by magnetic means, and the mineral particles are then detached from the magnetic particles.

Magnetic separation
Magnetic separation is a process in which magnetically susceptible material is extracted from a mixture using a magnetic force.

Merchant bars
A term used to refer to long bars with round, square, flat, angled and channelled cross sections.

Merchant iron ore concentrate
A term used to designate various types of iron ore concentrate, which are sold to external customers for further processing or for direct use/consumption.

Mineral
A natural, inorganic, homogenous material that can be expressed by a chemical formula.

Open-hearth furnace (OHF)
A broad, shallow hearth used to refine pig iron and scrap into steel. Heat is supplied from a large flame over the surface and the refining takes 7 to 9 hours.

OTIF
On-time-in-full: an approach to assessing performance in manufacturing and logistics that measures the ability to deliver the exact order on time to the customer.

Pelletising
Pelletising is the process of compressing or moulding a product into the shape of a pellet. Pelletising of iron ore produces spheres of typically 8-18mm (0.31-0.71") in diameter. The process combines agglomeration and thermal treatment to convert the raw ore into pellets with characteristics appropriate for use in a blast furnace. In the case of iron ore, which is transported over a large distance, the ore becomes powder due to friction. Therefore, it is first sintered and then compressed into pellets.

Pelletising machine
A pelletising machine has a rotatable matrix disc, a variety of vertically adjustable pressing rollers that control the position of the upper and lower plungers, a drive for adjusting the height of the rollers, a housing accommodating the drive and a bearing block supporting the pressing roller. It is connected with the housing and can be released.

Pelletising plant
A processing facility that takes iron concentrate as its input and produces iron ore pellets.

Pellets
An enriched form of iron ore shaped into small balls or pellets. Pellets are used as raw material in the iron making process.

Pickling line
A production process that removes unwanted oxidised iron (scale) from steel that is formed in the hot-rolling process. Pickling uses hydrochloric acid to remove scale, while other chemicals are used to prevent the acid from harming the steel itself.

Pig iron
Crude iron obtained directly from the blast furnace and cast in moulds.

Platts IODEX
Platts assesses the daily transaction value of seaborne iron ore sold in the spot market and imported into China. The benchmark assessment is based on a standard specification of iron ore fines with an iron (Fe) content of 62%. As a benchmark, it acts as an 'index' from which to price other grades and has been termed the Platts IODEX.

Pulverised coal injection (PCI)
Technologies whereby pulverised/granulated/dust coal is injected into the blast furnace through the tuyeres along with the blast to replace natural gas and a part of the coke requirement.

Rails
Steel bars that have special shapes and grades and are used to form railway tracks.

Refining
A stage in the process of making crude steel during which most residual impurities are removed from the cured steel and additions of other metals may be made before it is cast.

Reserves (proven, probable, recoverable)
A 'proven ore reserve' is the economically mineable part of a measured mineral resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate that, at the time of reporting, extraction could reasonably be justified.

A 'probable ore reserve' is the economically mineable part of an indicated mineral source and, in some circumstances, a measured mineral resource. It includes diluting materials and allowances for losses that may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate that, at the time of reporting, extraction could reasonably be justified.

'Recoverable reserves' are an estimate of how much recoverable coal/ore is still left in already found deposits. It can only be an estimate since it is impossible to know exactly how much coal/ore is still in the ground. Because of this uncertainty, reserves are calculated with a certain probability. A reserve estimate followed with, for instance, 'P90' means that there is a 90% chance that there is at least as much recoverable coal/ore as the reserve estimate claims.

Rolled steel (products)
Steel produced to a desired thickness by being passed through a set of rollers.

Scrap
Steel waste that is not usable as such in its existing form, which is further re-melted to produce crude steel or sold. Depending on its form and type, scrap is classified as Heavy Melting Scrap, Light Melting Scrap and Turnings/Borings, etc.

Sections
Blooms or billets which are hot-rolled in a rolling mill to form shapes including 'L', 'U', or 'T', among others. Sections can also be produced by welding together pieces of flat products. Sections can be used for a wide variety of purposes in the construction, machinery and transportation industries.

Semi-finished products
A product category that includes pig iron, slabs, blooms and billets. The first solid forms in the steelmaking process. These usable shapes are further processed to become more finished products, including rebars, structural steel and wire rod.

Sinter
An aggregate that is normally produced from relatively coarse fine iron ore and various metallurgical return wastes used as an input/raw material in blast furnaces.

Slab
The most common type of semi-finished steel. Traditional slabs measure 18-25cm thick x 75-225cm wide, and are usually about 6-12m long, while the output of recently developed 'thin slab' casters is approximately 5cm thick. Subsequent to casting, slabs are sent to hot-strip mills to be rolled into coiled sheet and plate products.

Square billet
A semi-finished steel product with a square cross section of up to 150mm x 150mm. This product is either rolled or continuously cast and is further processed by rolling to produce finished long products.

Steam coal
A term used to describe coal that is used primarily to generate heat. It is defined as all other hard coal not classified as coking coal. Also included in this category are recovered slurries, middlings and other low-grade coal products not further classified by type. Coal of this quality is also commonly known as thermal coal.

Turbine air blower
A device that compresses and blows air into a blast furnace at high pressure.

Upstream
Within the steel industry, upstream is a term that describes the exploration, extraction and raw material production sectors.

Wire
A broad range of products produced by cold and hot rolling, or by drawing wire rod through a series of dies to reduce the diameter and improve surface finish, dimensional accuracy, and physical properties. Typical applications include nets, screws, rivets, upholstery springs, furniture wire, concrete wire, electrical conductors, rope wire and structural cables.

Wire rod
Formed from billets, wire rods in coils are an intermediate product with a uniform round cross section dimension.

COMPANY ABBREVIATIONS

Avdiivka Coke
PJSC Avdiivka Coke Plant

Azovstal
PJSC Azovstal Iron and Steel Works

Central GOK
PJSC Central Iron Ore Enrichment Works

Ferriera Valsider
Ferriera Valsider S.p.A.

Ilyich Steel
Ilyich Iron and Steel Works

Ingulets GOK
PJSC Ingulets Iron Ore Enrichment Works

Inkor Chemicals
Scientific and Manufacturing Association 'Inkor and Co' LLC

Khartsyzk Pipe
PJSC Khartsyzk Pipe Plant

Komsomolske Flux[28]
PJSC Komsomolske Flux Plant

Krasnodon Coal
PJSC Krasnodon Coal Company

Makiivka Steel[28]
PJSC Makiivka Iron and Steel Works

Metinvest
Metinvest Group

Metinvest Eurasia
Metinvest Eurasia LLC

Metinvest International
Metinvest International SA

Metinvest-Resource
Metinvest-Resource LLC

Metinvest-SMC
Metinvest-SMC LLC

Metinvest Trametal
Metinvest Trametal S.p.A.

Metinvest-Ukraine
Metinvest Ukraine LLC

Northern GOK
PJSC Northern Iron Ore Enrichment Works

Promet Steel
JSC Promet Steel Plant

SCM
JSC System Capital Management

Metinvest-Shipping
Metinvest-Shipping LLC

Smart
JSC Smart Holding

Spartan UK
Spartan UK Limited

United Coal
United Coal Company LLC

Yenakiieve Steel
PJSC Yenakiieve Iron and Steel Works and JV Metalen LLC

Zaporizhstal
PJSC Zaporizhstal Iron and Steel Works

OTHER TERMS

ACCA
The Association of Chartered Certified Accountants

ACU
Accelerated cooling unit

ASU
Air separation unit

CFA®
Chartered Financial Analyst

CIS
Commonwealth of Independent States

CRU
Commodities Research Unit

CSR
Corporate social responsibility

ECA
Export credit agency

FCA
Free carrier (Incoterms rules)

GRI
Global Reporting Initiative

HSE
Health, safety and the environment

IMF
International Monetary Fund

ISO
International Organisation for Standardisation

JSC
Joint-stock company

JV
Joint venture

KPI
Key performance indicator

KT
One thousand metric tonnes

LLC
Limited liability company

MENA
Middle East and North Africa

MT
One million metric tonnes

NAFTA
North American Free Trade Agreement

NGO
Non-governmental organisation

OHSAS
Occupational Health and Safety Advisory Services

PJSC
Public or private joint-stock company

S&OP
Sales and Operations Planning

SBB
Steel Business Briefing

TSI
The Steel Index

UNDP
United Nations Development Programme

WSA
World Steel Association

28 Komsomolske Flux and Makiivka Steel are private joint-stock companies, while all of the other PJSCs listed are public.

NOTES

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