Evraz Group S.A.

Interim Consolidated Financial Statements

Six-month period ended June 30, 2011

Evraz Group S.A.

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Evraz Group S.A.

Interim Consolidated Financial Statements

Six-month period ended June 30, 2011

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Independent auditor's report

To the Shareholders of
Evraz Group S.A.
1, Allée Scheffer
L-2520 Luxembourg

Following our appointment by the General Meeting of the Shareholders dated 16 May 2011, we have audited the accompanying interim consolidated financial statements of Evraz Group S.A., which comprise the interim consolidated statement of financial position as at 30 June 2011, the interim consolidated statement of operations, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity, the interim consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the interim consolidated financial statements

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

Responsibility of the "réviseur d'enteprises agrée"

Our responsibility is to express an opinion on these interim consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the interim consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the interim consolidated financial statements give a true and fair view of the financial position of Evraz Group S.A. as of 30 June 2011, and of its financial performance and its cash flows for the six-month period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other matter

The comparative financial information for the six-month period ended 30 June 2010 has not been audited and, accordingly, we do not express an opinion on it.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Thierry BERTRAND

Luxembourg, 10 October 2011

Evraz Group S.A.

Interim Consolidated Statement of Operations

(In millions of US dollars, except for per share information)

	Notes	Six-month period ended June 30, 2011	2010* unaudited
Revenue			
Sale of goods	**3**	**$ 8,221**	$ 6,256
Rendering of services	**3**	**159**	123
		8,380	6,379
Cost of revenue	**7**	**(6,183)**	(4,919)
Gross profit		**2,197**	1,460
Selling and distribution costs	**7**	**(553)**	(375)
General and administrative expenses	**7**	**(443)**	(363)
Social and social infrastructure maintenance expenses		**(26)**	(33)
Loss on disposal of property, plant and equipment		**(17)**	(11)
Impairment of assets	**5, 9, 10**	**(32)**	(54)
Foreign exchange gains/(losses), net		**(220)**	74
Other operating income		**18**	19
Other operating expenses	**7**	**(65)**	(26)
Profit from operations		**859**	691
Interest income	**7**	**7**	5
Interest expense	**7**	**(387)**	(368)
Share of profits/(losses) of joint ventures and associates	**11**	**39**	31
Gain/(loss) on financial assets and liabilities, net	**7**	**(48)**	(37)
Gain/(loss) on disposal groups classified as held for sale, net	**12**	**1**	(14)
Other non-operating gains/(losses), net		**2**	(1)
Profit before tax		**473**	307
Income tax benefit/(expense)	**8**	**(210)**	(131)
Net profit		**$ 263**	$ 176
Attributable to:			
Equity holders of the parent entity		**$ 258**	$ 174
Non-controlling interests		**5**	2
		$ 263	$ 176
Earnings per share:			
basic, for profit attributable to equity holders of the parent entity, US dollars	**20**	**$ 1.86**	$ 1.26
diluted, for profit attributable to equity holders of the parent entity, US dollars	**20**	**$ 1.85**	$ 1.26

* The amounts shown here do not correspond to the 2010 unaudited interim condensed consolidated financial statements and reflect adjustments made in connection with the changes in accounting policies and the completion of initial accounting (Note 2).

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

Evraz Group S.A.

Interim Consolidated Statement of Comprehensive Income

(In millions of US dollars)

	Notes	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010*
			unaudited
Net profit		**$ 263**	$ 176
Other comprehensive income			
Effect of translation to presentation currency		**706**	(294)
Net gains/(losses) on available-for-sale financial assets *(Note 13)*		**(13)**	(22)
Net (gains)/losses on available-for-sale financial assets reclassified to profit or loss *(Notes 7 an 13)*		**13**	18
Income tax effect		**–**	–
		–	(4)
Decrease in revaluation surplus in connection with the impairment of property, plant and equipment	**9**	**(1)**	–
Income tax effect	**8**	**–**	–
		(1)	–
Effect of translation to presentation currency of the Group's joint ventures and associates	**11**	**60**	(22)
Share of other comprehensive income of joint ventures and associates accounted for using the equity method		**60**	(22)
Total other comprehensive income/(loss)		**765**	(320)
Total comprehensive income/(loss), net of tax		**$ 1,028**	$ (144)
Attributable to:			
Equity holders of the parent entity		**$ 987**	$ (144)
Non-controlling interests		**41**	–
		$ 1,028	$ (144)

* The amounts shown here do not correspond to the 2010 unaudited interim condensed consolidated financial statements and reflect adjustments made in connection with the changes in accounting policies and the completion of initial accounting (Note 2).

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

Evraz Group S.A.

Interim Consolidated Statement of Financial Position

(In millions of US dollars)

	Notes	June 30, 2011	December 31, 2010*
ASSETS			
Non-current assets			
Property, plant and equipment	**9**	**$ 9,128**	$ 8,607
Intangible assets other than goodwill	**10**	**958**	1,004
Goodwill	**5**	**2,257**	2,219
Investments in joint ventures and associates	**11**	**795**	688
Deferred income tax assets	**8**	**104**	100
Other non-current financial assets	**13**	**198**	118
Other non-current assets	**13**	**90**	103
		13,530	12,839
Current assets			
Inventories	**14**	**2,506**	2,070
Trade and other receivables	**15**	**1,171**	1,213
Prepayments		**198**	192
Loans receivable		**39**	1
Receivables from related parties	**16**	**101**	80
Income tax receivable		**48**	54
Other taxes recoverable	**17**	**406**	353
Other current financial assets	**18**	**46**	52
Cash and cash equivalents	**19**	**1,155**	683
		5,670	4,698
Assets of disposal groups classified as held for sale	**12**	**2**	2
		5,672	4,700
Total assets		**$ 19,202**	$ 17,539
EQUITY AND LIABILITIES			
Equity			
Equity attributable to equity holders of the parent entity			
Issued capital	**20**	**$ 375**	$ 375
Treasury shares	**20**	**(1)**	–
Additional paid-in capital	**20**	**2,308**	1,742
Revaluation surplus		**174**	180
Legal reserve	**20**	**36**	36
Accumulated profits		**4,804**	4,570
Translation difference		**(484)**	(1,214)
		7,212	5,689
Non-controlling interests		**254**	247
		7,466	5,936
Non-current liabilities			
Long-term loans	**21**	**6,594**	7,097
Deferred income tax liabilities	**8**	**1,104**	1,072
Finance lease liabilities	**22**	**32**	38
Employee benefits	**23**	**324**	315
Provisions	**25**	**338**	279
Other long-term liabilities	**26**	**103**	143
		8,495	8,944
Current liabilities			
Trade and other payables	**27**	**1,760**	1,173
Advances from customers		**187**	205
Short-term loans and current portion of long-term loans	**21**	**604**	714
Payables to related parties	**16**	**228**	217
Income tax payable		**92**	78
Other taxes payable	**28**	**266**	180
Current portion of finance lease liabilities	**22**	**19**	19
Provisions	**25**	**62**	54
Amounts payable under put options for shares of subsidiaries		**9**	6
Dividends payable by the Group's subsidiaries to non-controlling shareholders		**14**	13
		3,241	2,659
Total equity and liabilities		**$ 19,202**	$ 17,539

* The amounts shown here do not correspond to the 2010 consolidated financial statements and reflect adjustments made in connection with the completion of initial accounting (Note 2).

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

Evraz Group S.A.

Interim Consolidated Statement of Cash Flows

(In millions of US dollars)

	Six-month period ended June 30,	
	2011	**2010***
		unaudited
Cash flows from operating activities		
Net profit	**$ 263**	$ 176
Adjustments to reconcile net profit/(loss) to net cash flows from operating activities:		
Deferred income tax (benefit)/expense *(Note 8)*	**(12)**	(13)
Depreciation, depletion and amortisation *(Note 7)*	**501**	472
Loss on disposal of property, plant and equipment	**17**	11
Impairment of assets	**32**	54
Foreign exchange (gains)/losses, net	**220**	(74)
Interest income	**(7)**	(5)
Interest expense	**387**	368
Share of (profits)/losses of associates and joint ventures	**(39)**	(31)
(Gain)/loss on financial assets and liabilities, net	**48**	37
(Gain)/loss on disposal groups classified as held for sale, net	**(1)**	14
Other non-operating (gains)/losses, net	**(2)**	1
Bad debt expense	**29**	19
Changes in provisions, employee benefits and other long-term assets and liabilities	**(3)**	(67)
Expense arising from the equity-settled awards *(Note 24)*	**15**	–
Share-based payments under cash-settled awards *(Note 24)*	**(1)**	(3)
	1,447	959
Changes in working capital:		
Inventories	**(343)**	(220)
Trade and other receivables	**67**	(289)
Prepayments	**2**	(2)
Receivables from/payables to related parties	**25**	–
Taxes recoverable	**(23)**	18
Other assets	**2**	38
Trade and other payables	**373**	205
Advances from customers	**(27)**	(39)
Taxes payable	**81**	76
Other liabillities	**(10)**	(2)
Net cash flows from operating activities	**1,594**	744
Cash flows from investing activities		
Issuance of loans receivable to related parties	**–**	(46)
Proceeds from repayment of loans issued to related parties, including interest	**–**	5
Issuance of loans receivable	**(1)**	–
Proceeds from repayment of loans receivable, including interest	**3**	1
Purchases of subsidiaries, net of cash acquired *(Note 4)*	**(6)**	(17)
Restricted deposits at banks in respect of investing activities	**–**	16
Short-term deposits at banks, including interest	**4**	4
Purchases of property, plant and equipment and intangible assets	**(462)**	(397)
Proceeds from disposal of property, plant and equipment	**2**	7
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs *(Note 12)*	**1**	41
Dividends received	**2**	–
Other investing activities, net	**–**	1
Net cash flows used in investing activities	**(457)**	(385)

* The amounts shown here do not correspond to the 2010 unaudited interim condensed consolidated financial statements and reflect adjustments made in connection with the changes in accounting policies and the completion of initial accounting (Note 2).

Continued on the next page

Evraz Group S.A.

Interim Consolidated Statement of Cash Flows (continued)

(In millions of US dollars)

	Six-month period ended June 30,	
	2011	**2010***
		unaudited
Cash flows from financing activities		
Purchase of treasury shares *(Note 20)*	**$ (15)**	$ –
Sale of treasury shares *(Note 20)*	**3**	–
Purchases of non-controlling interests *(Note 6)*	**(51)**	–
Proceeds from bank loans and notes	**1,995**	1,930
Repayment of bank loans and notes, including interest	**(2,630)**	(2,344)
Net proceeds from/(repayment of) bank overdrafts and credit lines, including interest	**(24)**	126
Payments under covenants reset	**–**	(15)
Gain on derivatives not designated as hedging instruments *(Note 26)*	**26**	11
Collateral under swap contracts	**4**	–
Payments under finance leases, including interest	**(10)**	(12)
Net cash flows used in financing activities	**(702)**	(304)
Effect of foreign exchange rate changes on cash and cash equivalents	**37**	(55)
Net increase/(decrease) in cash and cash equivalents	**472**	–
Cash of disposal groups classified as held for sale	**–**	(21)
Cash and cash equivalents at beginning of year	**683**	671
Cash and cash equivalents at end of year	**$ 1,155**	$ 650
Supplementary cash flow information:		
Cash flows during the year:		
Interest paid	**$ (315)**	$ (293)
Interest received	**4**	5
Income taxes paid by the Group	**(210)**	(101)

* The amounts shown here do not correspond to the 2010 unaudited interim condensed consolidated financial statements and reflect adjustments made in connection with the changes in accounting policies and the completion of initial accounting (Note 2).

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

Evraz Group S.A.

Interim Consolidated Statement of Changes in Equity

(In millions of US dollars)

	Attributable to equity holders of the parent entity										
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Revaluation surplus**	**Legal reserve**	**Unrealised gains and losses**	**Accumulated profits**	**Translation difference**	**Total**	**Non-controlling interests**	**Total Equity**
At December 31, 2010 (as previously reported)	**$ 375**	**$ –**	**$ 1,742**	**$ 180**	**$ 36**	**$ –**	**$ 4,632**	**$ (1,214)**	**$ 5,751**	**$ 247**	**$ 5,998**
Adjustments to provisional values *(Note 11)*	–	–	–	–	–	–	**(62)**	–	**(62)**	–	**(62)**
At December 31, 2010 (as restated)	**375**	**–**	**1,742**	**180**	**36**	**–**	**4,570**	**(1,214)**	**5,689**	**247**	**5,936**
Net profit	–	–	–	–	–	–	**258**	–	**258**	**5**	**263**
Other comprehensive income/(loss)	–	–	–	**(1)**	–	–	–	**730**	**729**	**36**	**765**
Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment	–	–	–	**(5)**	–	–	**5**	–	–	–	–
Total comprehensive income/(loss) for the period	–	–	–	**(6)**	–	–	**263**	**730**	**987**	**41**	**1,028**
Acquisition of non-controlling interests in existing subsidiaries *(Note 6)*	–	–		–	–	–	**(18)**	–	**(18)**	**(33)**	**(51)**
Purchase of treasury shares *(Note 20)*	–	**(15)**	–	–	–	–	–	–	**(15)**	–	**(15)**
Transfer of treasury shares to participants of the Incentive Plan *(Notes 20 and 24)*	–	**11**	–	–	–	–	**(11)**	–	–	–	–
Sale of treasury shares *(Note 20)*	–	**3**	–	–	–	–	–	–	**3**	–	**3**
Conversion of bonds *(Notes 20 and 21)*	–	–	**551**	–	–	–	–	–	**551**	–	**551**
Share-based payments *(Note 24)*	–	–	**15**	–	–	–	–	–	**15**	–	**15**
Dividends declared by the Group's subsidiaries to non-controlling shareholders *(Note 20)*	–	–	–	–	–	–	–	–	–	**(1)**	**(1)**
At June 30, 2011	**$ 375**	**$ (1)**	**$ 2,308**	**$ 174**	**$ 36**	**$ –**	**$ 4,804**	**$ (484)**	**$ 7,212**	**$ 254**	**$ 7,466**

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

Evraz Group S.A.
Unaudited Interim Consolidated Statement of Changes in Equity
(In millions of US dollars)

	Attributable to equity holders of the parent entity										
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Revaluation surplus**	**Legal reserve**	**Unrealised gains and losses**	**Accumulated profits**	**Translation difference**	**Total**	**Non-controlling interests**	**Total Equity**
At December 31, 2009	$ 375	$ –	$ 1,739	$ 208	$ 36	$ 4	$ 4,065	$ (1,260)	$ 5,167	$ 275	$ 5,442
Net profit*	–	–	–	–	–	–	174	–	174	2	176
Other comprehensive income/(loss)*	–	–	–		–	(4)	–	(314)	(318)	(2)	(320)
Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment*	–	–	–	(19)	–	–	19	–	–	–	–
Total comprehensive income/(loss) for the period*	–	–	–	(19)	–	(4)	193	(314)	(144)	–	(144)
Acquisition of non-controlling interests in existing subsidiaries *(Note 6)**	–	–	–	–	–	–	(3)	–	(3)	(5)	(8)
Dividends declared by the Group's subsidiaries to non-controlling shareholders *(Note 20)*	–	–	–	–	–	–	–	–	–	(1)	(1)
At June 30, 2010*	$ 375	$ –	$ 1,739	$ 189	$ 36	$ –	$ 4,255	$ (1,574)	$ 5,020	$ 269	$ 5,289

* The amounts shown here do not correspond to the 2010 unaudited interim condensed consolidated financial statements and reflect adjustments made in connection with the changes in accounting policies and the completion of initial accounting (Note 2).

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

1. Corporate Information

These interim consolidated financial statements were authorised for issue in accordance with a resolution of the directors of Evraz Group S.A. on October 10, 2011.

Evraz Group S.A. ("Evraz Group" or "the Company") is a joint stock company registered under the laws of Luxembourg on December 31, 2004. The registered address of Evraz Group is 1, Allee Scheffer L-2520, Luxembourg.

Evraz Group, together with its subsidiaries (the "Group"), is involved in production and distribution of steel and related products. In addition, the Group produces vanadium products and owns and operates certain mining assets. The Group is one of the largest steel producers globally.

Lanebrook Limited (Cyprus) is the ultimate controlling party of Evraz Group.

The major subsidiaries included in the interim consolidated financial statements of Evraz Group were as follows at June 30, 2011:

Subsidiary	Effective ownership interest, %	Business activity	Location
Evraz Nizhny Tagil Iron and Steel Plant	100.00	Steel production	Russia
Evraz United West-Siberian Iron and Steel Plant	100.00	Steel production	Russia
Evraz Vitkovice Steel	100.00	Steel production	Czech Republic
Evraz Highveld Steel and Vanadium Limited	85.12	Steel production	South Africa
Evraz Dnepropetrovsk Iron and Steel Plant	96.04	Steel production	Ukraine
Evraz Inc. NA	100.00	Steel mill	USA
Evraz Inc. NA Canada	100.00	Steel mill	Canada
Yuzhkuzbassugol	100.00	Coal mining	Russia
Evraz Kachkanarsky Ore Mining and Processing Plant	100.00	Ore mining and processing	Russia
Evrazruda	100.00	Ore mining	Russia
Evraz Sukha Balka	99.42	Ore mining	Ukraine

At June 30, 2011, the Group employed approximately 110,500 employees, excluding joint venture's and associates' employees.

2. Significant Accounting Policies

Basis of Preparation

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

International Financial Reporting Standards are issued by the International Accounting Standard Board ("IASB"). IFRSs that are mandatory for application as of June 30, 2011, but not adopted by the European Union, do not have any impact on the Group's consolidated financial statements.

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

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

The comparative information for the six-month period ended June 30, 2010 and for the year ended December 31, 2010 differs from the previously published financial statements due to the following:

- Change in Accounting Policies in 2010

In 2010, the Group has resolved to revert to the cost model of accounting for all classes of property, plant and equipment. In accordance with the requirements of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", the Group retrospectively adjusted amounts for the six-month period ended June 30, 2010.

- Completion of Initial Accounting

In 2010, the Group finalised its purchase price allocation for the acquisition of steel dealers. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition and restated consolidated financial statements as of June 30, 2010 and for the six-month period then ended.

In 2011, the purchase price allocation for the acquisition of ZAO Koksovaya by the Group's joint venture has been completed (Note 11). As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of the entity and restated consolidated financial statements as of December 31, 2010 and for the year then ended. The Group adjusted amounts for the six-month period ended June 30, 2010 in these financial statements.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

The effects of the retrospective application of cost model of accounting for property, plant and equipment and the completion of purchase price allocation are summarised below.

	June 30, 2010 (unaudited)		
US$ million	**Restated**	**As previously reported**	**Adjustment**
ASSETS			
Property, plant and equipment	**$ 8,189**	$ 14,736	$ (6,547)
Goodwill	**2,140**	2,165	(25)
Investments in joint ventures and associates	**685**	738	(53)
Deferred income tax assets	**70**	35	35
Non-current assets	**12,352**	18,942	(6,590)
Inventories	**1,972**	2,042	(70)
Cash and cash equivalents	**650**	654	(4)
Current assets	**4,412**	4,486	(74)
Assets of disposal groups classified as held for sale	**106**	113	(7)
Total assets	**$ 16,870**	$ 23,541	$ (6,671)
EQUITY AND LIABILITIES			
Revaluation surplus	**$ 189**	$ 7,059	$ (6,870)
Accumulated profits	**4,255**	2,990	1,265
Translation difference	**(1,574)**	(1,887)	313
Equity attributable to equity holders of the parent entity	**5,020**	10,312	(5,292)
Non-controlling interests	**269**	319	(50)
Equity	**5,289**	10,631	(5,342)
Deferred income tax liabilities	**1,197**	2,526	(1,329)
Non-current liabilities	**7,933**	9,262	(1,329)
Total equity and liabilities	**$ 16,870**	$ 23,541	$ (6,671)

	Six-month period ended June 30, 2010 (unaudited)		
US$ million	**Restated**	**As previously reported**	**Adjustment**
Cost of revenue	**$ (4,919)**	$ (5,296)	$ 377
Gross profit	**1,460**	1,083	377
General and administrative expenses	**(363)**	(375)	12
Loss on disposal of property, plant and equipment	**(11)**	(24)	13
Impairment of assets	**(54)**	(38)	(16)
Revaluation deficit on property, plant and equipment	**–**	(138)	138
Profit from operations	**691**	167	524
Share of profits/(losses) of joint ventures and associates	**31**	22	9
Gain/(loss) on disposal groups classified as held for sale, net	**(14)**	(52)	38
Profit/(loss) before tax	**307**	(264)	571
Income tax benefit/(expense)	**(131)**	(6)	(125)
Net profit/(loss)	**$ 176**	$ (270)	$ 446
Attributable to:			
Equity holders of the parent entity	**$ 174**	$ (267)	$ 441
Non-controlling interests	**2**	(3)	5
	$ 176	$ (270)	$ 446
Earnings/(losses) per share: basic and diluted, for profit/(loss) attributable to equity holders of the parent entity, US dollars	**$ 1.26**	$ (1.93)	$ 3.19

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

US$ million	December 31, 2010 Restated	As previously reported	Adjustment
ASSETS			
Investments in joint ventures and associates	**$ 688**	$ 750	$ (62)
Non-current assets	**12,839**	12,901	(62)
Total assets	**$ 17,539**	$ 17,601	$ (62)
EQUITY AND LIABILITIES			
Accumulated profits	**$ 4,570**	$ 4,632	$ (62)
Equity	**5,689**	5,751	(62)
Total equity and liabilities	**$ 17,539**	$ 17,601	$ (62)

US$ million	Year ended December 31, 2010 Restated	As previously reported	Adjustment
Share of profits/(losses) of joint ventures and associates	**$ 21**	$ 73	$ (52)
Gain/(loss) on disposal groups classified as held for sale, net	**(14)**	(4)	(10)
Profit/(loss) before tax	**633**	695	(62)
Net profit/(loss)	**$ 470**	$ 532	$ (62)
Attributable to:			
Equity holders of the parent entity	**$ 486**	$ 548	$ (62)
Non-controlling interests	**(16)**	(16)	–
	$ 470	$ 532	$ (62)
Earnings/(losses) per share: basic and diluted, for profit/(loss) attributable to equity holders of the parent entity, US dollars	**$ 3.51**	$ 3.95	$ (0.44)

2. Significant Accounting Policies (continued)

Changes in Accounting Policies

In the preparation of these interim consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the adoption of new standards and interpretations and revision of the existing standards as of January 1, 2011.

New/Revised Standards and Interpretations Adopted in 2011

- IAS 24 (revised) “Related Party Disclosures”

The amendment clarifies the definitions of a related party. The amendment introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

- Amendment to IAS 32 “Financial Instruments: Presentation”

The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity`s non-derivative equity instruments, to acquire a fixed number of the entity`s own equity instruments for a fixed amount in any currency. The amendment had no effect on the financial position or performance of the Group.

- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Gains and losses are recognised immediately in profit or loss. The adoption of this interpretation had no effect on the financial statements of the Group.

- Amendments to IFRIC 14/IAS 19 “Prepayments of a Minimum Funding Requirement”

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as pension asset. The amendment to the interpretation had no effect on the financial position or performance of the Group.

- Amendments to standards following May 2010 “improvements to IFRS” project

The third omnibus of amendments to IFRS was issued primarily with a view to removing inconsistencies and clarifying wording. The adoption of these amendments did not have significant impact on the financial statements of the Group.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies

Standards Issued But Not Yet Effective

Standards Not Yet Effective at June 30, 2011	effective for annual periods beginning on or after
▪ IFRS 9 "Financial Instruments"	January 1, 2013
▪ IFRS 10 "Consolidated Financial Statements"	January 1, 2013
▪ IFRS 11 "Joint Arrangements"	January 1, 2013
▪ IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
▪ IFRS 13 "Fair Value Measurement"	January 1, 2013
▪ Amendments to IFRS 7 "Financial Instruments: Disclosures" – Transfers of Financial Assets	July 1, 2011
▪ Amendments to IAS 1 "Presentation of Financial Statements" – Changes to the Presentation of Other Comprehensive Income	July 1, 2012
▪ Amendments to IAS 12 "Income Taxes" – Deferred Taxes: Recovery of Underlying Asset	January 1, 2012
▪ Amendments to IAS 19 "Employee Benefits"	January 1, 2012

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

Significant Accounting Judgements and Estimates

Estimation Uncertainty

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

Impairment of Property, Plant and Equipment

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Impairment of Property, Plant and Equipment (continued)

In the six-month periods ended June 30, 2011 and 2010, the Group recognised an impairment loss of $40 million and $38 million, respectively (Note 9).

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and, ultimately, the amount of any impairment.

Useful Lives of Items of Property, Plant and Equipment

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

Fair Values of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Impairment of Goodwill (continued)

The carrying amount of goodwill at June 30, 2011 and December 31, 2010, was $2,257 million and $2,219 million, respectively. More details are provided in Note 5. In the six-month periods ended June 30, 2011 and 2010, the Group recognised an impairment loss in respect of goodwill in the amount of $nil and $16 million, respectively (Note 5).

Mineral Reserves

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

Site Restoration Provisions

The Group reviews site restoration provisions at each reporting date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the end of the reporting period based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgement is required in forecasting future site restoration costs. The Group periodically engages an independent expert to check the accuracy of the site restoration provision.

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

Post-Employment Benefits

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Allowances

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of June 30, 2011 and December 31, 2010, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of $122 million and $117 million, respectively (Note 29).

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

Litigations

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

Current Taxes

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Deferred Income Tax Assets

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

Foreign Currency Transactions

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

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

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

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

2. Significant Accounting Policies (continued)

Basis of Consolidation

Subsidiaries

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

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

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

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

Acquisition of Subsidiaries from January 1, 2010

Business combinations are accounted for using the acquisition method.

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

Acquisition costs incurred are expensed and included in administrative expenses.

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

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

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Acquisition of Subsidiaries from January 1, 2010 (continued)

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

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

Acquisition of Subsidiaries Prior to January 1, 2010

The previous accounting policies relating to business combinations include the following differences as compared with the policies applied strating from January 1, 2010:

- Transaction costs directly attributable to the acquisition formed part of the acquisition costs.
- The non-controlling interest (formerly known as minority interest) could be measured only at the proportionate share of the acquiree's identifiable net assets.
- Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.
- Contingent consideration was recognised if the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Increases in Ownership Interests in Subsidiaries

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

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control

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

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

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

Put Options Over Non-controlling Interests

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

Investments in Associates

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

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

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

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

2. Significant Accounting Policies (continued)

Interests in Joint Ventures

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

Property, Plant and Equipment

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

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

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

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

	Useful lives (years)	Weighted average remaining useful life (years)
Buildings and constructions	15-60	18
Machinery and equipment	4-45	11
Transport and motor vehicles	7-20	12
Other assets	3-15	8

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

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

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

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

Leases

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

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

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

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

Goodwill

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

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

2. Significant Accounting Policies (continued)

Goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

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

Intangible Assets Other Than Goodwill

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

The useful lives of intangible assets are assessed to be either finite or indefinite.

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

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

2. Significant Accounting Policies (continued)

Intangible Assets Other Than Goodwill (continued)

The table below presents the useful lives of intangible assets.

	Useful lives (years)	Weighted average remaining useful life (years)
Customer relationships	1-15	12
Trade names and trademarks	5	1
Water rights and environmental permits with definite lives	5	2
Patented and unpatented technology	5	13
Contract terms	1-49	45
Other	5-10	11

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

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

Emission Rights

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

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

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

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

2. Significant Accounting Policies (continued)

Financial Assets

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

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

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

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

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

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

2. Significant Accounting Policies (continued)

Financial Assets (continued)

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

Inventories

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

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

Accounts Receivable

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

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

Value Added Tax

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

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

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

Cash and Cash Equivalents

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

2. Significant Accounting Policies (continued)

Borrowings

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

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

Financial Guarantee Liabilities

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

Equity

Share Capital

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

Treasury Shares

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

Dividends

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

2. Significant Accounting Policies (continued)

Provisions

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

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

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

Employee Benefits

Social and Pension Contributions

Defined contributions are made by the Group to the Russian and Ukrainian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 35%), based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Defined BenefitPlans

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

The Group involves an independent qualified actuary in the measurement of all employee benefits obligations.

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

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

Defined BenefitPlans (continued)

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

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

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

Other Costs

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

Share-based Payments

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

The cost of equity-settled transactions with non-executive directors and employees is measured by reference to the fair value of the Company's shares at the date on which they are granted. The fair value is determined using the Black-Scholes-Merton model, further details of which are given in Note 24. In valuing equity-settled transactions, no account is taken of any conditions, other than market conditions.

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

2. Significant Accounting Policies (continued)

Share-based Payments (continued)

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

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

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

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

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

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

Revenue

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

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

2. Significant Accounting Policies (continued)

Revenue (continued)

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

Sale of Goods

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

Rendering of Services

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

Interest

Interest is recognised using the effective interest method.

Dividends

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

Rental Income

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

Current Income Tax

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

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

Deferred Income Tax

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

2. Significant Accounting Policies (continued)

Deferred Income Tax (continued)

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

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

3. Segment Information

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

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

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

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

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

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

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

3. Segment Information (continued)

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

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

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

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

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

Six-month period ended June 30, 2011

US$ million	Steel	Mining	Vanadium	Other	Eliminations	Total
Revenue						
Sales to external customers	**$ 7,880**	**$ 306**	**$ 134**	**$ 82**	**$ –**	**$ 8,402**
Inter-segment sales	**211**	**1,558**	**154**	**344**	**(2,267)**	**–**
Total revenue	**8,091**	**1,864**	**288**	**426**	**(2,267)**	**8,402**
Segment result – EBITDA	**$ 698**	**$ 891**	**$ 32**	**$ 71**	**$ (37)**	**$ 1,655**

Six-month period ended June 30, 2010 (unaudited)

US$ million	Steel	Mining	Vanadium	Other	Eliminations	Total
Revenue						
Sales to external customers	$ 6,167	$ 151	$ 165	$ 66	$ –	$ 6,549
Inter-segment sales	179	934	125	263	(1,501)	–
Total revenue	6,346	1,085	290	329	(1,501)	6,549
Segment result – EBITDA	$ 818	$ 372	$ 63	$ 56	$ (44)	$ 1,265

3. Segment Information (continued)

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

Six-month period ended June 30, 2011

US$ million	Steel	Mining	Vanadium	Other	Eliminations	Total
Revenue	**$ 8,091**	**$ 1,864**	**$ 288**	**$ 426**	**$ (2,267)**	**$ 8,402**
Forecasted vs. actual revenue	**55**	**(11)**	**(4)**	**(7)**	**–**	**33**
Reclassifications and other adjustments	**(654)**	**187**	**36**	**63**	**313**	**(55)**
Revenue per IFRS financial statements	**$ 7,492**	**$ 2,040**	**$ 320**	**$ 482**	**$ (1,954)**	**$ 8,380**
EBITDA	**$ 698**	**$ 891**	**$ 32**	**$ 71**	**$ (37)**	**$ 1,655**
Forecasted vs. actual EBITDA	**37**	**(8)**	**2**	**7**	**–**	**38**
Exclusion of management services from segment result	**41**	**22**	**2**	**1**	**–**	**66**
Unrealised profits adjustment	**13**	**–**	**(3)**	**–**	**(11)**	**(1)**
Reclassifications and other adjustments	**(45)**	**57**	**(36)**	**4**	**–**	**(20)**
	46	**71**	**(35)**	**12**	**(11)**	**83**
EBITDA based on IFRS financial statements	**$ 744**	**$ 962**	**$ (3)**	**$ 83**	**$ (48)**	**$ 1,738**
Unallocated subsidiaries						**(109)**
						$ 1,629
Depreciation, depletion and amortisation expense	**(288)**	**(175)**	**(17)**	**(20)**	**–**	**(500)**
Impairment of property, plant and equipment and intangible assets	**(7)**	**(33)**	**–**	**8**	**–**	**(32)**
Gain/(loss) on disposal of property, plant and equipment and intangible assets	**(13)**	**(4)**	**–**	**–**	**–**	**(17)**
Foreign exchange gains/(losses), net	**(60)**	**(35)**	**1**	**3**	**–**	**(91)**
	376	**715**	**(19)**	**74**	**(48)**	**989**
Unallocated income/(expenses), net						**(130)**
Profit/(loss) from operations						**$ 859**
Interest income/(expense), net						**(380)**
Share of profits/(losses) of joint ventures and associates						**39**
Gain/(loss) on financial assets and liabilities						**(48)**
Loss on disposal groups classified as held for sale						**1**
Other non-operating gains/(losses), net						**2**
Profit before tax						**$ 473**

3. Segment Information (continued)

Six-month period ended June 30, 2010 (unaudited)

US$ million	Steel	Mining	Vanadium	Other	Eliminations	Total
Revenue	$ 6,346	$ 1,085	$ 290	$ 329	$ (1,501)	$ 6,549
Forecasted vs. actual revenue	(104)	(20)	(10)	(3)	–	(137)
Reclassifications and other adjustments	(446)	55	10	88	260	(33)
Revenue per IFRS financial statements	$ 5,796	$ 1,120	$ 290	$ 414	$ (1,241)	$ 6,379
EBITDA	$ 818	$ 372	$ 63	$ 56	$ (44)	$ 1,265
Forecasted vs. actual EBITDA	(10)	(4)	(6)	2	–	(18)
Exclusion of management services from segment result	30	16	1	1	–	48
Unrealised profits adjustment	(63)	–	–	–	(36)	(99)
Reclassifications and other adjustments	28	6	(3)	3	–	34
	(15)	18	(8)	6	(36)	(35)
EBITDA based on IFRS financial statements	$ 803	$ 390	$ 55	$ 62	$ (80)	$ 1,230
Unallocated subsidiaries						(76)
						$ 1,154
Depreciation, depletion and amortisation expense	(306)	(134)	(12)	(19)	–	(471)
Impairment of goodwill *(Notes 4 and 5)*	–	–	(16)	–	–	(16)
Impairment of property, plant and equipment and intangible assets	(14)	(16)	(8)	–	–	(38)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	(6)	(5)	–	–	–	(11)
Foreign exchange gains/(losses), net	25	3	–	2	–	30
	502	238	19	45	(80)	648
Unallocated income/(expenses), net						43
Profit/(loss) from operations						$ 691
Interest income/(expense), net						(363)
Share of profits/(losses) of joint ventures and associates						31
Gain/(loss) on financial assets and liabilities						(37)
Loss on disposal groups classified as held for sale						(14)
Other non-operating gains/(losses), net						(1)
Profit before tax						$ 307

3. Segment Information (continued)

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

US$ million	**Six-month period ended June 30, 2011**	**Six-month period ended June 30, 2010**
		unaudited
Steel Production		
Construction products	**$ 2,125**	$ 1,555
Flat-rolled products	**1,498**	968
Railway products	**996**	720
Tubular products	**607**	601
Semi-finished products	**1,204**	1,113
Other steel products	**274**	179
Other products	**635**	554
Rendering of services	**50**	37
	7,389	5,727
Mining		
Iron ore	**354**	117
Coal	**206**	166
Other products	**17**	10
Rendering of services	**11**	13
	588	306
Vanadium Products		
Vanadium in slag	**17**	17
Vanadium in alloys and chemicals	**285**	254
Other products	**3**	2
Rendering of services	**1**	1
	306	274
Other Operations		
Rendering of services	**97**	72
	97	72
	$ 8,380	$ 6,379

3. Segment Information (continued)

Distribution of the Group's revenues by geographical area based on the location of customers was as follows:

US$ million	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
		unaudited
Russia	**$ 3,346**	$ 2,115
USA	**1,155**	960
Canada	**651**	540
Thailand	**368**	268
Ukraine	**336**	231
South Africa	**248**	207
Germany	**216**	81
Kazakhstan	**198**	180
Taiwan	**182**	269
United Arab Emirates	**153**	102
Poland	**142**	63
Italy	**140**	84
Austria	**125**	95
Czech Republic	**118**	89
Indonesia	**113**	58
China	**98**	209
Turkey	**76**	59
Korea	**60**	55
Philippines	**48**	181
Other countries	**607**	533
	$ 8,380	$ 6,379

None of the Group's customers accounts for 10% or more of the consolidated revenues.

4. Acquisition of Subsidiaries

In the six-month period ended June 30, 2010, the Group fully settled $16 million liability under earn-out payments for the acquisition of Stratcor in 2006. In addition, the Group paid $1 million of purchase consideration for the acquisition of Carbofer in 2009.

In the six-month period ended June 30, 2011, the Group purchased a 100% ownership interest in an entity which assets comprise only land to be used for a construction of a rolling mill in Russia. This purchase did not qualify for a business combination as the acquired company does not constitute a business. The total purchase consideration was $11 million, of which $6 million was unpaid at June 30, 2011.

In addition, in the six-month period ended June 30, 2011, the Group paid $1 million of purchase consideration for the acquisition of Inprom Group in 2010.

5. Goodwill

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

US$ million	**Gross amount**	**Impairment losses**	**Carrying amount**
At December 31, 2009	**$ 3,081**	**$ (895)**	**$ 2,186**
Impairment	–	(16)	(16)
Stratcor, Inc.	*–*	*(16)*	*(16)*
Translation difference	(24)	(6)	(30)
June 30, 2010 (unaudited)	**$ 3,057**	**$ (917)**	**$ 2,140**
At December 31, 2010	**$ 3,132**	**$ (913)**	**$ 2,219**
Adjustment to contingent consideration	(3)	–	(3)
Translation difference	41	–	41
At June 30, 2011	**$ 3,170**	**$ (913)**	**$ 2,257**

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

US$ million	**June 30, 2011**	**December 31, 2010**
Evraz Inc. NA (formerly Oregon Steel Mills)	**$ 1,130**	**$ 1,130**
Oregon Steel Portland Mill	***412***	***412***
OSM Tubular – Portland Mill	*–*	*–*
Rocky Mountain Steel Mills	***410***	***410***
OSM Tubular – Camrose Mills	***157***	***157***
Claymont Steel	***135***	***135***
General Scrap	***16***	***16***
Evraz Inc. NA Canada (formerly IPSCO)	**871**	**845**
Calgary	***239***	***232***
Red Deer	***58***	***57***
Regina Steel	***409***	***397***
Regina Tubular	***142***	***137***
Others	***23***	***22***
Evraz Palini e Bertoli	**83**	**78**
Vanady-Tula	**72**	**66**
Strategic Minerals Corporation	**28**	**31**
Nikom, a.s.	**44**	**40**
Evraz Highveld Steel and Vanadium Limited	**29**	**29**
	$ 2,257	**$ 2,219**

The cash generating units within Evraz Inc. N.A. and Evraz Inc. N.A. Canada represent the smallest identifiable groups of assets, primarily individual mills, that generate cash flows that are largely independent from other assets or groups of assets.

Goodwill allocated to cash-generating units that had an indication that they may be impaired was tested for impairment as of June 30, 2011. For the purpose of the goodwill impairment testing the Group assessed the recoverable amount of each cash generating unit to which the goodwill relates.

5. Goodwill (continued)

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

	Period of forecast, years	**Pre-tax discount rate, %**	**Commodity**	**Average price of the commodity per ton in 2011**
Strategic Minerals Corporation	5	14.33	ferrovanadium products	$ 31,000
Nikom, a.s.	5	13.05	ferrovanadium products	$ 30,976
Evraz Highveld Steel and Vanadium Limited	5	14.33	ferrovanadium products	$ 31,448
			steel products	$ 819

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

Discount Rates

Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rates have been determined using the Capital Asset Pricing Model and analysis of industry peers. A 10% increase in the discount rates would not lead to any impairment.

Sales Prices

The prices of the products sold by the Group were estimated using industry research. The average prices for steel products in 2011 were assumed to be 13.7% higher than the 2010 average. The Group expects that in 2012-2013 the nominal prices will grow on average by 5%, in 2014-2015 – by 2.5%, in 2016 and thereafter – by 3%. If the prices assumed for the second half of 2011 and 2012 in the impairment test were 10% lower, this would not lead to any impairment.

Sales Volumes

Management assumed that the sales volumes of steel products would increase on average by 5% during 2011 and would grow evenly during the following four years to reach normal asset capacity thereafter. Reasonable changes in sales volumes could lead to an additional impairment at Nikom cash generating unit. If the sales volumes were 10% lower than those assumed for the second half of 2011 and 2012 in the impairment test, this would lead to an additional impairment of $21 million.

Cost Control Measures

The recoverable amounts of cash generating units are based on the business plans approved by management. The reasonable deviation of cost from these plans could lead to an additional impairment at Nikom cash generating unit. If the actual costs were 10% higher than those assumed for the second half of 2011 and 2012 in the impairment test, this would lead to an additional impairment of $7 million.

6. Acquisitions of Non-controlling Interests in Subsidiaries

Evraztrans

In the six-month period ended June 30, 2011, the Group acquired an additional non-controlling interest of 24% in Evraztrans, a subsidiary which renders railway transportation services. Cash consideration amounted to $51 million. The excess of the amounts of consideration over the carrying values of non-controlling interests acquired amounting to $18 million was charged to accumulated profits.

Stratcor

In the six-month period ended June 30, 2010, the Group acquired an additional non-controlling interest of 5.92% in Strategic Minerals Corporation ("Stratcor") for a cash consideration of $8 million paid in 2009. The excess of the amount of consideration paid over the carrying value of acquired non-controlling interest amounting to $3 million was charged to accumulated profits.

7. Income and Expenses

Cost of revenues, selling and distribution costs, general and administrative expenses include the following:

US$ million	**Six-month period ended June 30, 2011**	**2010**
		unaudited
Cost of inventories recognised as expense	**$ (3,670)**	$ (2,569)
Staff costs, including social security taxes	**(1,092)**	(863)
Depreciation, depletion and amortisation	**(501)**	(472)

In the six-month periods ended June 30, 2011 and 2010, the Group made a reversal of the allowance for net realisable value in the amount of $29 million and $30 million, respectively.

The major components of other operating expenses were as follows:

US$ million	**Six-month period ended June 30, 2011**	**2010**
		unaudited
Idling, reduction and stoppage of production, including termination benefits	**$ (22)**	$ (16)
Restoration works and casualty compensations in connection with accidents	**(2)**	(2)
Site restoration provision accrued with respect to Kazankovskaya (Note 11)	**(6)**	–
Other	**(35)**	(8)
	$ (65)	$ (26)

7. Income and Expenses (continued)

Interest expense consisted of the following:

US$ million	**Six-month period ended June 30, 2011**	**2010**
		unaudited
Bank interest	**$ (95)**	$ (131)
Interest on bonds and notes	**(261)**	(199)
Finance charges under finance leases	**(2)**	(3)
Interest on liabilities relating to employee benefits and expected return on plan assets (Note 23)	**(16)**	(16)
Discount adjustment on provisions (Note 25)	**(8)**	(8)
Interest on contingent consideration	**(1)**	–
Other	**(4)**	(11)
	$ (387)	$ (368)

Interest income consisted of the following:

US$ million	**Six-month period ended June 30, 2011**	**2010**
		unaudited
Interest on bank accounts and deposits	**$ 3**	$ 4
Interest on loans and accounts receivable	**2**	1
Interest on loans receivable from related parties	**2**	–
	$ 7	$ 5

Gain/(loss) on financial assets and liabilities included the following:

US$ million	**Six-month period ended June 30, 2011**	**2010**
		unaudited
Impairment of available-for-sale financial assets (Note 13)	**$ (13)**	$ (18)
Change in the fair value of derivatives and realised gain/(loss) on the swap transactions (Notes 18 and 26)	**200**	(19)
Loss on conversion of bonds (Note 21)	**(160)**	–
Loss on extinguishment of debts (Note 21)	**(71)**	–
Re-measurement of financial liability	**(4)**	–
	$ (48)	$ (37)

8. Income Taxes

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

	June 30, 2011	**December 31, 2010**
Russia	**20.00%**	20.00%
Canada	**26.50%**	28.00%
Cyprus	**10.00%**	10.00%
Czech Republic	**19.00%**	19.00%
Italy	**31.40%**	31.40%
South Africa	**28.00%**	28.00%
Switzerland	**10.09%**	10.09%
Ukraine	**23.00%**	25.00%
USA	**35.00%**	35.00%

Major components of income tax expense were as follows:

US$ million	**Six-month period ended June 30, 2011**	**2010**
		unaudited
Current income tax expense	**$ (247)**	$ (213)
Adjustment in respect of income tax of previous years	**25**	(2)
Deferred income tax benefit/(expense) relating to origination and reversal of temporary differences	**12**	84
Income tax benefit/(expense) reported in the consolidated statement of operations	**$ (210)**	$ (131)

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

US$ million	**Six-month period ended June 30, 2011**	**2010**
		unaudited
Profit before income tax	**$ 473**	$ 307
At the Russian statutory income tax rate of 20%	**(95)**	(61)
Adjustment in respect of income tax of previous years	**25**	(2)
Effect of non-deductible expenses and other non-temporary differences	**(124)**	(92)
Deferred tax expense relating to the change in tax base of certain items of property, plant and equipment	**(26)**	–
Effect of the difference in tax rates in countries other than the Russian Federation	**1**	18
Share of profits in joint ventures and associates	**8**	6
Income tax expense reported in the consolidated statement of operations	**$ (210)**	$ (131)

8. Income Taxes (continued)

Deferred income tax assets and liabilities and their movements for the six-month periods ended June 30 were as follows:

Six-month period ended June 30, 2011

US$ million	June 30, 2011	Change recognised in statement of operations	Received from tax authorities	Change due to disposal of subsidiaries	Transfer to disposal groups classified as held for sale	Translation difference	December 31, 2010
Deferred income tax liabilities:							
Valuation and depreciation of property, plant and equipment	**$ 1,143**	**20**	–	–	–	**49**	**$ 1,074**
Valuation and amortisation of intangible assets	**260**	**(16)**	–	–	–	**2**	**274**
Other	**67**	**(26)**	–	–	–	**4**	**89**
	1,470	**(22)**	–	–	–	**55**	**1,437**
Deferred income tax assets:							
Tax losses available for offset	**160**	**3**	–	–	–	**7**	**150**
Accrued liabilities	**172**	**15**	–	–	–	**4**	**153**
Impairment of accounts receivable	**34**	**(1)**	–	–	–	**2**	**33**
Other	**104**	**(27)**	–	–	–	**2**	**129**
	470	**(10)**	–	–	–	**15**	**465**
Net deferred income tax asset	**104**	**(2)**	–	–	–	**6**	**100**
Net deferred income tax liability	**$ 1,104**	**(14)**	–	–	–	**46**	**$ 1,072**

Six-month period ended June 30, 2010 (unaudited)

US$ million	June 30, 2010	Change recognised in statement of operations	Received from tax authorities	Change due to disposal of subsidiaries	Transfer to disposal groups classified as held for sale	Translation difference	December 31, 2009
Deferred income tax liabilities:							
Valuation and depreciation of property, plant and equipment	$ 1,209	(7)	–	(13)	–	(28)	$ 1,257
Valuation and amortisation of intangible assets	276	(16)	–	–	–	(5)	297
Other	99	7	–	–	–	–	92
	1,584	(16)	–	(13)	–	(33)	1,646
Deferred income tax assets:							
Tax losses available for offset	143	19	(71)	–	(1)	(7)	203
Accrued liabilities	129	16	–	–	(13)	(2)	128
Impairment of accounts receivable	23	2	–	–	–	(1)	22
Other	162	31	–	–	–	(1)	132
	457	68	(71)	–	(14)	(11)	485
Net deferred income tax asset	70	17	–	–	(12)	(5)	70
Net deferred income tax liability	$ 1,197	(67)	71	(13)	2	(27)	$ 1,231

As of June 30, 2011 and December 31, 2010, deferred income taxes have not been provided for in respect of undistributed earnings of the Group's subsidiaries as management does not intend to distribute taxable accumulated earnings in the foreseeable future. The current tax rate on intra-group dividend income varies from 0% to 10%.

At June 30, 2011, the Group has not recognised a deferred tax liability and deferred tax asset in respect of temporary differences of $6,720 million and $3,044 million, respectively (December 31, 2010: $5,764 million and $2,831 million, respectively). These differences are associated with investments in subsidiaries and were not recognised as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

8. Income Taxes (continued)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies, except for the companies registered in Cyprus where group relief can be applied. As of June 30, 2011, the unused tax losses carry forward approximated $3,307 million (December 31, 2010: $3,365 million). The Group recognised deferred tax asset of $160 million (December 31, 2010: $150 million) in respect of unused tax losses. Deferred tax asset in the amount of $702 million (December 31, 2010: $655 million) has not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Tax losses of $2,432 million (December 31, 2010: $2,555 million) for which deferred tax asset was not recognised arose in companies registered in Luxembourg, Cyprus, Russia, Ukraine and Canada. Losses in the amount of $2,419 million (December 31, 2010: $2,535 million) are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $12 million (December 31, 2010: $20 million) will expire during 2012 – 2018.

9. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

US$ million	**June 30, 2011**	December 31, 2010
Cost:		
Land	**$ 198**	$ 177
Buildings and constructions	**2,738**	2,536
Machinery and equipment	**6,051**	5,734
Transport and motor vehicles	**538**	483
Mining assets	**2,888**	2,656
Other assets	**81**	84
Assets under construction	**1,035**	702
	13,529	12,372
Accumulated depreciation, depletion and impairment losses:		
Buildings and constructions	**(994)**	(854)
Machinery and equipment	**(2,370)**	(2,046)
Transport and motor vehicles	**(232)**	(203)
Mining assets	**(747)**	(607)
Other assets	**(58)**	(55)
	(4,401)	(3,765)
	$ 9,128	$ 8,607

9. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the six-month period ended June 30, 2011 was as follows:

US$ million	**Land**	**Buildings and constructions**	**Machinery and equipment**	**Transport and motor vehicles**	**Mining assets**	**Other assets**	**Assets under construction**	**Total**
At December 31, 2010, cost, net of accumulated depreciation and government grants	**$ 177**	**$ 1,682**	**$ 3,688**	**$ 280**	**$ 2,049**	**$ 29**	**$ 702**	**$ 8,607**
Reclassifications between categories	**–**	**14**	**(23)**	**–**	**–**	**(6)**	**15**	**–**
Additions	**12**	**1**	**1**	**–**	**11**	**–**	**463**	**488**
Assets put into operation	**–**	**21**	**106**	**30**	**39**	**3**	**(199)**	**–**
Disposals	**–**	**(6)**	**(9)**	**(1)**	**(1)**	**–**	**–**	**(17)**
Depreciation and depletion charge	**–**	**(77)**	**(249)**	**(21)**	**(98)**	**(3)**	**–**	**(448)**
Impairment losses recognised in statement of operations	**–**	**(1)**	**(3)**	**–**	**(33)**	**–**	**(4)**	**(41)**
Impairment losses reversed through statement of operations	**–**	**–**	**1**	**–**	**–**	**–**	**–**	**1**
Impairment losses recognised or reversed through other comprehensive income	**–**	**–**	**(1)**	**–**	**–**	**–**	**–**	**(1)**
Change in site restoration and decommissioning provision	**–**	**1**	**2**	**–**	**33**	**–**	**–**	**36**
Translation difference	**9**	**109**	**168**	**18**	**141**	**–**	**58**	**503**
At June 30, 2011, cost, net of accumulated depreciation and government grants	**$ 198**	**$ 1,744**	**$ 3,681**	**$ 306**	**$ 2,141**	**$ 23**	**$ 1,035**	**$ 9,128**

The movement in property, plant and equipment for the six-month period ended June 30, 2010 was as follows (unaudited):

US$ million	**Land**	**Buildings and constructions**	**Machinery and equipment**	**Transport and motor vehicles**	**Mining assets**	**Other assets**	**Assets under construction**	**Total**
At December 31, 2009, cost, net of accumulated depreciation and government grants	$ 164	$ 1,745	$ 3,706	$ 272	$ 2,132	$ 27	$ 539	$ 8,585
Additions	–	1	1	3	12	–	388	405
Assets put into operation	1	16	95	33	21	2	(168)	–
Disposals	–	(3)	(12)	(2)	(7)	(3)	(4)	(31)
Depreciation and depletion charge	–	(74)	(223)	(21)	(69)	(9)	–	(396)
Impairment losses recognised in statement of operations	–	(8)	(14)	–	–	–	(24)	(46)
Impairment losses reversed through statement of operations	–	1	6	–	–	–	1	8
Transfer to/from assets held for sale	(1)	(12)	(25)	–	–	–	(1)	(39)
Sale of a subsidiary (Note 12)	–	(6)	(12)	–	(71)		–	(89)
Change in site restoration and decommissioning provision	–	1	–	–	12	–	–	13
Translation difference	(4)	(47)	(87)	(7)	(47)	–	(29)	(221)
At June 30, 2010, cost, net of accumulated depreciation and government grants	$ 160	$ 1,614	$ 3,435	$ 278	$ 1,983	$ 17	$ 702	$ 8,189

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $335 million and $250 million, as of June 30, 2011 and December 31, 2010, respectively.

9. Property, Plant and Equipment (continued)

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

The amount of borrowing costs capitalised during the six-month period ended June 30, 2011 was $4 million. The rate used to determine the amount of borrowing costs eligible for capitalisation was 5.4%, which is the effective interest rate of borrowings that were outstanding during the period, other than borrowings made specifically for the purpose of obtaining qualifying assets.

10. Intangible Assets Other Than Goodwill

Intangible assets consisted of the following:

US$ million	**June 30, 2011**	December 31, 2010
Cost:		
Customer relationships	**$ 1,335**	$ 1,353
Trade names and trademarks	**31**	31
Water rights and environmental permits	**64**	64
Patented and unpatented technology	**9**	10
Contract terms	**19**	11
Other	**57**	53
	1,515	1,522
Accumulated amortisation:		
Customer relationships	**(471)**	(441)
Trade names and trademarks	**(28)**	(25)
Water rights and environmental permits	**(7)**	(6)
Patented and unpatented technology	**(8)**	(8)
Contract terms	**(4)**	(3)
Other	**(39)**	(35)
	(557)	(518)
	$ 958	$ 1,004

As of June 30, 2011 and December 31, 2010, water rights and environmental permits with a carrying value $56 million had an indefinite useful life. These intangible assets belong to 2 cash generating units: Oregon Steel Portland Mill ($13 million) and Rocky Mountain Steel Mills ($43 million).

10. Intangible Assets Other Than Goodwill (continued)

The movement in intangible assets for the six-month period ended June 30, 2011 was as follows:

US$ million	Customer relation-ships	Trade names and trademarks	Water rights and environ-mental permits	Patented and unpatented technology	Contract terms	Other	Total
At December 31, 2010, cost, net of accumulated amortisation	**$ 912**	**$ 6**	**$ 58**	**$ 2**	**$ 8**	**$ 18**	**$ 1,004**
Additions	**–**	**–**	**–**	**–**	**–**	**3**	**3**
Amortisation charge	**(57)**	**(3)**	**(1)**	**–**	**–**	**(2)**	**(63)**
Emission allowances granted	**–**	**–**	**–**	**–**	**–**	**7**	**7**
Emission allowances used/sold/purchased for the period	**–**	**–**	**–**	**–**	**–**	**(9)**	**(9)**
Impairment losses reversed through statement of operations		**–**	**–**	**–**	**8**	**–**	**8**
Translation difference	**9**	**–**	**–**	**(1)**	**(1)**	**1**	**8**
At June 30, 2011, cost, net of accumulated amortisation	**$ 864**	**$ 3**	**$ 57**	**$ 1**	**$ 15**	**$ 18**	**$ 958**

The movement in intangible assets for the six-month period ended June 30, 2010 was as follows (unaudited):

US$ million	Customer relation-ships	Trade names and trademarks	Water rights and environ-mental permits	Patented and unpatented technology	Contract terms	Other	Total
At December 31, 2009, cost, net of accumulated amortisation	$ 969	$ 12	$ 59	$ 3	$ 40	$ 15	$ 1,098
Amortisation charge	(55)	(3)	(1)	–	–	(2)	(61)
Emission allowances granted	–	–	–	–	–	6	6
Emission allowances used/sold/purchased for the period	–	–	–	–	–	(5)	(5)
Transfer to/from assets held for sale	(2)	(1)	(1)	(2)	–	–	(6)
Translation difference	(15)	1	–	(1)	–	(1)	(16)
At June 30, 2010, cost, net of accumulated amortisation	$ 897	$ 9	$ 57	$ –	$ 40	$ 13	$ 1,016

11. Investments in Joint Ventures and Associates

The Group accounted for investments in joint ventures and associates under the equity method. The movement in investments in joint ventures and associates was as follows:

US$ million	Corber	Kazan-kovskaya	Streamcore	Other associates	Total
Investment at December 31, 2009	**$ 569**	**$ –**	**$ 44**	**$ 21**	**$ 634**
Share of profit/(loss)	90	–	–	1	91
Impairment of investments	–	–	(8)	(10)	(18)
Translation difference	(21)	–	–	(1)	(22)
Investment at June 30, 2010 (unaudited)	**638**	**$ –**	**36**	**11**	**685**
Investment at December 31, 2010	**$ 656**	**$ –**	**$ 21**	**$ 11**	**$ 688**
Additional investments	–	–	–	9	9
Share of profit/(loss)	39	–	–	–	39
Dividends paid	–	–	–	(1)	(1)
Translation difference	58	–	2	–	60
Investment at June 30, 2011	**$ 753**	**$ –**	**$ 23**	**$ 19**	**$ 795**

11. Investments in Joint Ventures and Associates (continued)

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

US$ million	Six-month period ended June 30, 2011	2010 *unaudited*
Share of profit/(loss), net	**$ 39**	$ 91
Impairment of investments	**–**	(18)
Group's share in excess of net assets of ZAO Koksovaya transferred to Raspadskaya over consideration received (Note 12)	**–**	(42)
Share of profits/(losses) of joint ventures and associates recognised in the consolidated statement of operations	**$ 39**	$ 31

Corber Enterprises Limited

Corber Enterprises Limited ("Corber") is a joint venture established in 2004 for the purpose of exercising joint control over economic activities of Raspadskaya Mining Group. The Group has 50% share in the joint venture, i.e. effectively owns 40% in OAO Raspadskaya.

The table below sets forth Corber's assets and liabilities:

US$ million	June 30, 2011	December 31, 2010
Mineral reserves	$ 811	$ 798
Other property, plant and equipment	1,062	920
Other non-current assets	33	27
Inventories	101	77
Accounts and notes receivable	267	275
Cash	258	165
Total assets	**2,532**	**2,262**
Non-current liabilities	42	338
Deferred income tax liabilities	204	188
Current liabilities	400	82
Total liabilities	**646**	**608**
Non-controlling interests	**383**	**335**
Net assets	**$ 1,503**	**$ 1,319**

11. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited (continued)

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

US$ million	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010 *unaudited*
Revenue	$ 377	$ 466
Cost of revenue	(182)	(182)
Other expenses, including income taxes	(106)	(56)
Net profit	**$ 89**	**$ 228**
Attributable to:		
Equity holders of the parent entity	$ 70	$ 183
Non-controlling interests	19	45
Net profit	**$ 89**	**$ 228**
50% of unrealised profits on transactions with the joint venture	4	(2)
Group's share of profits of the joint venture	**$ 39**	**$ 90**

Kazankovskaya

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

The table below sets forth Kazankovskaya's assets and liabilities:

US$ million	**June 30, 2011**	**December 31, 2010**
Inventories	$ 1	$ 1
Accounts receivable	–	1
Other current assets	2	1
Total assets	**3**	**3**
Non-current liabilities	74	65
Deferred income tax liabilities	4	4
Current liabilities	25	24
Total liabilities	**103**	**93**
Net assets/(liabilities)	**$ (100)**	**$ (90)**

11. Investments in Joint Ventures and Associates (continued)

Kazankovskaya (continued)

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

US$ million	Six-month period ended June 30, 2011	2010 *unaudited*
Revenue	$ –	$ 11
Cost of revenue	(1)	(12)
Other expenses, including income taxes	(4)	(5)
Net loss	**$ (5)**	$ (6)
Group's share of loss of the associate	**$ (3)**	$ (3)

Streamcore

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

The table below sets forth Streamcore's assets and liabilities:

US$ million	June 30, 2011	December 31, 2010
Property, plant and equipment	$ 34	$ 31
Accounts receivable	17	17
Total assets	**51**	**48**
Deferred income tax liabilities	4	4
Current liabilities	2	1
Total liabilities	**6**	**5**
Net assets	$ **45**	**$ 43**

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

US$ million	Six-month period ended June 30, 2011	2010 *unaudited*
Revenue	$ 4	$ 5
Cost of revenue	(4)	(5)
Net profit	**$ –**	**$ –**
Group's share of profit of the joint venture	**$ –**	**$ –**

12. Disposal Groups Held for Sale

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

US$ million	**June 30, 2011**	December 31, 2010
Property, plant and equipment	**2**	2
Assets classified as held for sale	**$ 2**	$ 2

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

US$ million	**Six-month period ended June 30, 2011**	**Six-month period ended June 30, 2010**
		unaudited
Property, plant and equipment	**$ –**	$ 89
Accounts and notes receivable	–	22
Total assets	–	111
Deferred income tax liabilities	–	13
Non-current liabilities	–	1
Total liabilities	–	14
Net assets	**$ –**	$ 97

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

US$ million	**Six-month period ended June 30, 2011**	**Six-month period ended June 30, 2010**
		unaudited
Net cash disposed of with subsidiaries	**$ –**	$ –
Cash received	**1**	41
Net cash inflow	**$ 1**	$ 41

The disposal groups sold during the six-month periods ended June 30, 2011 and 2010 are described below.

Sale of Koksovaya

In April, 2010, the Group sold ZAO Koksovaya to Raspadskaya, a subsidiary of Corber, the Group's joint venture, which holds 80% in Raspadskaya. ZAO Koksovaya is an operating hard-coking coal mine, which owns the license for Tomusinskaya 5-6 coal deposit. As part of the transaction, the parties entered into a long-term off-take contract under which Raspadskaya committed to supply to the Group certain volume of coal or concentrate produced from coal extracted on the Tomusinskaya 5-6 deposit during 2010-2019. The cash consideration amounted to $40 million. The loss from sale, net of the Group's share in gain on the transaction recognised by Raspadskaya (Note 11), amounted to $15 million and was included in loss on disposal groups classified as held for sale caption of the consolidated statement of operations.

12. Disposal Groups Held for Sale (continued)

Other Disposal Groups Held for Sale

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

13. Other Non-Current Assets

Non-Current Financial Assets

US$ million	**June 30, 2011**	December 31, 2010
Available-for-sale financial assets – investments in Delong Holdings Limited (Note 7)	**$ 24**	$ 37
Derivatives not designated as hedging instruments (Note 26)	**137**	5
Restricted deposits	**17**	9
Loans issued to related parties (Note 16)	**–**	46
Loans receivable	**17**	17
Trade and other receivables	**3**	3
Other	**–**	1
	$ 198	$ 118

Other Non-Current Assets

US$ million	**June 30, 2011**	December 31, 2010
Income tax receivable	**$ 27**	$ 24
Prepayment for purchases of associates and joint ventures	**–**	9
Input VAT	**12**	11
Defined benefit plan asset (Note 23)	**21**	19
Fees for future purchases under a long-term contract	**–**	11
Other	**30**	29
	$ 90	$ 103

Prepayment for Purchases of Associates and Joint Ventures

In 2010, the Group made a prepayment to a key management person for the acquisition of 29% ownership interest in Mediaholding Provincia. The significant influence over the entity has been obtained in 2011. As of June 30, 2011, Mediaholding Provincia was included in investments in joint ventures and associates.

14. Inventories

Inventories consisted of the following as of December 31:

US$ million	**June 30, 2011**	December 31, 2010
Raw materials and spare parts	**$ 1,116**	$ 974
Work-in-progress	**653**	444
Finished goods	**737**	652
	$ 2,506	$ 2,070

As of June 30, 2011 and December 31, 2010, the net realisable value allowance was $94 million and $114 million, respectively.

As of June 30, 2011 and December 31, 2010, certain items of inventory with an approximate carrying amount of $223 million and $203 million, respectively, were pledged to banks as collateral against loans provided to the Group (Note 21).

15. Trade and Other Receivables

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

US$ million	**June 30, 2011**	December 31, 2010
Trade accounts receivable	**$ 1,206**	$ 1,239
Other receivables	**66**	72
	1,272	1,311
Allowance for doubtful accounts	**(101)**	(98)
	$ 1,171	$ 1,213

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

16. Related Party Disclosures

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

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

16. Related Party Disclosures (continued)

Amounts owed by/to related parties were as follows:

	Amounts due from related parties		Amounts due to related parties	
US$ million	**June 30, 2011**	**December 31, 2010**	**June 30, 2011**	**December 31, 2010**
Kazankovskaya	**$ 24**	$ 21	**$ –**	$ 1
Lanebrook Limited	**67**	53	**–**	–
Raspadsky Ugol	**1**	2	**13**	32
Yuzhny GOK	**25**	19	**210**	178
Other entities	**14**	9	**5**	6
	131	104	**228**	217
Less: allowance for doubtful accounts	**(30)**	(24)	**–**	–
	$ 101	$ 80	**$ 228**	$ 217

Transactions with related parties were as follows for the six-month periods ended June 30:

	Sales to related parties		Purchases from related parties	
	Six-month period ended June 30,			
US$ million	**2011**	**2010**	**2011**	**2010**
		unaudited		*unaudited*
Interlock Security Services	**$ –**	$ –	**$ 22**	$ 17
Kazankovskaya	–	4	**5**	11
Raspadsky Ugol	**6**	6	**124**	82
Yuzhny GOK	**19**	3	**102**	–
Other entities	**4**	4	**11**	5
	$ 29	$ 17	**$ 264**	$ 115

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

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

Kazankovskaya is an associate of the Group (Note 11). The Group purchased coal from the entity and sold mining equipment and inventory to Kazankovskaya.

Lanebrook Limited is a controlling shareholder of the Company. The amounts receivable from Lanebrook Limited include overpayments for the acquired working capital of the Ukrainian businesses and a $46 million loan. The loan bears interest of 7.85% per annum and matures on June 22, 2012. At December 31, 2010, the loan was included in other non-current assets. In the six-month period ended June 30, 2011, Lanebrook partially settled its debts relating to the acquisition of the Ukrainian businesses and the Group received $32 million in cash.

In addition, in 2008, the Group acquired from Lanebrook a 1% ownership interest in Yuzhny GOK for a cash consideration of $38 million (Note 18). As part of the transaction, the Group signed a put option agreement that gives the Group the right to sell these shares back to Lanebrook Limited for the same amount. The put option expires on December 31, 2011.

16. Related Party Disclosures (continued)

OOO Raspadsky Ugol ("Raspadsky Ugol"), a subsidiary of the Group's joint venture, sells coal to the Group. Raspadsky Ugol represents approximately 13% of volume of the Group's coal purchases. The coal was sold at prevailing market prices at the dates of transactions. The Group sells steel products and renders services to Raspadsky Ugol.

Yuzhny GOK, the ore mining and processing plant, is an associate of Lanebrook Limited. The Group sold steel products to Yuzhny GOK and purchased iron ore from the entity.

The transactions with related parties are based on market prices.

Compensation to Key Management Personnel

Key management personnel include the following positions within the Group:

- directors of Evraz Group S.A.,
- vice presidents,
- top managers of major subsidiaries.

In the six-month periods ended June 30, 2011 and 2010, key management personnel totalled 54 persons. Total compensation to key management personnel were included in general and administrative expenses in the consolidated statement of operations and consisted of the following:

US$ million	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010 *unaudited*
Salary	**$ 10**	$ 9
Performance bonuses	**5**	7
Social security taxes	**1**	1
Share-based payments (Note 24)	**8**	–
Termination benefits	**1**	2
	$ 25	$ 19

17. Other Taxes Recoverable

Taxes recoverable consisted of the following:

US$ million	June 30, 2011	December 31, 2010
Input VAT	**$ 263**	$ 241
Other taxes	**143**	112
	$ 406	$ 353

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

18. Other Current Financial Assets

Other current financial assets included the following:

US$ million	June 30, 2011	December 31, 2010
Investments in Yuzhny GOK (Note 16)	**$ 38**	$ 38
Bank deposits	**1**	1
Restricted deposits at banks	**7**	13
	$ 46	$ 52

19. Cash and Cash Equivalents

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

US$ million	June 30, 2011	December 31, 2010
US dollar	**$ 510**	$ 306
Russian rouble	**244**	200
South African rand	**121**	49
Euro	**125**	46
Canadian dollar	**53**	69
Ukrainian hryvnia	**99**	10
Czech koruna	**1**	1
Other	**2**	2
	$ 1,155	$ 683

20. Equity

Share Capital

Number of shares	June 30, 2011	December 31, 2010
Authorised		
Ordinary shares of €2 each	**257,204,326**	257,204,326
Issued and fully paid		
Ordinary shares of €2 each	**145,957,121**	145,957,121

Shareholders of Evraz Group are entitled to standard rights provided under the laws of Luxembourg to shareholders of stock companies ("société anonyme"). These rights comprise the right to vote at the shareholders meetings and the right to receive dividends.

20. Equity (continued)

Share Capital (continued)

Treasury Shares

During the six-month period ended June 30, 2011, the Group purchased 154,058 treasury shares for $15 million, sold 34,332 shares for $3 million and transferred 111,600 shares to participants of the Incentive Plan (Note 24). The cost of treasury shares gifted under Incentive Plan, amounting to $11 million was charged to accumulated profits. As of June 30, 2011, the Group had 8,126 treasury shares.

Convertible Bonds

In July and August 2011, the Company issued 30,771,756 GDRs representing 10,257,252 ordinary shares to bondholders that have accepted the offer to convert 7.25% convertible bonds due 2014 (Note 21).

Earnings per Share

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

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

	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
		unaudited
Weighted average number of ordinary shares for basic earnings per share	**139,002,475**	138,623,788
Effect of dilution: share-based awards	**280,902**	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**139,283,377**	138,623,788
Profit/(loss) for the year attributable to equity holders of the parent, US$ million	**$ 258**	$ 174
Basic earnings/(losses) per share	**$ 1.86**	$ 1.26
Diluted earnings/(losses) per share	**$ 1.85**	$ 1.26

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

As the share-based awards are granted for free (Note 24), they have a dilutive effect.

20. Equity (continued)

Earnings per Share (continued)

In 2011 and 2010, the convertible bonds were antidilutive as the interest (net of tax) per ordinary share obtainable on conversion exceeded basic earnings per share.

For the purpose of calculating basic earnings per share 6,478 bonds converted into 30,672,324 GDRs, representing 10,224,108 Company's shares, were included in the number of ordinary shares from the date when interest on these bonds ceased to accrue (Note 21).

Except for the conversion of 21 bonds into 99,432 GDRs representing 33,144 Company's shares (Note 21), there have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these interim consolidated financial statements.

Dividends

Evraz Group S.A. did not declare any dividends during the reporting period.

Certain subsidiaries of the Group declared dividends. The share of non-controlling shareholders in those dividends in the six-month periods ended June 30, 2011 and 2010, was $1 million and $1 million (unaudited), respectively.

Legal Reserve

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

Other Movements in Equity

Acquisitions of Non-controlling Interests in Subsidiaries

In the six-month periods 2011 and 2010, the Group acquired additional non-controlling interests in certain subsidiaries (Note 6). The excess of the amounts of consideration over the carrying values of non-controlling interests acquired amounting to $18 million (2010 unaudited: $3 million) was charged to accumulated profits.

21. Loans and Borrowings

Short-term and long-term loans and borrowings were as follows:

US$ million	**June 30, 2011**	December 31, 2010
Bank loans	**$ 2,302**	$ 3,472
8.875 per cent notes due 2013	**534**	1,156
7.25 per cent convertible bonds due 2014	**2**	650
8.25 per cent notes due 2015	**577**	577
9.5 per cent notes due 2018	**509**	509
6.75 per cent notes due 2018	**850**	–
13.5 per cent bonds due 2014	**712**	656
9.25 per cent bonds due 2013	**534**	492
9.95 per cent bonds due 2015	**534**	492
8.40 per cent bonds due 2016	**712**	–
Liabilities under bonds assumed in business combination	**1**	13
Unamortised debt issue costs	**(155)**	(192)
Difference between the nominal amount and liability component of convertible bonds	–	(104)
Interest payable	**86**	90
	$ 7,198	$ 7,811

As of June 30, 2011 and December 31, 2010, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $364 million and $381 million, respectively, and long-term loans and borrowings in the amount of $6,903 million and $7,636 million, respectively, including the current portion of long-term liabilities of $154 million and $244 million, respectively.

The effective annual interest rates were as follows at the reporting dates:

	Long-term borrowings		Short-term borrowings	
	June 30, 2011	December 31, 2010	**June 30, 2011**	December 31, 2010
US dollar	**7.15%**	8.01%	**1.82%**	3.06%
Russian rouble	**10.37%**	11.17%	**–**	12.50%
Euro	**4.43%**	5.05%	**2.24%**	1.48%
Canadian dollar	**5.25%**	–	**–**	–
Czech koruna	**–**	–	**2.45%**	3.48%

21. Loans and Borrowings (continued)

The liabilities are denominated in the following currencies at the reporting dates:

US$ million	**June 30, 2011**	December 31, 2010
US dollar	**$ 4,305**	$ 6,079
Russian rouble	**2,540**	1,699
Euro	**378**	322
Canadian dollar	**83**	–
Czech koruna	**44**	7
South African rand	**3**	–
Unamortised debt issue costs	**(155)**	(192)
Difference between the nominal amount and liability component of convertible bonds (Note 20)	**–**	(104)
	$ 7,198	$ 7,811

Covenants

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

At June 30, 2011, the Group was in compliance with all of its financial covenants.

Pledged Assets

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

At June 30, 2011 and December 31, 2010, the Group had inventory with a carrying value of $223 million and $203, respectively, pledged as collateral under the loan agreements. In addition, 50% less one share of Kachkanarsky Mining-and-Processing Integrated Works were pledged as collateral under bank loans. This subsidiary represents 2.4% of the consolidated assets and 0.6% of the consolidated revenues of the Group. At June 30, 2011, the net assets (including intra-group balances) of Kachkanarsky Mining-and-Processing Integrated Works were $1,538 million.

Issue of Notes and Bonds

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

In June 2011, the Group issued bonds in the total amount of 20,000 million Russian roubles, which bear interest of 8.40% per annum and mature on June 2, 2016. The currency and interest rate risk exposures of the transaction were partially economically hedged (Note 26).

21. Loans and Borrowings (continued)

Repurchase/Conversion of Notes and Bonds

In May 2011, the Group re-purchased $622 million of 8.875% notes due 2013 for a cash consideration of $693 million. As a result, the Group recognised a loss on extinguishment of debts in the amount of $71 million within gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations for the six-month period ended June 30, 2011 (Note 7).

On June 22, 2011, the Company made an incentive offer to the holders of 7.25% convertible bonds due 2014 to convert these bonds into GDRs at $21.12 per GDR. In addition, the holders were offered an incentive payment ("conversion premium") of $24,443.89 per bond with the principal amount of $100,000 each. The bondholders owning 6,478 bonds accepted the incentivised conversion. As such, at the reporting date the carrying amount of liability amounting to $551 million was reclassified into equity. The conversion premium of $158 million together with $2 million of transaction costs was recognised as a loss (Note 7) and included in other accounts payable in the consolidated statement of financial position as of June 30, 2011. In July and August 2011, the Company additionally converted 21 bonds and settled 1 bond by cash, repaid the conversion premium and issued 30,771,756 GDRs representing 10,257,252 ordinary shares.

Unamortised Debt Issue Costs

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

Unutilised Borrowing Facilities

The Group had the following unutilised borrowing facilities:

US$ million	**June 30, 2011**	December 31, 2010
Unutilised borrowing facilities	**$ 1,358**	$ 1,010

22. Finance Lease Liabilities

The Group has several lease agreements under which it has an option to acquire the leased assets at the end of lease term ranging from 1 to 16 years. The estimated remaining useful life of leased assets varies from 1 to 34 years. The leases were accounted for as finance leases in the consolidated financial statements. The carrying value of the leased assets was as follows:

US$ million	**June 30, 2011**	December 31, 2010
Buildings and constructions	**$ 2**	$ 1
Machinery and equipment	**18**	22
Transport and motor vehicles	**98**	93
Assets under construction	**11**	10
	$ 129	$ 126

22. Finance Lease Liabilities (continued)

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

Future minimum lease payments were as follows:

US$ million	**June 30, 2011**		**December 31, 2010**	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Not later than one year	**$ 23**	**$ 19**	$ 25	$ 19
Later than one year and not later than five years	**36**	**29**	41	33
Later than five years	**4**	**3**	5	5
	63	**51**	71	57
Less: amounts representing finance charges	**(12)**	**–**	(14)	–
	$ 51	**$ 51**	$ 57	$ 57

The average interest rates under the finance lease liabilities approximate 10%

23. Employee Benefits

Russian Plans

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

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

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

23. Employee Benefits (continued)

Ukrainian Plans

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

The Ukrainian enterprises gradually increase these compensations and in 2012 they will compensate 100% of preferential pensions. In addition, employees receive lump-sum payments on retirement under collective labour agreements. These benefits are based on years of service and level of compensation. All these payments are considered as defined benefit plans.

USA and Canadian Plans

The Group's subsidiaries in the USA and Canada have defined benefit pension plans, post-retirement healthcare and life insurance benefit plans and supplemental retirement plans that cover all eligible employees. Benefits are based on pensionable years of service, pensionable compensation, or a combination of both depending on the individual plan. Certain employees that were hired after specified dates are no longer eligible to participate in the defined benefit plans. Those employees are instead enrolled in a defined contribution plan and receive a contribution funded by the Group's subsidiaries equal to 2-3% of annual wages. The new defined contribution plan is funded annually, and participants' benefits vest after three years of service. The subsidiaries also offer qualified Thrift (401(k)) plans to all of their eligible employees.

Other Plans

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

Defined Contribution Plans

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

	Six-month period ended June 30,	
US$ million	**2011**	**2010**
		unaudited
Expense under defined contribution plans	**$ 197**	$ 121

Defined Benefit Plans

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

The components of net benefit expense recognised in the consolidated statement of operations for the six-month periods ended June 30, 2011 and 2010 and amounts recognised in the consolidated statement of financial position as of June 30, 2011 and December 31, 2010 for the defined benefit plans were as follows:

23. Employee Benefits (continued)

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

Six-month period ended June 30, 2011

US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
Current service cost	**$ (3)**	**$ (2)**	**$ (8)**	**$ –**	**$ (13)**
Interest cost on benefit obligation	**(9)**	**(5)**	**(17)**	**(1)**	**(32)**
Expected return on plan assets	**–**	**–**	**16**	**–**	**16**
Net actuarial gains/(losses) recognised in the year	**(2)**	**–**	**(2)**	**–**	**(4)**
Net benefit expense	**$ (14)**	**$ (7)**	**$ (11)**	**$ (1)**	**$ (33)**

Six-month period ended June 30, 2010 (unaudited)

US$ million	Russian Plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
Current service cost	$ (3)	$ (3)	$ (7)	$ –	$ (13)
Interest cost on benefit obligation	(8)	(4)	(17)	(1)	(30)
Expected return on plan assets	–	–	14	–	14
Net actuarial gains/(losses) recognised in the year	(2)	–	(2)	–	(4)
Net benefit expense	$ (13)	$ (7)	$ (12)	$ (1)	$ (33)

Actual return on plan assets was as follows:

US$ million	**Six-month period ended June 30, 2011**	**2010**
		unaudited
Actual return on plan assets	**$ 13**	$ 14
including:		
USA & Canadian plans	**13**	14
Russian plans	**–**	–

23. Employee Benefits (continued)

Benefit liability

June 30, 2011

US$ million	Russian Plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
Benefit obligation	**$ 215**	**$ 80**	**$ 646**	**$ 24**	**$ 965**
Plan assets	**(2)**	**–**	**(494)**	**–**	**(496)**
	213	**80**	**152**	**24**	**469**
Unrecognised net actuarial gains/ (losses)	**(72)**	**(1)**	**(97)**	**–**	**(170)**
Unrecognised past service cost	**13**	**(10)**	**1**	**–**	**4**
Benefit asset	**–**	**–**	**21**	**–**	**21**
Benefit liability (unaudited)	**$ 154**	**$ 69**	**$ 77**	**$ 24**	**$ 324**

December 31, 2010

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

Movements in benefit obligation

US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
At December 31, 2009	**$ 173**	**$ 72**	**$ 562**	**$ 20**	**$ 827**
Interest cost on benefit obligation	8	4	17	1	30
Current service cost	3	3	7	–	13
Benefits paid	(6)	(3)	(1)	–	(10)
Disposal of subsidiaries	(2)	–	–	–	(2)
Transfer to disposal groups classified as held for sale	–	–	(32)	–	(32)
Translation difference	(5)	1	(4)	(1)	(9)
At June 30, 2010 (unaudited)	**$ 171**	**$ 77**	**$ 549**	**$ 20**	**$ 817**
At December 31, 2010	**$ 192**	**$ 77**	**$ 629**	**$ 24**	**$ 922**
Interest cost on benefit obligation	9	5	17	1	32
Current service cost	3	2	8	–	13
Benefits paid	(6)	(3)	(18)	(2)	(29)
Translation difference	17	(1)	10	1	27
At June 30, 2011	**$ 215**	**$ 80**	**$ 646**	**$ 24**	**$ 965**

The amount of contributions expected to be paid to the defined benefit plans during 12 months after the reporting date approximates $58 million.

23. Employee Benefits (continued)

Changes in the fair value of plan assets

US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
At December 31, 2009	**$ 1**	**$ –**	**$ 403**	**$ –**	**$ 404**
Expected return on plan assets	–	–	14	–	14
Contributions of employer	6	3	20	–	29
Benefits paid	(6)	(3)	(1)	–	(10)
Minimum funding requirements	–	–	1	–	1
Transfer to disposal groups classified as held for sale	–	–	(15)	–	(15)
Translation difference	–	–	(5)	–	(5)
At June 30, 2010 (unaudited)	**$ 1**	**$ –**	**$ 417**	**$ –**	**$ 418**
At December 31, 2010	**$ 1**	**$ –**	**$ 463**	**$ –**	**$ 464**
Expected return on plan assets	–	–	16	–	16
Contributions of employer	7	3	26	2	38
Benefits paid	(6)	(3)	(18)	(2)	(29)
Actuarial gains/(losses) on plan assets	–	–	(3)	–	(3)
Translation difference	–	–	10	–	10
At June 30, 2011	**$ 2**	**$ –**	**$ 494**	**$ –**	**$ 496**

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

	June 30, 2011	**December 31, 2010**
USA & Canadian plans:		
Equity funds and investment trusts	**83%**	86%
Corporate bonds and notes	**12%**	11%
Property	**2%**	0%
Cash	**3%**	3%

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

US$ million	2011	2010	2009	2008	2007
Defined benefit obligation	**$ 965**	$ 922	$ 827	$ 717	$ 535
Plan assets	**496**	464	404	325	201
(Deficit)/surplus	**(469)**	(458)	(423)	(392)	(334)
Experience adjustments on plan liabilities	**–**	60	54	(38)	(18)
Experience adjustments on plan assets	**(3)**	9	24	16	5

23. Employee Benefits (continued)

The principal assumptions used in determining pension obligations for the Group's plans in the six-month periods ended June 30, 2011 and 2010 are shown below:

	Six-month period ended June 30,							
	2011				2010 (unaudited)			
	Russian plans	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**	**Russian plans**	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**
Discount rate	**8%**	**12.6%**	**5.1-5.8%**	**3.9-8.3%**	10%	12.4%	5.5-9.3%	4.2-9.5%
Expected rate of return on assets	**12%**	**–**	**0.9-7.3%**	**–**	12%	–	1.3-8.5%	–
Future benefits increases	**8%**	**8%**	**0-3%**	**3%**	8%	9%	3%	3-10%
Future salary increase	**8%**	**8%**	**3.0-3.2%**	**6.3-7.5%**	8%	9%	3-7.5%	6.3-7.5%
Healthcare costs increase rate	**–**	**–**	**6.8-10%**	**–**	–	–	8-10%	–

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

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

24. Share-based Payments

On December 14, 2010, the Group adopted an Incentive Plan under which certain senior executives and employees ("participants") could be gifted shares of the Company upon vesting.

According to the Plan 2010, the vesting date for each tranche occurs within the 90 days period after announcement of the annual results. The expected vesting dates of the awards outstanding at June 30, 2011 are presented below:

	Incentive Plan 2010
June 30, 2012	86,967
June 30, 2013	86,968
	173,935

The plan is administrated by the Board of Directors of the Company. The Board of Directors has the right to accelerate vesting of the grant. In the event of an employment termination a participant loses the entitlement for the shares that were not gifted up to the date of termination.

There have been no modifications to the plan during six-month period ended June 30, 2011.

24. Share-based Payments (continued)

The Group accounted for share-based compensations at fair value pursuant to the requirements of IFRS 2 "Share-based Payment". The weighted average fair value of share-based awards granted in 2010 was $102.07 per share. The fair value of these awards was estimated at the date of grant using the Black-Scholes-Merton option pricing model with the following inputs, including assumptions:

	Incentive Plan 2010
Dividend yield (%)	1.2 – 1.5
Expected volatility (%)	n/a
Risk-free interest rates (%)	n/a
Expected life (years)	0.5 – 2.5
Market prices of the shares at the grant dates	$103.83

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share-based awards during the six-month period ended June 30, 2011.

	No.	**WAEP**
Outstanding at January 1	**321,898**	$ –
Forfeited during the year	**(36,363)**	–
Exercised during the year	**(111,600)**	–
Outstanding at June 30	**173,935**	$ –

The weighted average share price at the dates of exercise was $98.60.

The weighted average remaining contractual life of the share-based awards outstanding as of June 30, 2011 and December 31, 2010 was 1.5 and 1.4 years, respectively.

In the six-month periods ended June 30, 2011 and 2010, expense arising from the share-based compensations, was $15 million and $nil, respectively.

In the six-month periods ended June 30, 2011 and 2010, the Group repaid $1 million and $3 million in respect of the cash-settled share-based compensations under Incentive Plan 2005, respectively.

25. Provisions

In the six-month periods ended June 30, 2011 and 2010, the movement in provisions was as follows:

US$ million	**Site restoration and decom-missioning costs**	**Legal claims**	**Other provisions**	**Total**
At December 31, 2009	**$ 190**	**$ 6**	**$ 15**	**$ 211**
Additional provisions	1	5	6	12
Increase from passage of time	8	–	–	8
Effect of change in the discount rate	14	–	–	14
Utilised in the year	(3)	(3)	(9)	(15)
Unused amounts reversed	–	(1)	–	(1)
Transfer to disposal groups classified as held for sale	(4)	–	–	(4)
Translation difference	(6)	–	(1)	(7)
At June 30, 2010 (unaudited)	**$ 200**	**$ 7**	**$ 11**	**$ 218**
At December 31, 2010	**$ 305**	**$ 17**	**$ 11**	**$ 333**
Additional provisions	38	15	9	62
Increase from passage of time	8	–	–	8
Effect of change in the discount rate	2	–	–	2
Effect of changes in estimated costs and timing	3	–	–	3
Utilised in the year	(8)	(4)	(8)	(20)
Unused amounts reversed	–	(3)	(1)	(4)
Translation difference	14	1	1	16
At June 30, 2011	**$ 362**	**$ 26**	**$ 12**	**$ 400**

Site Restoration Costs

Under the legislation, mining companies and steel mills have obligations to restore mining sites and contaminated land. The respective liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate ranging from 6.1% to 11% (2010: from 6.1% to 13%).

26. Other Long-Term Liabilities

Other long-term liabilities consisted of the following:

US$ million	**June 30, 2011**	December 31, 2010
Contingent consideration payable for the acquisition of Stratcor	**$ 22**	$ 24
Deferred consideration payable for the acquisition of Inprom	**21**	21
Dividends payable under cumulative preference shares of a subsidiary to a related party	**14**	14
Employee income participation plans and compensations	**1**	3
Tax liabilities	**35**	33
Derivatives not designated as hedging instruments (Note 21)	**–**	38
Other liabilities	**19**	24
	112	157
Less: current portion (Note 27)	**(9)**	(14)
	$ 103	$ 143

Contingent Consideration Payable

Contingent consideration represents additional payments for the acquisition of Stratcor in 2006. The payments depend on the deviation of the average prices for vanadium pentoxide from certain levels and the amounts payable for each year are limited to maximum amounts.

Derivatives Not Designated As Hedging Instruments

In 2009-2011, the Group issued rouble-denominated bonds in the total amount of 70,000 million Russian roubles. To manage the currency exposure, the Group concluded swap contracts under which it agreed to deliver US dollar-denominated interest payments at the rates ranging from 4.45% to 8.90% per annum plus the notional amount totalling $2,177 million, in exchange for rouble-denominated interest payments plus the notional amount totalling 63,790 roubles ($2,272 million at the exchange rate as of June 30, 2011). The exchange is exercised on approximately the same dates as the payments under the bonds.

26. Other Long-Term Liabilities

Derivatives Not Designated As Hedging Instruments (continued)

The swap contracts are summarised in the table below.

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

These swap contracts were not designated as cash flow or fair value hedge. The Group accounted for these derivatives at fair value which was determined using valuation techniques. In the six-month periods ended June 30, 2011 and 2010, the change in fair value of the derivatives of $174 million and $(30) million, respectively, together with a realised gain on the swap transactions, amounting to $26 million and $11 million, respectively, was recognised within gain/(loss) on financial assets and liabilities in the consolidated statement of operations (Note 7).

27. Trade and Other Payables

Trade and other payables consisted of the following:

US$ million	**June 30, 2011**	**December 31, 2010**
Trade accounts payable	**$ 1,264**	$ 880
Accrued payroll	**248**	229
Other long-term obligations with current maturities (Note 26)	**9**	14
Other payables	**239**	50
	$ 1,760	$ 1,173

Maturity profile of the accounts payable is shown in Note 29.

28. Other Taxes Payable

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

US$ million	**June 30, 2011**	**December 31, 2010**
VAT	**$ 151**	$ 90
Social insurance taxes	**60**	40
Property tax	**15**	14
Land tax	**13**	10
Personal income tax	**11**	10
Other taxes, fines and penalties	**16**	16
	$ 266	$ 180

29. Financial Risk Management Objectives and Policies

Credit Risk

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

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

The Group's trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities. The major customers are Russian Railways and Vanomet AG (4.2% and 2.7% of total sales, respectively).

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

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

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

US$ million	**June 30, 2011**	December 31, 2010
Restricted deposits at banks (Notes 13 and 18)	**$ 24**	$ 22
Financial instruments included in other non-current assets (Note 13)	**137**	6
Long-term and short-term investments (Notes 13 and 18)	**63**	76
Trade and other receivables (Notes 13 and 15)	**1,174**	1,216
Loans receivable	**56**	18
Receivables from related parties (Notes 13 and 16)	**96**	124
Cash and cash equivalents	**1,155**	683
	$ 2,705	$ 2,145

Receivables from related parties in the table above do not include prepayments in the amount of $5 million and $2 million as of June 30, 2011 and December 31, 2010, respectively.

29. Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

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

US$ million	**June 30, 2011**		**December 31, 2010**	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
Not past due	**$ 1,045**	**$ (7)**	$ 1,098	$ (8)
Past due	**403**	**(115)**	377	(109)
Less than six months	**271**	**(30)**	232	(16)
between six months and one year	**40**	**(19)**	27	(10)
over one year	**92**	**(66)**	118	(83)
	$ 1,448	**$ (122)**	$ 1,475	$ (117)

The movement in allowance for doubtful accounts was as follows:

US$ million	**Six-month period ended June 30, 2011**	**2010**
		unaudited
At January 1	**$ 117**	$ 92
Charge for the year	**29**	19
Utilised	**(32)**	(13)
Translation difference	**8**	(4)
At December 31	**$ 122**	$ 94

Liquidity Risk

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

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

The Group prepares the rolling 12-month financial plan which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities as they arise. The Group exercises a daily monitoring of cash proceeds and payments. The Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs. The Group's objective is to refinance its short-term debt by long-term borrowings. The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

29. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

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

June 30, 2011

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ –	$ 2	$ 24	$ 1,090	$ 2,898	$ 1,384	$ 5,398
Interest	–	30	455	483	1,012	213	2,193
Finance lease liabilities	–	1	3	4	11	4	23
Financial instruments included in long-term liabilities	1	1	12	6	16	27	63
Total fixed-rate debt	1	34	494	1,583	3,937	1,628	7,677
Variable-rate debt							
Loans and borrowings							
Principal	219	115	159	202	1,108	66	1,869
Interest	–	15	44	46	59	11	175
Finance lease liabilities	–	7	12	9	11	1	40
Total variable-rate debt	219	137	215	257	1,178	78	2,084
Non-interest bearing debt							
Financial instruments included in long-term liabilities	–	–	–	–	–	3	3
Trade and other payables	257	1,230	16	–	–	–	1,503
Payables to related parties	201	25	2	–	–	–	228
Amounts payable under put options for shares of subsidiaries	9	–	–	–	21	–	30
Dividends payable	14	–	–	–	–	–	14
Total non-interest bearing debt	481	1,255	18	–	21	3	1,778
	$ 701	$ 1,426	$ 727	$ 1,840	$ 5,136	$ 1,709	$ 11,539

29. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

December 31, 2010

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

Payables to related parties in the tables above do not include advances received in the amount of $nil and $1 million as of June 30, 2011 and December 31, 2010, respectively.

Market Risk

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

29. Financial Risk Management Objectives and Policies (continued)

Interest Rate Risk

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

The Group incurs interest rate risk on liabilities with variable interest rates. The Group's treasury function performs analysis of current interest rates. In case of changes in market fixed or variable interest rates management may consider the refinancing of a particular debt on more favourable terms.

The Group does not have any financial assets with variable interest rate.

Fair Value Sensitivity Analysis for Fixed Rate Instruments

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

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

Cash Flow Sensitivity Analysis for Variable Rate Instruments

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

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

	June 30, 2011		**December 31, 2010**	
	Basis points	**Effect on PBT**	**Basis points**	**Effect on PBT**
		US$ millions		*US$ millions*
Liabilities denominated in US dollars				
Decrease in LIBOR	**(25)**	**$ 4**	(25)	$ 4
Increase in LIBOR	**75**	**(11)**	100	(17)
Liabilities denominated in euro				
Decrease in EURIBOR	**(12)**	**–**	(25)	1
Increase in EURIBOR	**75**	**$ (2)**	100	$ (2)

29. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Currency Risk

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

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

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

US$ million	**June 30, 2011**	December 31, 2010
USD/RUB	**$ 4,514**	$ 3,419
EUR/RUB	**(345)**	(283)
EUR/USD	**200**	137
CAD/USD	**1,061**	1,180
EUR/CZK	**77**	38
USD/CZK	**(208)**	(282)
USD/ZAR	**16**	66
EUR/ZAR	**68**	41
USD/UAH	**(33)**	(1)
RUB/UAH	**8**	(43)

Sensitivity Analysis

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

	June 30, 2011		**December 31, 2010**	
	Change in exchange rate	**Effect on PBT**	**Change in exchange rate**	**Effect on PBT**
	%	*US$ millions*	*%*	*US$ millions*
USD/RUB	**(5.57)**	**(251)**	(9.70)	(332)
	5.57	**251**	9.70	332
EUR/RUB	**(5.78)**	**20**	(8.79)	25
	5.78	**(20)**	8.79	(25)
EUR/USD	**(7.86)**	**(16)**	(11.32)	(16)
	7.86	**16**	11.32	16
CAD/USD	**(6.17)**	**(66)**	(10.97)	(129)
	6.17	**66**	10.97	129

29. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Currency Risk

Sensitivity Analysis (continued)

	June 30, 2011		**December 31, 2010**	
	Change in exchange rate	**Effect on PBT**	**Change in exchange rate**	**Effect on PBT**
	%	*US$ millions*	*%*	*US$ millions*
EUR/CZK	**(3.00)**	**(2)**	(5.30)	(2)
	3.00	**2**	5.30	2
USD/CZK	**(8.75)**	**18**	(13.79)	39
	8.75	**(18)**	13.79	(39)
USD/ZAR	**(8.68)**	**(1)**	(13.68)	(9)
	8.68	**1**	13.68	9
EUR/ZAR	**(7.45)**	**(5)**	(11.59)	(5)
	7.45	**5**	11.59	5
USD/UAH	**(1.20)**	–	(1.71)	–
	1.20	–	1.71	–
RUB/UAH	**(5.72)**	–	(9.94)	4
	5.72	–	9.94	(4)

Fair Value of Financial Instruments

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs).

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

29. Financial Risk Management Objectives and Policies (continued)

The Group held the following financial instruments measured at fair value:

US$ million	June 30, 2011			December 31, 2010		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value						
Available for sale financial assets	**24**	–	–	37	–	–
Financial assets at fair value through profit or loss	–	–	–	–	–	–
Derivatives not designated as hedging instruments	–	**137**	–	–	5	–
Liabilities measured at fair value						
Liability at fair value through profit or loss	–	–	**3**	–	–	16
Derivatives not designated as hedging instruments	–	–	–	–	38	–
Deferred consideration payable for the acquisition of Inprom	**21**	–	–	21	–	–
Amounts payable under put options for shares of subsidiaries	–	–	**9**	–	–	**6**

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

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

US$ million	June 30, 2011		December 31, 2010	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair value**
Long-term fixed-rate bank loans	**$ 428**	**$ 431**	$ 1,201	$ 1,198
Long-term variable-rate bank loans	**1,438**	**1,382**	1,807	1,663
8.875 per cent notes due 2013	**531**	**580**	1,144	1,248
7.25 per cent convertible bonds due 2014	**2**	**2**	551	650
8.25 per cent notes due 2015	**557**	**643**	555	615
9.5 per cent notes due 2018	**500**	**587**	499	565
6.75 per cent notes due 2018	**852**	**851**	–	–
13.5 per cent bonds due 2014	**727**	**827**	670	740
9.25 per cent bonds due 2013	**545**	**554**	502	498
9.95 per cent bonds due 2015	**541**	**567**	498	496
8.40 per cent bonds due 2016	**713**	**716**	–	–
Liabilities under bonds assumed in business combination	**1**	**1**	13	12
	$ 6,835	**$ 7,141**	$ 7,440	$ 7,685

The fair value of the non-convertible bonds and notes was determined based on market quotations. The fair value of convertible bonds and long-term bank loans was calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rates of interest at the reporting dates.

29. Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

The discount rates used for valuation of financial instruments were as follows:

Currency in which financial instruments are denominated	June 30, 2011	December 31, 2010
USD	**7.4 – 8.3%**	**7.7 – 8.3%**
EUR	**3.4%**	**2.8%**
RUB	–	**12.0%**

Capital Management

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

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of Directors reviews the Group's performance and establishes key performance indicators. In addition, the Group and certain of its subsidiaries are subject to externally imposed capital requirements (loans and bonds covenants) which are used for capital monitoring. There were no changes in the objectives, policies and processes during the six-month period ended June 30, 2011.

The Group manages its capital structure and makes adjustments to it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments. The capital requirements imposed by certain loan agreements include the following:

- consolidated equity less goodwill should be at least $2,000 million.

30. Non-cash Transactions

Transactions that did not require the use of cash or cash equivalents were as follows:

US$ million	Six-month period ended June 30, 2011	2010
		unaudited
Loan to a partner on Mezhegey coal field project	**$ 35**	$ –
Carrying amount of convertible bonds transferred to equity upon debt conversion (Note 21)	**551**	–
Purchases of property, plant and equipment settled by an offset with accounts receivable	**9**	12
Offset of income tax receivable/(payable) against other taxes	**–**	6

US$ million	June 30, 2011	December 31, 2010
Liabilities for purchases of property, plant and equipment	**$ 72**	$ 70
Liabilities for purchases of shares in subsidiaries and other entities	**37**	28

31. Commitments and Contingencies

Operating Environment of the Group

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

In the wake of the global financial crisis, all countries continue to face an uneven economic recovery. The stabilisation measures introduced by governments have led to stronger customer demand, increased production levels and improved liquidity in the banking sector. Nevertheless, in 2010 and 2011, there was no material uplift in the ship-building, pipe-making, railway transportation, construction, oil and gas industries which are the major customers of the Group. In 2011, the sovereign debt problems in Europe and the USA added extra volatility to commodity markets and led to an additional uncertainty in the process of recovery of the global economy.

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

31. Commitments and Contingencies (continued)

Taxation

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

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

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities, which were identified by management at the end of the reporting period as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these financial statements could be up to approximately $35 million.

Contractual Commitments

At June 30, 2011, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of $576 million.

The Company concluded an agreement for the supply of oxygen, nitrogen and argon by a third party for a period of 20 years. The contractual price comprises a fixed component and a variable component. The total amount of a fixed component approximates 252 million euro ($363 million at the exchange rate as of June 30, 2011). The agreement is within the scope of IFRIC 4 "Determining whether an arrangement contains a lease". At June 30, 2011, the lease was not commenced.

Social Commitments

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group's assets are located. In the second half of 2011, the Group plans to spend approximately $65 million under these programmes.

Environmental Protection

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

31. Commitments and Contingencies (continued)

Environmental Protection (continued)

In the period from 2011 to 2017, the Group is committed to spend approximately $342 million under the environmental programmes.

Legal Proceedings

The Group has been and continues to be the subject of legal proceedings, none of which has had, individually or in aggregate, a significant effect on the Group's operations or financial position. Possible liabilities, which were identified by the Group at the end of the reporting period as those that can be subject to different interpretations of legislation and are not accrued in these financial statements could be up to approximately $15 million.

32. Subsequent Events

Purchase of Office Building from a Related Party

In July 2011, the Group acquired an office building for its administrative staff in Moscow from OOO Zapadnye Vorota, an entity under control of ultimate principal shareholders of the Group. The cash consideration amounted to $102 million. The transaction has been concluded on market terms.

Issue of Share Capital

In July and August 2011, as a result of the bonds conversion, the Company issued 30,771,756 GDRs representing 10,257,252 ordinary shares (Note 21).

Shares Lending Termination

In August 2011, 7,333,333 shares lended under the shares lending transactions (Note 20) were returned to the Company. The termination of the shares lending does not have an impact on equity, as these shares were issued for no consideration and the Group's net assets did not change as a result of this transaction.

Dividends

On October 10, 2011, the Board of Directors of Evraz Group S.A. declared interim dividends in the amount of $491 million ($3.30 per share).