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**UNITED COMPANY RUSAL PLC**  
*(Incorporated under the laws of Jersey with limited liability)*  
**(Stock Code: 486)**

**UPDATE ON  
THE ANNUAL RESULTS ANNOUNCEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2012  
AND INSIDE INFORMATION**

This announcement is made by United Company RUSAL Plc (“**UC RUSAL**” or the “**Company**”) pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

Reference is made to the annual results announcement for the financial year ended 31 December 2012 (“**Annual Results Announcement**”) and the announcement dated 15 April 2013 regarding the update on the annual results for the financial year ended 31 December 2012 (the “**Update Announcement**”) of the Company.

Unless otherwise specified, capitalised terms in this announcement shall have the same meanings as the defined terms in the Annual Results Announcement and the Update Announcement.

**BACKGROUND**

As mentioned in the Update Announcement, on 12 April 2013, Norilsk Nickel published the Norilsk Nickel Financial Statements on its own website. Accordingly, the management of the Company has reviewed the Norilsk Nickel Financial Statements and is of the view that it has material adverse impact on the Company’s published consolidated financial statements for the year ended 31 December 2012 (as stated in the Annual Results Announcement).

The management of the Company has reassessed the Group's share of Norilsk Nickel's profits and comprehensive income and concluded that in the audited consolidated financial statements of the Company for the year ended 31 December 2012 (which are set out in the Annual Results Announcement):

- the share of profits/(losses) of associates, foreign currency translation differences for foreign operations and interests in associates were overstated by USD282 million, USD43 million and USD185 million respectively; and
- the share of other comprehensive income of associates was understated by USD140 million.

As a result the Company has adjusted the audited consolidated financial statements of the Company for the year ended 31 December 2012 to reflect the results of the reassessment by the Company's management.

## **ADJUSTED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT**

On 19 April 2013, the board of directors of the Company has approved the adjusted audited consolidated financial statements of the Company for the year ended 31 December 2012 (the "**Adjusted Financial Statements**"), which are attached to this announcement. The Company's auditor, ZAO KPMG, has provided an independent auditors' report on the Adjusted Financial Statements, a copy of which is attached to the Adjusted Financial Statements. The Company has noted that the independent auditors' report does not contain any qualifications to its conclusion.

## **AMENDMENTS TO ANNUAL RESULTS ANNOUNCEMENT**

As a result of the adjustments to the audited consolidated financial statements of the Company for the year ended 31 December 2012 discussed above, corresponding amendments are made to the content of the Annual Results Announcement. Material amendments, among others, are set out below:

- Net loss should be **USD337 million**, rather than USD55 million as set out on pages 4, 20, 21, 25, 26, 30, 31 and 64 of the Annual Results Announcement.
- Share of profits of associates should be **USD469 million**, rather than USD751 million as set out on pages 19, 25, 31 and 70 of the Annual Results Announcement.

- Loss before income tax should be **USD311 million**, rather than USD29 million as set out on pages 20, 25, 54 and 58 of the Annual Results Announcement.
- Earnings per share for the year ended 31 December 2012 should be **USD(0.022)**, rather than USD(0.004) as set out on pages 25 and 64 of the Annual Results Announcement.
- Share of other comprehensive income of associates should be **USD5 million**, rather than USD145 million as set out on pages 26 and 70 of the Annual Results Announcement.
- Foreign currency translation differences for foreign operations should be **USD832 million**, rather than USD875 million as set out on pages 26 and 30 of the Annual Results Announcement.
- Interest in associates should be **USD10,484 million**, rather than USD10,669 million as set out on pages 27 and 70 of the Annual Results Announcement.
- Investment in subsidiaries should be **USD18,578 million**, rather than USD18,763 million as set out on pages 29, 75, 115 of the Annual Results Announcement.
- Share of profit/(losses) of Norilsk Nickel should be **USD490 million** rather than USD772 million as set out on pages 19 and 21 of the Annual results Announcement.
- Carrying value of the Group's investment in Norilsk Nickel should be **USD10,028 million**, rather than USD10,213 million as set out on page 71 of the Annual Results Announcement.
- Disclosure on the qualified opinion provided by the auditors of the Company, ZAO KPMG set out on pages 23 and 24 of the Annual Results Announcement should be eliminated.
- Recurring net loss should be **USD8 million** for the year ended 31 December 2012 rather than recurring net profit USD274 million as set out on pages 4 and 21 of the Annual results announcement.
- Recurring net loss should be **USD151 million** for the quarter ended 31 December 2012 rather than recurring net profit USD131 million as set out on page 4 of the Annual results announcement.

The full set of Adjusted Financial Statements containing all relevant amendments made to the published consolidated financial statements for the year ended 31 December 2012 (as stated in the Annual Results Announcement), together with the independent auditors' report, is available on UC RUSAL's website at [http://www.rusal.ru/en/investors/financial\\_stat.aspx](http://www.rusal.ru/en/investors/financial_stat.aspx). The results of the adjustments will also be reflected in the annual report for the financial year ended 31 December 2012 to be published by the Company.

An identical form of this announcement, to which the Adjusted Financial Statements and the independent auditors' report will not be attached, will be disseminated to the French *Autorité des marchés financiers*, Euronext Paris and the French market via Businesswire simultaneously with this announcement.

**Shareholders of the Company and potential investors are advised to exercise caution when dealing in the securities of the Company.**

By Order of the board of directors of  
**United Company RUSAL Plc**  
**Vladislav Soloviev**  
*Director*

22 April 2013

*As at the date of this announcement, the executive Directors are Mr. Oleg Deripaska, Ms. Vera Kurochkina, Mr. Maxim Sokov and Mr. Vladislav Soloviev, the non-executive Directors are Mr. Dmitry Afanasiev, Mr. Len Blavatnik, Mr. Ivan Glasenberg, Mr. Maksim Goldman, Ms. Gulzhan Moldazhanova, Mr. Christophe Charlier, Mr. Artem Volynets, Mr. Dmitry Yudin, Mr. Vadim Geraskin, and the independent non-executive Directors are Mr. Barry Cheung Chun-yuen, Dr. Peter Nigel Kenny, Mr. Philip Lader, Ms. Elsie Leung Oi-sie and Mr. Matthias Warnig (Chairman).*

*All announcements and press releases published by the Company are available on its website under the links <http://www.rusal.ru/en/investors/info.aspx> and <http://www.rusal.ru/en/press-center/press-releases.aspx>, respectively.*



**United Company RUSAL Plc**

**Consolidated Financial Statements**  
**for the year ended**  
**31 December 2012**

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**Statement of directors' responsibilities (Corporate governance Report of Annual Report) – p 112 for AR 2011**

The Directors acknowledge that it is their responsibility to prepare the consolidated financial statements for the year ended 31 December 2012, in accordance with applicable law and IFRS.

The Companies (Jersey) Law 1991 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and its subsidiaries and of the profit or loss of the Company and its subsidiaries for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



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## **Independent auditor's report to the members of United Company RUSAL Plc**

*(Incorporated in Jersey with limited liability)*

We have audited the accompanying consolidated financial statements of United Company RUSAL Plc ("the Company") and its subsidiaries (the "Group"), which comprise the Consolidated and Company Statements of Financial Position as at 31 December 2012, the Consolidated Statement of Income, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity and the Consolidated Statement of Cash Flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information.

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report or for the opinions we have formed.

### ***Directors' Responsibility for the Consolidated Financial Statements***

As explained more fully in the Statement of Directors' Responsibilities set out on page 3, the directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with applicable law, International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The directors are also responsible for being satisfied that the consolidated financial statements give a true and fair view.

### ***Auditor's responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 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.

## **Independent auditor's report to the members of United Company RUSAL Plc - continued**

### **Opinion**

In our opinion the consolidated financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and of the Group's net loss and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and have been prepared in accordance with the requirements of the Companies (Jersey) Law 1991 and the disclosure requirements of the Hong Kong Companies Ordinance.

### **Other matter**

In our report dated 1 March 2013, we expressed an opinion on the Group's consolidated financial statements as at and for the year ended 31 December 2012 that was qualified for the effect of such adjustments, if any, that might have been determined to be necessary had we been able to obtain sufficient appropriate audit evidence in relation to the Group's estimate of the share of profit and other comprehensive income of the Group's equity investee, OJSC MMC Norilsk Nickel ("Norilsk Nickel"). Since that date, the directors have obtained the required information and have adjusted the Group's and Company's accounting for the Norilsk Nickel investment. We have audited the adjustments described in Note 1 (d) to the consolidated financial statements and, in our opinion, such adjustments are appropriate and have been properly applied. Accordingly, our present report on the Group's consolidated financial statements as at and for the year ended 31 December 2012, as presented herein and approved by the Board of Directors on 19 April 2013, is different from our previous report dated 1 March 2013.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company; or
- the financial statements of the Company are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.




Andrei Shvetsov  
For and on behalf of ZAO KPMG  
(power of attorney dated 1 October 2010 № 55/10)

Member of Chamber of Auditors of Russia  
and Recognized Auditor

19 April 2013

**United Company RUSAL Plc**  
*Consolidated Statement of Income for the year ended 31 December 2012*

|                                                   |             | <b>Year ended 31 December</b> |                    |
|---------------------------------------------------|-------------|-------------------------------|--------------------|
|                                                   |             | <b>2012</b>                   | <b>2011</b>        |
|                                                   | <b>Note</b> | <b>USD million</b>            | <b>USD million</b> |
| <b>Revenue</b>                                    | 5           | 10,891                        | 12,291             |
| Cost of sales                                     |             | (9,232)                       | (8,786)            |
| <b>Gross profit</b>                               |             | <b>1,659</b>                  | <b>3,505</b>       |
| Distribution expenses                             |             | (527)                         | (610)              |
| Administrative expenses                           |             | (718)                         | (759)              |
| Loss on disposal of property, plant and equipment |             | (8)                           | -                  |
| Impairment of non-current assets                  |             | (304)                         | (245)              |
| Other operating expenses                          | 6           | (42)                          | (142)              |
| <b>Results from operating activities</b>          |             | <b>60</b>                     | <b>1,749</b>       |
| Finance income                                    | 7           | 25                            | 521                |
| Finance expenses                                  | 7           | (920)                         | (1,336)            |
| Share of profits/(losses) of associates           | 17          | 469                           | (349)              |
| Share of profits of jointly controlled entities   | 18          | 55                            | 25                 |
| <b>(Loss)/profit before taxation</b>              |             | <b>(311)</b>                  | <b>610</b>         |
| Income tax                                        | 8           | (26)                          | (373)              |
| <b>Net (loss)/profit for the year</b>             |             | <b>(337)</b>                  | <b>237</b>         |
| Attributable to:                                  |             |                               |                    |
| Shareholders of the Company                       |             | (337)                         | 237                |
| <b>Net (loss)/profit for the year</b>             |             | <b>(337)</b>                  | <b>237</b>         |
| <b>Earnings per share</b>                         |             |                               |                    |
| Basic and diluted earnings per share (USD)        | 14          | (0.022)                       | 0.016              |

**United Company RUSAL Plc**  
*Consolidated Statement of Comprehensive Income for the year ended 31 December 2012*

|                                                                 |             | <b>Year ended 31 December</b> |                    |
|-----------------------------------------------------------------|-------------|-------------------------------|--------------------|
|                                                                 |             | <b>2012</b>                   | <b>2011</b>        |
|                                                                 | <b>Note</b> | <b>USD million</b>            | <b>USD million</b> |
| <b>Net (loss)/profit for the year</b>                           |             | <b>(337)</b>                  | <b>237</b>         |
| <b>Other comprehensive income</b>                               |             |                               |                    |
| Actuarial losses on post retirement benefit plans               | 27(a)       | (41)                          | (4)                |
| Share of other comprehensive income of associates               | 17          | (5)                           | (193)              |
| Change in fair value of cash flow hedges                        | 28          | (63)                          | (42)               |
| Foreign currency translation differences for foreign operations |             | 832                           | (921)              |
|                                                                 |             | <b>723</b>                    | <b>(1,160)</b>     |
| <b>Total comprehensive income for the year</b>                  |             | <b>386</b>                    | <b>(923)</b>       |
| Attributable to:                                                |             |                               |                    |
| Shareholders of the Company                                     |             | 386                           | (923)              |
| <b>Total comprehensive income for the year</b>                  |             | <b>386</b>                    | <b>(923)</b>       |

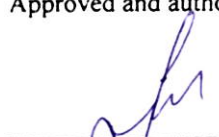
There was no tax effect relating to each component of other comprehensive income.

*United Company RUSAL Plc*  
*Consolidated Statement of Financial Position as at 31 December 2012*

|                                          |      | <u>31 December</u> | <u>31 December</u> |
|------------------------------------------|------|--------------------|--------------------|
|                                          |      | <u>2012</u>        | <u>2011</u>        |
|                                          | Note | <u>USD million</u> | <u>USD million</u> |
| <b>ASSETS</b>                            |      |                    |                    |
| <b>Non-current assets</b>                |      |                    |                    |
| Property, plant and equipment            | 15   | 5,453              | 5,746              |
| Intangible assets                        | 16   | 4,051              | 3,905              |
| Interests in associates                  | 17   | 10,484             | 9,714              |
| Interests in jointly controlled entities | 18   | 1,156              | 1,102              |
| Deferred tax assets                      | 20   | 99                 | 66                 |
| Derivative financial assets              | 28   | 12                 | 21                 |
| Other non-current assets                 |      | 89                 | 98                 |
| <b>Total non-current assets</b>          |      | <u>21,344</u>      | <u>20,652</u>      |
| <b>Current assets</b>                    |      |                    |                    |
| Inventories                              | 21   | 2,624              | 3,002              |
| Trade and other receivables              | 22   | 925                | 1,032              |
| Derivative financial assets              | 28   | 3                  | 13                 |
| Cash and cash equivalents                | 23   | 505                | 646                |
| <b>Total current assets</b>              |      | <u>4,057</u>       | <u>4,693</u>       |
| <b>Total assets</b>                      |      | <u>25,401</u>      | <u>25,345</u>      |

|                                              |       | <u>31 December</u> | <u>31 December</u> |
|----------------------------------------------|-------|--------------------|--------------------|
|                                              |       | <u>2012</u>        | <u>2011</u>        |
|                                              | Note  | <u>USD million</u> | <u>USD million</u> |
| <b>EQUITY AND LIABILITIES</b>                |       |                    |                    |
| <b>Equity</b>                                | 24    |                    |                    |
| Share capital                                |       | 152                | 152                |
| Shares held for vesting                      |       | (1)                | -                  |
| Share premium                                |       | 15,787             | 15,788             |
| Other reserves                               |       | 2,747              | 2,856              |
| Currency translation reserve                 |       | (3,666)            | (4,498)            |
| Accumulated losses                           |       | (4,096)            | (3,759)            |
| <b>Total equity</b>                          |       | <u>10,923</u>      | <u>10,539</u>      |
| <b>Non-current liabilities</b>               |       |                    |                    |
| Loans and borrowings                         | 25    | 9,415              | 10,134             |
| Bonds                                        | 26    | 988                | 932                |
| Provisions                                   | 27    | 621                | 484                |
| Deferred tax liabilities                     | 20    | 520                | 595                |
| Derivative financial liabilities             | 28    | 179                | 159                |
| Other non-current liabilities                |       | 43                 | 46                 |
| <b>Total non-current liabilities</b>         |       | <u>11,766</u>      | <u>12,350</u>      |
| <b>Current liabilities</b>                   |       |                    |                    |
| Loans and borrowings                         | 25    | 931                | 629                |
| Current taxation                             | 20(e) | 18                 | 16                 |
| Trade and other payables                     | 29    | 1,656              | 1,667              |
| Derivative financial liabilities             | 28    | 47                 | 39                 |
| Provisions                                   | 27    | 60                 | 105                |
| <b>Total current liabilities</b>             |       | <u>2,712</u>       | <u>2,456</u>       |
| <b>Total liabilities</b>                     |       | <u>14,478</u>      | <u>14,806</u>      |
| <b>Total equity and liabilities</b>          |       | <u>25,401</u>      | <u>25,345</u>      |
| <b>Net current assets</b>                    |       | <u>1,345</u>       | <u>2,237</u>       |
| <b>Total assets less current liabilities</b> |       | <u>22,689</u>      | <u>22,889</u>      |

Approved and authorised for issue by the board of directors on 19 April 2013.

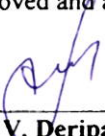
  
**Oleg V. Deripaska**  
 Chief Executive Officer

  
**Evgeny D. Kornilov**  
 Chief Financial Officer

*United Company RUSAL Plc*  
*Statement of Financial Position of the Company as at 31 December 2012*

|                                              | Note  | 31 December<br>2012<br>USD million | 31 December<br>2011<br>USD million |
|----------------------------------------------|-------|------------------------------------|------------------------------------|
| <b>ASSETS</b>                                |       |                                    |                                    |
| <b>Non-current assets</b>                    |       |                                    |                                    |
| Investments in subsidiaries                  | 19    | 18,578                             | 17,813                             |
| <b>Total non-current assets</b>              |       | <b>18,578</b>                      | <b>17,813</b>                      |
| <b>Current assets</b>                        |       |                                    |                                    |
| Loans to group companies                     |       | 9                                  | 510                                |
| Other receivables                            | 22    | 16                                 | 29                                 |
| Cash and cash equivalents                    | 23    | 13                                 | 13                                 |
| <b>Total current assets</b>                  |       | <b>38</b>                          | <b>552</b>                         |
| <b>Total assets</b>                          |       | <b>18,616</b>                      | <b>18,365</b>                      |
| <b>EQUITY AND LIABILITIES</b>                |       |                                    |                                    |
| <b>Equity</b>                                |       |                                    |                                    |
| Share capital                                | 24    | 152                                | 152                                |
| Reserves                                     |       | 6,060                              | 5,949                              |
| <b>Total equity</b>                          |       | <b>6,212</b>                       | <b>6,101</b>                       |
| <b>Non-current liabilities</b>               |       |                                    |                                    |
| Loans and borrowings                         | 25    | 9,236                              | 9,523                              |
| Other non-current liabilities                | 33(c) | -                                  | 1,383                              |
| <b>Total non-current liabilities</b>         |       | <b>9,236</b>                       | <b>10,906</b>                      |
| <b>Current liabilities</b>                   |       |                                    |                                    |
| Loans and borrowings                         | 25    | 894                                | 555                                |
| Trade and other payables                     | 29    | 822                                | 803                                |
| Other current liabilities                    | 33(c) | 1,452                              | -                                  |
| <b>Total current liabilities</b>             |       | <b>3,168</b>                       | <b>1,358</b>                       |
| <b>Total liabilities</b>                     |       | <b>12,404</b>                      | <b>12,264</b>                      |
| <b>Total equity and liabilities</b>          |       | <b>18,616</b>                      | <b>18,365</b>                      |
| <b>Net current liabilities</b>               |       | <b>(3,130)</b>                     | <b>(806)</b>                       |
| <b>Total assets less current liabilities</b> |       | <b>15,448</b>                      | <b>17,007</b>                      |

Approved and authorised for issue by the board of directors on 19 April 2013.

  
**Oleg V. Deripaska**  
 Chief Executive Officer

  
**Evgeny D. Kornilov**  
 Chief Financial Officer

**United Company RUSAL Plc**  
*Consolidated Statement of Changes in Equity for the year ended 31 December 2012*

|                                                |       | Share capital | Shares held for vesting | Share premium | Other reserves | Currency translation reserve | Accumulated losses | Total equity |
|------------------------------------------------|-------|---------------|-------------------------|---------------|----------------|------------------------------|--------------------|--------------|
|                                                | Note  | USD million   | USD million             | USD million   | USD million    | USD million                  | USD million        | USD million  |
| <b>Balance at 1 January 2011</b>               |       | 152           | -                       | 15,782        | 3,095          | (3,577)                      | (3,996)            | 11,456       |
| Profit for the year                            |       | -             | -                       | -             | -              | -                            | 237                | 237          |
| Other comprehensive income for the year        |       | -             | -                       | -             | (239)          | (921)                        | -                  | (1,160)      |
| <b>Total comprehensive income for the year</b> |       | -             | -                       | -             | (239)          | (921)                        | 237                | (923)        |
| Share-based compensation                       | 24(b) | -             | -                       | 6             | -              | -                            | -                  | 6            |
| <b>Balance at 31 December 2011</b>             |       | 152           | -                       | 15,788        | 2,856          | (4,498)                      | (3,759)            | 10,539       |
| <b>Balance at 1 January 2012</b>               |       | 152           | -                       | 15,788        | 2,856          | (4,498)                      | (3,759)            | 10,539       |
| Loss for the year                              |       | -             | -                       | -             | -              | -                            | (337)              | (337)        |
| Other comprehensive income for the year        |       | -             | -                       | -             | (109)          | 832                          | -                  | 723          |
| <b>Total comprehensive income for the year</b> |       | -             | -                       | -             | (109)          | 832                          | (337)              | 386          |
| Share-based compensation                       | 24(b) | -             | (1)                     | (1)           | -              | -                            | -                  | (2)          |
| <b>Balance at 31 December 2012</b>             |       | 152           | (1)                     | 15,787        | 2,747          | (3,666)                      | (4,096)            | 10,923       |

**United Company RUSAL Plc**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2012*

|                                                                                        |       | Year ended<br>31 December |              |
|----------------------------------------------------------------------------------------|-------|---------------------------|--------------|
|                                                                                        | Note  | 2012                      | 2011         |
|                                                                                        |       | USD million               | USD million  |
| <b>OPERATING ACTIVITIES</b>                                                            |       |                           |              |
| <b>Net (loss)/profit for the year</b>                                                  |       | <b>(337)</b>              | <b>237</b>   |
| <i>Adjustments for:</i>                                                                |       |                           |              |
| Depreciation                                                                           | 9(b)  | 528                       | 501          |
| Amortisation                                                                           | 9(b)  | 15                        | 17           |
| Impairment of non-current assets                                                       |       | 304                       | 245          |
| Share-based compensation                                                               | 24(b) | 4                         | 6            |
| Impairment of trade and other receivables                                              | 6     | 20                        | 18           |
| Debtors write-off                                                                      |       | 12                        | -            |
| Impairment of inventories                                                              |       | 36                        | 33           |
| (Reversal)/provision for legal claims                                                  | 6     | (3)                       | 10           |
| (Reversal of tax provision)/tax provision                                              | 6     | (44)                      | 17           |
| (Reversal of site restoration provision)/site restoration provision                    |       | (1)                       | 8            |
| Pension provision/(reversal of pension provision)                                      |       | 7                         | (23)         |
| Change in fair value of derivative financial instruments                               | 7     | 107                       | (416)        |
| Foreign exchange losses/(gains)                                                        |       | 1                         | (65)         |
| Loss on disposal of property, plant and equipment                                      |       | 8                         | -            |
| Loss on disposal of intangible assets                                                  |       | 2                         | -            |
| Interest expense                                                                       |       | 747                       | 1,336        |
| Interest income                                                                        |       | (25)                      | (47)         |
| Income tax expense                                                                     | 8     | 26                        | 373          |
| Share of (profits)/losses of associates                                                | 17    | (469)                     | 349          |
| Share of profits of jointly controlled entities                                        | 18    | (55)                      | (25)         |
| <b>Cash from operating activities before changes in working capital and provisions</b> |       | <b>883</b>                | <b>2,574</b> |
| Decrease/(increase) in inventories                                                     |       | 331                       | (579)        |
| Decrease/(increase) in trade and other receivables                                     |       | 87                        | (20)         |
| Decrease in prepaid expenses and other assets                                          |       | 5                         | 11           |
| Decrease in trade and other payables                                                   |       | (104)                     | (22)         |
| Decrease in provisions                                                                 |       | (32)                      | (34)         |
| <b>Cash generated from operations before income tax paid</b>                           |       | <b>1,170</b>              | <b>1,930</b> |
| Income taxes paid                                                                      |       | (78)                      | (149)        |
| <b>Net cash generated from operating activities</b>                                    |       | <b>1,092</b>              | <b>1,781</b> |

**United Company RUSAL Plc**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2012*

|                                                                   |      | Year ended<br>31 December |                |
|-------------------------------------------------------------------|------|---------------------------|----------------|
|                                                                   | Note | 2012                      | 2011           |
|                                                                   |      | USD million               | USD million    |
| <b>INVESTING ACTIVITIES</b>                                       |      |                           |                |
| Proceeds from disposal of property, plant and equipment           |      | 63                        | 20             |
| Interest received                                                 |      | 19                        | 7              |
| Acquisition of property, plant and equipment                      |      | (486)                     | (608)          |
| Dividends from associates                                         | 17   | 267                       | 279            |
| Dividends from jointly controlled entities                        | 18   | 68                        | 48             |
| Acquisition of intangible assets                                  | 16   | (15)                      | (14)           |
| Acquisition of jointly controlled operations                      | 18   | (14)                      | (46)           |
| Acquisition of subsidiaries, net of cash acquired                 |      | (9)                       | -              |
| Effect on cash from disposal of subsidiaries                      |      | -                         | 45             |
| Contributions to jointly controlled entities                      | 18   | (4)                       | (2)            |
| Changes in restricted cash                                        | 23   | 18                        | (28)           |
| <b>Net cash used in investing activities</b>                      |      | <b>(93)</b>               | <b>(299)</b>   |
| <b>FINANCING ACTIVITIES</b>                                       |      |                           |                |
| Proceeds from borrowings                                          |      | 1,285                     | 5,867          |
| Repayment of borrowings                                           |      | (1,726)                   | (7,548)        |
| Restructuring fees and other expenses                             |      | (78)                      | (177)          |
| Interest paid                                                     |      | (610)                     | (551)          |
| Purchases of shares for vesting                                   |      | (2)                       | -              |
| Proceeds from issuance of Rouble bonds                            |      | -                         | 1,063          |
| <b>Net cash used in financing activities</b>                      |      | <b>(1,131)</b>            | <b>(1,346)</b> |
| <b>Net (decrease)/increase in cash and cash equivalents</b>       |      | <b>(132)</b>              | <b>136</b>     |
| Cash and cash equivalents at beginning of the year                | 23   | 613                       | 486            |
| Effect of exchange rate fluctuations on cash and cash equivalents |      | 9                         | (9)            |
| <b>Cash and cash equivalents at the end of the year</b>           | 23   | <b>490</b>                | <b>613</b>     |

Restricted cash amounted to USD15 million and USD33 million at 31 December 2012 and 31 December 2011, respectively.

# 1 Background

## (a) Organisation

United Company RUSAL Plc (the “Company” or “UC RUSAL”) was established by the controlling shareholder of RUSAL Limited (“RUSAL”) as a limited liability company under the laws of Jersey on 26 October 2006. On 27 January 2010, the Company successfully completed a dual placing on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and the Professional Segment of NYSE Euronext Paris (“Euronext Paris”) (the “Global Offering”) and changed its legal form from a limited liability company to a public limited company.

The Company’s registered office is Ogier House, The Esplanade, St. Helier, Jersey, JE4 9WG, Channel Islands.

The Company directly or through its wholly owned subsidiaries controls a number of production and trading entities (refer to note 34) engaged in the aluminium business and other entities, which together with the Company are referred to as “the Group”.

Upon successful completion of the Global Offering, the Company issued 1,636,363,646 new shares in the form of shares listed on the Stock Exchange, and in the form of global depositary shares (“GDS”) listed on Euronext Paris representing 10.81% of the Company’s issued and outstanding shares, immediately prior to the Global Offering.

The shareholding structure of the Company as at 31 December 2012 and 31 December 2011 was as follows:

|                                                 | <u>31 December</u> | <u>31 December</u> |
|-------------------------------------------------|--------------------|--------------------|
|                                                 | <b>2012</b>        | <b>2011</b>        |
| En+ Group Limited (“En+”)                       | 48.13%             | 47.41%             |
| Onexim Holdings Limited (“Onexim”)              | 17.02%             | 17.02%             |
| SUAL Partners Limited (“SUAL Partners”)         | 15.80%             | 15.80%             |
| Amokenga Holdings Limited (“Amokenga Holdings”) | 8.75%              | 8.75%              |
| Held by Directors                               | 0.26%              | 0.26%              |
| Shares held for vesting                         | 0.01%              | -                  |
| Publicly held                                   | 10.03%             | 10.76%             |
| <b>Total</b>                                    | <b>100%</b>        | <b>100%</b>        |

En+ is controlled by Mr. Oleg Deripaska. Onexim is controlled by Mr. Mikhail Prokhorov. SUAL Partners is controlled by Mr. Victor Vekselberg and Mr. Len Blavatnik together. Amokenga Holdings is a wholly owned subsidiary of Glencore International Plc (“Glencore”).

Related party transactions and controlling parties are disclosed in notes 33 and 35 respectively.

## (b) Operations

The Group operates in the aluminium industry primarily in the Russian Federation, Ukraine, Guinea, Jamaica, Ireland, Italy, Nigeria and Sweden and is principally engaged in the mining and refining of bauxite and nepheline ore into alumina, the smelting of primary aluminium from

alumina and the fabrication of aluminium and aluminium alloys into semi-fabricated and finished products. The Group sells its products primarily in Europe, Russia, other countries of the Commonwealth of Independent States ("CIS"), Asia and North America.

**(c) Business environment in emerging economies**

The Russian Federation, Ukraine, Jamaica, Nigeria and Guinea have been experiencing political and economic changes that have affected, and may continue to affect, the activities of enterprises operating in these environments. Consequently, operations in these countries involve risks that typically do not exist in other markets, including reconsideration of privatisation terms in certain countries where the Group operates following changes in governing political powers.

The consolidated financial statements reflect management's assessment of the impact of the Russian, Ukrainian, Jamaican, Nigerian and Guinean business environments on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

**(d) Previously issued Consolidated Financial Statements as at and for the year ended 31 December 2012**

The Group has previously issued consolidated financial statements as at and for the year ended 31 December 2012 dated 1 March 2013. At that date the Group was unable to obtain consolidated IFRS financial statements of the Group's significant equity investee, OJSC MMC Norilsk Nickel, as at and for year ended 31 December 2012. Consequently the Group estimated its share in the profits and other comprehensive income of OJSC MMC Norilsk Nickel for the year ended 31 December 2012 based on publicly available information at that time. On 12 April 2013 OJSC MMC Norilsk Nickel published its IFRS consolidated financial statements and management reassessed its share in the profits and other comprehensive income of OJSC MMC Norilsk Nickel based on this information. As a result, management concluded that share of profits of associates, foreign currency translation differences for foreign operations, share of other comprehensive income of associates and interests in associates were overstated by USD 282 million, USD 43 million, USD140 million and USD 185 million, respectively, in the Group's previously issued consolidated financial statements as at and for the year ended 31 December 2012 dated 1 March 2013. Additionally, management concluded that investments in subsidiaries were overstated by USD185 million in the statement of financial position of the Company as at 31 December 2012 as a consequence of a reduction in the carrying value of a subsidiary's investment in Norilsk Nickel.

Further, as a result of publishing the IFRS consolidated financial statements, new financial information came to the attention of management which required certain underlying assumptions in the discounted cash flow model used to determine the recoverable amount of the Group's interest in Norilsk Nickel to be reassessed. This resulted in a reduction in the recoverable amount of the investment and increased its sensitivity to impairment which is disclosed in note 17.

These consolidated financial statements as at and for the year ended 31 December 2012 have been adjusted accordingly.

## **2 Basis of preparation**

**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all International

Accounting Standards and related interpretations, promulgated by the International Accounting Standards Board (“IASB”).

The consolidated financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing these consolidated financial statements, the Group has adopted all these new and revised IFRSs, except for any new standards or interpretations that are not yet effective as at 31 December 2012. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning on 1 January 2012 are set out in note 38.

**(b) Basis of measurement**

The consolidated financial statements have been prepared in accordance with the historical cost basis except as set out in the significant accounting policy in note 3(c) below.

**(c) Functional and presentation currency**

The Company’s functional currency is the United States Dollar (“USD”) because it reflects the economic substance of the underlying events and circumstances of the Company. The functional currencies of the Group’s significant subsidiaries are the currencies of the primary economic environment and key business processes of these subsidiaries and include USD, Russian Roubles (“RUB”), Ukrainian Hryvna and Euros (“EUR”). The consolidated financial statements are presented in USD, rounded to the nearest million, except as otherwise stated herein.

**(d) Use of judgements, estimates and assumptions**

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported revenue and costs during the relevant period.

Management bases its judgements and estimates on historical experience and various other factors that are believed to be appropriate and reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 37.

**(e) Changes in accounting policies and presentation**

The accounting policies and judgements applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2011.

### **3 Significant accounting policies**

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied to all periods presented in these consolidated financial statements.

#### **(a) Basis of consolidation**

##### **(i) Subsidiaries and non-controlling interests**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The consolidated financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of income and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling-interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the statement of income. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (refer to note 3(c)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (refer to note 3(a)(iv)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses.

##### **(ii) Acquisitions of non-controlling interests**

The acquisition of an additional non-controlling interest in an existing subsidiary after control has been obtained is accounted for as an equity transaction with any difference between the cost of the additional investment and the carrying amount of the net assets acquired at the date of exchange recognised directly in equity.

**(iii) *Acquisitions from entities under common control***

Business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls the Company are accounted for as if the acquisition had occurred at the beginning of the earliest period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of the equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of additional paid-in capital.

**(iv) *Associates and jointly controlled entities (equity accounted investees)***

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement and which require unanimous consent for strategic financial and operating decisions.

Investments in associates and jointly controlled entities are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment also includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Group has an obligation to, or has made payments on behalf of, the investee.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the statement of income. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (refer to note 3(c)), or, when appropriate for jointly controlled entities, the cost on initial recognition of an investment in an associate.

When an associate sells equity interests in its subsidiaries to its non-controlling shareholders in an equity transaction, this represents a dilution of the Group's indirect interest in the subsidiary of the associate and therefore gives rise to the recognition of a gain or loss in the Group's consolidated financial statements.

**(v) *Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(b) Foreign currencies**

**(i) Foreign currency transactions**

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary items in a foreign currency are measured based on historical cost and are translated using the exchange rate at the date of transaction. Foreign currency differences arising on retranslation are recognised in the statement of income, except for differences arising on the retranslation of qualifying cash flow hedges to the extent the hedge is effective, which is recognised in the statement of comprehensive income.

**(ii) Foreign operations**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated from their functional currencies to USD at the exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to USD at exchange rates approximating exchange rates at the dates of the transactions.

Foreign currency differences arising on translation are recognised in the statement of comprehensive income and presented in the currency translation reserve in equity. For the purposes of foreign currency translation, the net investment in a foreign operation includes foreign currency intra-group balances for which settlement is neither planned nor likely in the foreseeable future and foreign currency differences arising from such a monetary item are recognised in the statement of comprehensive income.

When a foreign operation is disposed of, such that control, significant influence or joint control is lost, the cumulative amount of the currency translation reserve is transferred to the statement of income as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to the statement of income.

**(c) Financial instruments**

**(i) Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in securities, trade and other receivables (excluding prepayments and tax assets), cash and cash equivalents, loans and borrowings and trade and other payables (excluding advances received and tax liabilities).

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs.

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash

flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Subsequent to initial recognition non-derivative financial instruments are measured as described below.

*Held-to-maturity investments*

If the Group has the positive intent and ability to hold securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses (refer to note 3(h)(i)).

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with maturities at initial recognition of three months or less that are subject to insignificant risk of changes in their fair values, and are used by the Group in the management of its short-term commitments.

*Others*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses (refer to note 3(h)(i)). Investments in equity securities that are not quoted on a stock exchange and where fair value cannot be estimated on a reasonable basis by other means are stated at cost less impairment losses (refer to note 3(h)(i)).

*Non-derivative financial liabilities*

The Group's non-derivative financial liabilities, subsequent to initial recognition, are measured at amortised cost using the effective interest method.

**(ii) *Derivative financial instruments, including hedge accounting***

The Group enters, from time to time, into various derivative financial instruments to manage its exposure to commodity price risk, foreign currency risk and interest rate risk.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss.

On initial designation of the derivative as a hedging instrument, the Group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% - 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variation in cash flows that ultimately could affect reported profit or loss.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the statement of income when incurred. Subsequent to initial recognition, derivatives are measured at fair value.

The measurement of fair value of derivative financial instruments, including embedded derivatives, is based on quoted market prices. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. Changes in the fair value therein are accounted for as described below.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in the statement of comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of a derivative is recognised in the statement of income.

When the hedged item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases, the amount accumulated in equity is reclassified to the statement of income in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to the statement of income.

Changes in the fair value of separated embedded derivatives and derivative financial instruments not designated for hedge accounting are recognised immediately in the statement of income.

**(d) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at 1 January 2004, the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs (refer to note 3(n)). Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of periodic relining of electrolyzers is capitalised and depreciated over the expected production period.

Gains or losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within gain/(loss) on disposal of property, plant and equipment in the statement of income.

**(ii) Subsequent costs**

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of income as incurred.

**(iii) Exploration and evaluation assets**

Exploration and evaluation activities involve the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource. Exploration and evaluation activities include:

- researching and analysing historical exploration data;
- gathering exploration data through topographical, geochemical and geophysical studies;
- exploratory drilling, trenching and sampling;
- determining and examining the volume and grade of the resource;
- surveying transportation and infrastructure requirements; and
- conducting market and finance studies.

Administration costs that are not directly attributable to a specific exploration area are charged to the statement of income.

License costs paid in connection with a right to explore in an existing exploration area are capitalised and amortised over the term of the permit.

Exploration and evaluation expenditure is capitalised as exploration and evaluation assets when it is expected that expenditure related to an area of interest will be recouped by future exploitation, sale, or, at the reporting date, the exploration and evaluation activities have not reached a stage that permits a reasonable assessment of the existence of commercially recoverable ore reserves. Capitalised exploration and evaluation expenditure is recorded as a component of property, plant and equipment at cost less impairment losses. As the asset is not available for use, it is not depreciated. All capitalised exploration and evaluation expenditure is monitored for indications of impairment. Where there are indicators of potential impairment, an assessment is performed for each area of interest in conjunction with the group of operating assets (representing a cash-generating unit) to which the exploration is attributed. Exploration areas at which reserves have been discovered but which require major capital expenditure before production can begin are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway or planned. To the extent that capitalised expenditure is not expected to be recovered it is charged to the statement of income.

Exploration and evaluation assets are transferred to mining property, plant and equipment or intangible assets when development is sanctioned.

**(iv) Stripping costs**

Expenditure relating to the stripping of overburden layers of ore, including estimated site restoration costs, is included in the cost of production in the period in which it is incurred.

**(v) Mining assets**

Mining assets are recorded as construction in progress and transferred to mining property, plant and equipment when a new mine reaches commercial production.

Mining assets include expenditure incurred for:

- Acquiring mineral and development rights;
- Developing new mining operations.

Mining assets include interest capitalised during the construction period, when financed by borrowings.

**(vi) Depreciation**

The carrying amounts of property, plant and equipment (including initial and any subsequent capital expenditure) are depreciated to their estimated residual value over the estimated useful lives of the specific assets concerned, or the estimated life of the associated mine or mineral lease, if shorter. Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. Leased assets are depreciated over the shorter of the lease term and their useful lives. Freehold land is not depreciated.

The property, plant and equipment is depreciated on a straight-line or units of production basis over the respective estimated useful lives as follows:

- |                                  |                                                     |
|----------------------------------|-----------------------------------------------------|
| • Buildings                      | 30 to 50 years                                      |
| • Plant, machinery and equipment | 5 to 40 years                                       |
| • Electrolysers                  | 4 to 15 years                                       |
| • Mining assets                  | units of production on proven and probable reserves |

- Other (except for exploration and evaluation assets) 1 to 20 years

**(e) Intangible assets**

**(i) Goodwill**

On the acquisition of a subsidiary, an interest in a jointly controlled entity or an associate or an interest in a joint arrangement that comprises a business, the identifiable assets, liabilities and contingent liabilities of the acquired business (or interest in a business) are recognised at their fair values unless the fair values cannot be measured reliably. Where the fair values of assumed contingent liabilities cannot be measured reliably, no liability is recognised but the contingent liability is disclosed in the same manner as for other contingent liabilities.

Goodwill arises when the cost of acquisition exceeds the fair value of the Group's interest in the net fair value of identifiable net assets acquired. Goodwill is not amortised but is tested for impairment annually. For this purpose, goodwill arising on a business combination is allocated to the cash-generating units expected to benefit from the acquisition and any impairment loss recognised is not reversed even where circumstances indicate a recovery in value.

In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate and jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment. Any impairment loss is allocated to the carrying amount of the interest in the associate and jointly controlled entity.

When the fair value of the Group's share of identifiable net assets acquired exceeds the cost of acquisition, the difference is recognised immediately in the statement of income.

**(ii) Research and development**

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of income when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use and capitalised borrowing costs. Other development expenditure is recognised in the statement of income when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses (refer to note 3(h)(ii)).

**(iii) Other intangible assets**

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses (refer to note 3(h)(ii)).

**(iv) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the statement of income when incurred.

**(v) Amortisation**

Amortisation is recognised in the statement of income on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives are as follows:

- software 5 years;
- contracts, acquired in business combinations 2-8 years.

The amortisation method, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

**(f) Leased assets**

Leases under the terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

The corresponding finance lease obligation is included within interest bearing liabilities. The interest element is allocated to accounting periods during the lease term to reflect a constant rate of interest on the remaining balance of the obligation for each accounting period.

Assets held under other leases (operating leases) are not recognised in the statement of financial position. Payments made under the lease are charged to the statement of income in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the statement of income as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the statement of income in the accounting period in which they are incurred.

**(g) Inventories**

Inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined under the weighted average cost method, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

The production costs include mining and concentrating costs, smelting, treatment and refining costs, other cash costs and depreciation and amortisation of operating assets.

**(h) Impairment**

**(i) *Financial assets***

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset occurred after the initial recognition of that asset and the impact can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

An impairment loss in respect of an investment in an associate or jointly controlled entity is calculated as the difference between its carrying amount after application of the equity method of accounting (refer to note 3(a)(iv)) and its recoverable amount. For the purposes of impairment testing an investment in an associate is treated as a single unit of account. The recoverable amount of such investment is the greater of its value in use and its fair value less cost to sell. In determining the value in use of the investment the Group estimates: (a) its share of the present value of the estimated future cash flows expected to be generated by the investee, including the cash flows from the operations of the investee and the proceeds on the ultimate disposal of the investment; or (b) the present value of the estimated future cash flows expected to arise from the dividends to be received from the investee and from its ultimate disposal depending on which available information with respect to each investee is more reliable. An impairment loss is reversed to the extent that the recoverable amount of the investment subsequently increases and the resulting carrying amount does not exceed the carrying amount that would have been determined, after application of the equity method, had no impairment loss previously been recognised.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the statement of income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in the statement of income.

Impairment losses for trade receivables included within trade and other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the statement of income.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other asset groups. Impairment losses are recognised in the statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate or a jointly controlled entity is not recognised separately and, therefore, is not tested for impairment separately. Instead, the entire amount of the investment is tested for impairment as a single asset when there is objective evidence that the investment in an associate or a jointly controlled entity may be impaired.

**(i) Insurance contracts**

Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies, controlled by the beneficial shareholder of the Group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

**(j) Employee benefits**

**(i) Salaries, annual bonuses, paid annual leave and cost of non-monetary benefits**

Salaries, annual bonuses, paid annual leave and cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

**(ii) Defined benefit pension and other post-retirement plans**

The Group's net obligation in respect of defined benefit pension and other post-retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have

earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Where there is a change in actuarial assumptions, the resulting actuarial gains and losses are recognised directly in the statement of comprehensive income.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the statement of income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately.

**(iii) State pension fund**

The Group makes contributions for the benefit of employees to Russia's and the Ukrainian State's pension funds. The contributions are expensed as incurred.

The Group recognises gains and losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service costs that had not previously been recognised.

**(k) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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 the risks specific to the liability. The unwinding of the discount is recognised as finance costs.

**(i) Site restoration**

The mining, refining and smelting activities of the Group can give rise to obligations for site restoration and rehabilitation. Restoration and rehabilitation works can include facility decommissioning and dismantling, removal or treatment of waste materials, land rehabilitation, and site restoration. The extent of work required and the associated costs are dependent on the requirements of law and the interpretations of the relevant authorities.

Provisions for the cost of each restoration and rehabilitation program are recognised at the time that environmental disturbance occurs. When the extent of disturbance increases over the life of an operation, the provision is increased accordingly. Costs included in the provision encompass obligated and reasonably estimable restoration and rehabilitation activities expected to occur progressively over the life of the operation and at the time of closure in connection with disturbances at the reporting date. Routine operating costs that may impact the ultimate restoration and rehabilitation activities, such as waste material handling conducted as an integral part of a mining or production process, are not included in the provision. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are recognised as an

expense and liability when the event gives rise to an obligation which is probable and capable of reliable estimation.

Restoration and rehabilitation provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Discount rates used are specific to the country in which the operation is located. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing environmental and regulatory requirements.

When provisions for restoration and rehabilitation are initially recognised, the corresponding cost is capitalised as an asset, representing part of the cost of acquiring the future economic benefits of the operation. The capitalised cost of restoration and rehabilitation activities is amortised over the estimated economic life of the operation on a units of production or straight-line basis. The value of the provision is progressively increased over time as the effect of discounting unwinds, creating an expense recognised as part of finance expenses.

Restoration and rehabilitation provisions are also adjusted for changes in estimates. Those adjustments are accounted for as a change in the corresponding capitalised cost, except where a reduction in the provision is greater than the unamortised capitalised cost, in which case the capitalised cost is reduced to nil and the remaining adjustment is recognised in the statement of income. Changes to the capitalised cost result in an adjustment to future amortisation charges. Adjustments to the estimated amount and timing of future restoration and rehabilitation cash flows are a normal occurrence in light of the significant judgements and estimates involved. Factors influencing those changes include revisions to estimated reserves, resources and lives of operations; developments in technology; regulatory requirements and environmental management strategies; changes in the estimated costs of anticipated activities, including the effects of inflation and movements in foreign exchange rates; and movements in general interest rates affecting the discount rate applied.

**(ii) Restructuring**

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

**(I) Revenue**

***Goods sold***

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the good and the amount of revenue can be measured reliably. This is generally when title passes. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

For the majority of sales transactions agreements specify that title passes on the bill of lading date, which is the date the commodity is delivered to the shipping agent. Revenue is recognised on the bill of lading date.

Revenue is not reduced for royalties or other taxes payable from production.

**(m) Other expenses**

***Social expenditure***

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the statement of income as incurred.

**(n) Finance income and expenses**

Finance income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and changes in the fair value of financial assets at fair value through profit or loss. All borrowing costs are recognised in the statement of income using the effective interest method, except for borrowing costs related to the acquisition, construction and production of qualifying assets which are recognised as part of the cost of such assets.

Foreign currency gains and losses are reported on a net basis.

**(o) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. New information may become available that causes the Company to change its judgement regarding the adequacy of existing tax liability. Such changes to tax liabilities will impact tax expenses in the period that such a determination is made. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group has both the right and the intention to settle its current tax assets and liabilities on a net or simultaneous basis.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividends is recognised.

**(p) Non-current assets held for sale and discontinued operations**

Non-current assets (or disposal groups comprising assets and liabilities), that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets, which continue to be measured in accordance with the Group's accounting policies.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that has been abandoned may also qualify.

**(q) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance and for which discrete consolidated financial statements are available.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**(r) Related parties**

(a) A person, or a close member of that person's family, is related to the Group if that person:

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

## **4 Segment reporting**

### **(a) Reportable segments**

The Group has four reportable segments, as described below, which are the Group's strategic business units. These business units are managed separately and the results of their operations are reviewed by the CEO on a regular basis.

*Aluminium.* The Aluminium segment is involved in the production and sale of primary aluminium and related products.

*Alumina.* The Alumina segment is involved in the mining and refining of bauxite into alumina and the sale of alumina.

*Energy.* The Energy segment includes the Group companies and projects engaged in the mining and sale of coal and the generation and transmission of electricity produced from various sources. Where the generating facility is solely a part of an alumina or aluminium production facility it is included in the respective reportable segment.

*Mining and Metals.* The Mining and Metals segment includes the equity investment in OJSC MMC Norilsk Nickel ("Norilsk Nickel").

Other operations include manufacturing of semi-finished products from primary aluminium for the transportation, packaging, building and construction, consumer goods and technology industries; and the activities of the Group's administrative centres. None of these segments meet any of the quantitative thresholds for determining reportable segments in 2012 and 2011.

The Aluminium and Alumina segments are vertically integrated whereby the Alumina segment supplies alumina to the Aluminium segment for further refining and smelting with limited sales of alumina outside the Group. Integration between the Aluminium, Alumina and Energy segments also includes shared servicing and distribution.

**(b) Segment results, assets and liabilities**

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitor the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of income tax assets and corporate assets. Segment liabilities include trade and other payables attributable to the production and sales activities of the individual segments. Loans and borrowings are not allocated to individual segments as they are centrally managed by the head office.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments excluding impairment.

The measure used for reporting segment results is the statement of income before income tax adjusted for items not specifically attributed to individual segments, such as finance income, costs of loans and borrowings and other head office or corporate administration costs. The segment profit or loss is included in the internal management reports that are reviewed by the Group's CEO. Segment profit or loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

In addition to receiving segment information concerning segment results, management is provided with segment information concerning revenue (including inter-segment revenue), the carrying value of investments and share of profits/(losses) of associates and jointly controlled entities, depreciation, amortisation, impairment and additions of non-current segment assets used by the segments in their operations. Inter-segment pricing is determined on a consistent basis using market benchmarks.

Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets other than goodwill.

The Group's customer base includes only one customer with whom transactions have exceeded 10% of the Group's revenues. In 2012 revenues from sales of primary aluminium and alloys to this customer amounted to USD3,138 million (2011: USD3,547 million) and reduced in all geographical regions in which the division is active. Details of concentrations of credit risk arising from this customer are set out in note 30(e).

**(i) Reportable segments**

**Year ended 31 December 2012**

|                                                                              | <u>Aluminium</u>   | <u>Alumina</u>     | <u>Energy</u>      | <u>Mining and Metals</u> | <u>Total segment result</u> |
|------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------------|-----------------------------|
|                                                                              | <u>USD million</u> | <u>USD million</u> | <u>USD million</u> | <u>USD million</u>       | <u>USD million</u>          |
| Revenue from external customers                                              | 9,323              | 552                | 5                  | -                        | <b>9,880</b>                |
| Inter-segment revenue                                                        | 192                | 1,491              | -                  | -                        | <b>1,683</b>                |
| <b>Total segment revenue</b>                                                 | <b>9,515</b>       | <b>2,043</b>       | <b>5</b>           | <b>-</b>                 | <b>11,563</b>               |
| <b>Segment profit/(loss)</b>                                                 | <b>722</b>         | <b>(190)</b>       | <b>1</b>           | <b>490</b>               | <b>1,023</b>                |
| Impairment of non-current assets                                             | (18)               | (266)              | -                  | -                        | <b>(284)</b>                |
| Share of losses of associates                                                | -                  | (15)               | -                  | -                        | <b>(15)</b>                 |
| Share of profits of jointly controlled entities                              | -                  | -                  | 55                 | -                        | <b>55</b>                   |
| Depreciation/amortisation                                                    | (428)              | (104)              | -                  | -                        | <b>(532)</b>                |
| Non-cash income/(expense) other than depreciation                            | 8                  | (45)               | -                  | -                        | <b>(37)</b>                 |
| Additions to non-current segment assets during the year                      | 327                | 155                | 6                  | -                        | <b>488</b>                  |
| Non-cash additions to non-current segment assets related to site restoration | -                  | 20                 | -                  | -                        | <b>20</b>                   |
| Segment assets                                                               | 11,651             | 1,833              | 43                 | 10,028                   | <b>23,555</b>               |
| Interests in associates                                                      | -                  | 453                | -                  | -                        | <b>453</b>                  |
| Interests in jointly controlled entities                                     | 16                 | -                  | 1,140              | -                        | <b>1,156</b>                |
| <b>Total segment assets</b>                                                  |                    |                    |                    |                          | <b>25,164</b>               |
| Segment liabilities                                                          | (2,002)            | (724)              | (33)               | -                        | <b>(2,759)</b>              |
| <b>Total segment liabilities</b>                                             |                    |                    |                    |                          | <b>(2,759)</b>              |

**Year ended 31 December 2011**

|                                                                              | <u>Aluminium</u>   | <u>Alumina</u>     | <u>Energy</u>      | <u>Mining and</u>  | <u>Total segment</u> |
|------------------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|----------------------|
|                                                                              | <u>USD million</u> | <u>USD million</u> | <u>USD million</u> | <u>Metals</u>      | <u>result</u>        |
|                                                                              |                    |                    |                    | <u>USD million</u> | <u>USD million</u>   |
| Revenue from external customers                                              | 10,414             | 676                | 159                | -                  | <b>11,249</b>        |
| Inter-segment revenue                                                        | 186                | 1,768              | -                  | -                  | <b>1,954</b>         |
| <b>Total segment revenue</b>                                                 | <b>10,600</b>      | <b>2,444</b>       | <b>159</b>         | -                  | <b>13,203</b>        |
| <br><b>Segment profit/(loss)</b>                                             | <br><b>2,072</b>   | <br><b>(24)</b>    | <br><b>87</b>      | <br><b>(336)</b>   | <br><b>1,799</b>     |
| <br>Impairment of non-current assets                                         | <br>(37)           | <br>(208)          | <br>-              | <br>-              | <br>(245)            |
| Share of losses of associates                                                | -                  | (13)               | -                  | -                  | (13)                 |
| Share of profit of jointly controlled entities                               | -                  | -                  | 25                 | -                  | 25                   |
| Depreciation/amortisation                                                    | (400)              | (100)              | (5)                | -                  | (505)                |
| Non-cash expenses other than depreciation                                    | (35)               | (44)               | -                  | -                  | (79)                 |
| Additions to non-current segment assets during the year                      | 416                | 223                | 3                  | -                  | 642                  |
| Non-cash additions to non-current segment assets related to site restoration | 18                 | 112                | -                  | -                  | 130                  |
| <br>Segment assets                                                           | <br>11,945         | <br>2,157          | <br>35             | <br>9,247          | <br>23,384           |
| Interests in associates                                                      | -                  | 458                | -                  | -                  | 458                  |
| Interests in jointly controlled entities                                     | -                  | -                  | 1,102              | -                  | 1,102                |
| <b>Total segment assets</b>                                                  |                    |                    |                    |                    | <b>24,944</b>        |
| <br>Segment liabilities                                                      | <br>(2,040)        | <br>(777)          | <br>(36)           | <br>-              | <br>(2,853)          |
| <b>Total segment liabilities</b>                                             |                    |                    |                    |                    | <b>(2,853)</b>       |

**(ii) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities**

|                                      | Year ended 31 December |               |
|--------------------------------------|------------------------|---------------|
|                                      | 2012                   | 2011          |
|                                      | USD million            | USD million   |
| <b>Revenue</b>                       |                        |               |
| Reportable segment revenue           | 11,563                 | 13,203        |
| Elimination of inter-segment revenue | (1,683)                | (1,954)       |
| Unallocated revenue                  | 1,011                  | 1,042         |
| Consolidated revenue                 | <b>10,891</b>          | <b>12,291</b> |

|                                                 | Year ended 31 December |             |
|-------------------------------------------------|------------------------|-------------|
|                                                 | 2012                   | 2011        |
|                                                 | USD million            | USD million |
| <b>Profit</b>                                   |                        |             |
| Reportable segment profit                       | 1,023                  | 1,799       |
| Impairment of non-current assets                | (304)                  | (245)       |
| Share of losses of associates                   | (21)                   | (13)        |
| Share of profits of jointly controlled entities | 55                     | 25          |
| Finance income                                  | 25                     | 521         |
| Finance expenses                                | (920)                  | (1,336)     |
| Unallocated expenses                            | (169)                  | (141)       |
| Consolidated (loss)/profit before taxation      | <b>(311)</b>           | <b>610</b>  |

|                                          | 31 December   | 31 December   |
|------------------------------------------|---------------|---------------|
|                                          | 2012          | 2011          |
|                                          | USD million   | USD million   |
| <b>Assets</b>                            |               |               |
| Reportable segment assets                | 25,164        | 24,944        |
| Elimination of inter-segment receivables | (338)         | (516)         |
| Unallocated assets                       | 575           | 917           |
| Consolidated total assets                | <b>25,401</b> | <b>25,345</b> |

|                                       | 31 December     | 31 December     |
|---------------------------------------|-----------------|-----------------|
|                                       | 2012            | 2011            |
|                                       | USD million     | USD million     |
| <b>Liabilities</b>                    |                 |                 |
| Reportable segment liabilities        | (2,759)         | (2,853)         |
| Elimination of inter-segment payables | 338             | 516             |
| Unallocated liabilities               | (12,057)        | (12,469)        |
| Consolidated total liabilities        | <b>(14,478)</b> | <b>(14,806)</b> |

**(iii) Geographic information**

The Group's operating segments are managed on a worldwide basis, but operate in four principal geographical areas: the CIS, Europe, Africa and the Americas. In the CIS, production facilities operate in Russia and Ukraine. In Europe, production facilities are located in Italy, Ireland and Sweden. African production facilities are represented by bauxite mines and an alumina refinery in Guinea and an aluminium plant in Nigeria. In the Americas the Group operates two production facilities in Jamaica, one in Guyana and a trading subsidiary in the United States of America.

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and interests in associates and jointly controlled entities ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset. Unallocated specified non-current assets comprise mainly goodwill and interests in associates and jointly controlled entities.

|                 | <b>Revenue from<br/>external customers</b> |                    |
|-----------------|--------------------------------------------|--------------------|
|                 | <b>Year ended 31 December</b>              |                    |
|                 | <b>2012</b>                                | <b>2011</b>        |
|                 | <b>USD million</b>                         | <b>USD million</b> |
| Netherlands     | 2,498                                      | 2,839              |
| Russia          | 2,133                                      | 2,585              |
| Turkey          | 946                                        | 1,171              |
| Japan           | 859                                        | 782                |
| South Korea     | 608                                        | 710                |
| USA             | 475                                        | 739                |
| Germany         | 397                                        | 218                |
| Sweden          | 249                                        | 269                |
| Norway          | 177                                        | 431                |
| Greece          | 145                                        | 241                |
| Italy           | 100                                        | 326                |
| United Kingdom  | 60                                         | 179                |
| Other countries | 2,244                                      | 1,801              |
|                 | <b>10,891</b>                              | <b>12,291</b>      |

|             | <b>Specified non-current assets</b> |                    |
|-------------|-------------------------------------|--------------------|
|             | <b>31 December</b>                  | <b>31 December</b> |
|             | <b>2012</b>                         | <b>2011</b>        |
|             | <b>USD million</b>                  | <b>USD million</b> |
| Russia      | 4,593                               | 4,682              |
| Ireland     | 328                                 | 320                |
| Ukraine     | 239                                 | 274                |
| Sweden      | 137                                 | 138                |
| Armenia     | 57                                  | 61                 |
| Guinea      | 54                                  | 199                |
| Guyana      | 48                                  | 49                 |
| Unallocated | 15,888                              | 14,929             |
|             | <b>21,344</b>                       | <b>20,652</b>      |

## 5 Revenue

|                                                                              | Year ended 31 December |               |
|------------------------------------------------------------------------------|------------------------|---------------|
|                                                                              | 2012                   | 2011          |
|                                                                              | USD million            | USD million   |
| <b>Sales of primary aluminium and alloys</b>                                 | <b>9,323</b>           | <b>10,414</b> |
| <i>Third parties</i>                                                         | 5,789                  | 6,359         |
| <i>Related parties – companies capable of exerting significant influence</i> | 3,299                  | 3,745         |
| <i>Related parties – companies under common control</i>                      | 178                    | 310           |
| <i>Related parties – associates</i>                                          | 57                     | -             |
| <b>Sales of alumina and bauxite</b>                                          | <b>552</b>             | <b>676</b>    |
| <i>Third parties</i>                                                         | 378                    | 495           |
| <i>Related parties – companies capable of exerting significant influence</i> | 174                    | 177           |
| <i>Related parties – companies under common control</i>                      | -                      | 4             |
| <b>Sales of foil</b>                                                         | <b>302</b>             | <b>309</b>    |
| <i>Third parties</i>                                                         | 294                    | 300           |
| <i>Related parties – companies under common control</i>                      | 8                      | 9             |
| <b>Other revenue including energy and transportation services</b>            | <b>714</b>             | <b>892</b>    |
| <i>Third parties</i>                                                         | 613                    | 642           |
| <i>Related parties – companies capable of exerting significant influence</i> | 22                     | 16            |
| <i>Related parties – companies under common control</i>                      | 34                     | 34            |
| <i>Related parties – associates</i>                                          | 45                     | 200           |
|                                                                              | <b>10,891</b>          | <b>12,291</b> |

The Group's customer base is diversified and includes only one major customer - Glencore - with whom transactions have exceeded 10% of the Group's revenue. In 2012 revenues from sales of primary aluminiums and alloys to this customer amounted to USD3,138 million (2011: USD3,547 million).

## 6 Other operating expenses

|                                                | Year ended 31 December |              |
|------------------------------------------------|------------------------|--------------|
|                                                | 2012                   | 2011         |
|                                                | USD million            | USD million  |
| Impairment loss on trade and other receivables | (20)                   | (18)         |
| Reversal of/(provision for) legal claims       | 3                      | (10)         |
| Reversal of tax provision /(tax provision)     | 44                     | (17)         |
| Charitable donations                           | (10)                   | (15)         |
| Other operating expenses                       | (59)                   | (82)         |
|                                                | <b>(42)</b>            | <b>(142)</b> |

## 7 Finance income and expenses

|                                                                                                                     | Year ended 31 December |                |
|---------------------------------------------------------------------------------------------------------------------|------------------------|----------------|
|                                                                                                                     | 2012                   | 2011           |
|                                                                                                                     | USD million            | USD million    |
| <b>Finance income</b>                                                                                               |                        |                |
| Interest income on third party loans and deposits                                                                   | 16                     | 3              |
| Interest income on loans to related parties – <i>companies under common control</i>                                 | 3                      | 4              |
| Foreign exchange gain                                                                                               | -                      | 58             |
| Change in fair value of derivative financial instruments (refer to notes 28,30(c)(i))                               | -                      | 416            |
| Interest income on provisions                                                                                       | 6                      | 40             |
|                                                                                                                     | <b>25</b>              | <b>521</b>     |
| <b>Finance expenses</b>                                                                                             |                        |                |
| Interest expense on bank loans wholly repayable within 5 years, bonds and other bank charges                        | (682)                  | (735)          |
| Excess of effective interest rate charges over nominal interest rate charges on restructured debt                   | -                      | (560)          |
| Change in fair value of derivative financial instruments (refer to notes 28,30(c)(i))                               | (107)                  | -              |
| Interest expense on company loans from related parties - <i>companies capable of exerting significant influence</i> | -                      | (24)           |
| Foreign exchange loss                                                                                               | (66)                   | -              |
| Interest expense on provisions                                                                                      | (65)                   | (17)           |
|                                                                                                                     | <b>(920)</b>           | <b>(1,336)</b> |

## 8 Income tax

|                                                   | <b>Year ended<br/>31 December</b> |                    |
|---------------------------------------------------|-----------------------------------|--------------------|
|                                                   | <b>2012</b>                       | <b>2011</b>        |
|                                                   | <b>USD million</b>                | <b>USD million</b> |
| <b><i>Current tax – overseas</i></b>              |                                   |                    |
| Current tax for the year                          | 131                               | 179                |
| Over-provision in respect of prior years          | -                                 | (13)               |
| <b><i>Deferred tax</i></b>                        |                                   |                    |
| Origination and reversal of temporary differences | (105)                             | 207                |
| <b>Actual tax expense</b>                         | <b>26</b>                         | <b>373</b>         |

The Company is a tax resident of Cyprus with applicable corporate tax rate of 10%. Subsidiaries pay income taxes in accordance with the legislative requirements of their respective tax jurisdictions. For subsidiaries domiciled in Russia, the applicable tax rate is 20%; in Ukraine of 21% (year ended 31 December 2011 – 23%); Guinea of 0%; China of 25%; Kazakhstan of 20%; Australia of 30.0%; Jamaica of 33.3%; Ireland of 12.5%; Sweden of 26.3% and Italy of 31.4%. For the Group's subsidiaries domiciled in Switzerland the applicable tax rate for the period is the corporate income tax rate in the Canton of Zug, Switzerland, which may vary depending on the subsidiary's tax status. The rate consists of a federal income tax and a cantonal/communal income and capital taxes. The latter includes a base rate and a multiplier, which may change from year to year. Applicable income tax rates for 2012 are 9.39% and 15.11% for different subsidiaries (31 December 2011: 9.4% and 15.4%). For the Group's significant trading companies, the applicable tax rate is 0%. The applicable tax rates for the period ended 31 December 2012 were the same as for the period ended 31 December 2011 except as noted above.

|                                                                       | <b>Year ended 31 December</b> |               |                    |              |
|-----------------------------------------------------------------------|-------------------------------|---------------|--------------------|--------------|
|                                                                       | <b>2012</b>                   |               | <b>2011</b>        |              |
|                                                                       | <b>USD million</b>            | <b>%</b>      | <b>USD million</b> | <b>%</b>     |
| (Loss)/profit before taxation                                         | (311)                         | 100%          | 610                | 100%         |
| Income tax at tax rate applicable to the tax residence of the Company | (31)                          | 10.0%         | 61                 | 10.0%        |
| Financial expenses non-deductable for tax purposes                    | 64                            | (20.6%)       | 127                | 20.8%        |
| Other non-deductible taxable items                                    | (4)                           | 1.3%          | 3                  | 0.5%         |
| Effect of changes in investment in Norilsk Nickel                     | (75)                          | 24.1%         | 131                | 21.5%        |
| Change in unrecognised deferred tax assets                            | 117                           | (37.6%)       | 32                 | 5.2%         |
| Over-provision in prior years                                         | -                             | -             | (13)               | (2.1%)       |
| Effect of different income tax rates                                  | (45)                          | 14.5%         | 32                 | 5.2%         |
| <b>Actual tax expense</b>                                             | <b>26</b>                     | <b>(8.3%)</b> | <b>373</b>         | <b>61.1%</b> |

## 9 Loss for the year

Loss for the year is arrived at after charging/(crediting):

### (a) Personnel costs

|                                                        | Year ended 31 December |              |
|--------------------------------------------------------|------------------------|--------------|
|                                                        | 2012                   | 2011         |
|                                                        | USD million            | USD million  |
| Contributions to defined contribution retirement plans | 209                    | 205          |
| Contributions to defined benefit retirement plans      | 7                      | 12           |
| Total retirement costs                                 | 216                    | 217          |
| Wages and salaries                                     | 1,057                  | 980          |
| Share-based compensation (refer to note 24(b))         | 4                      | 9            |
|                                                        | <b>1,277</b>           | <b>1,206</b> |

The employees of the Group are members of retirement schemes operated by local authorities. The Group is required to contribute a certain percentage of their payroll to these schemes to fund the benefits.

The Group's total contribution to those schemes charged to the statement of income during the years presented is shown above.

### (b) Other items

|                                                                | Year ended 31 December |             |
|----------------------------------------------------------------|------------------------|-------------|
|                                                                | 2012                   | 2011        |
|                                                                | USD million            | USD million |
| Amortisation of intangible assets                              | 15                     | 17          |
| Depreciation (net of amount included in inventories)           | 528                    | 501         |
| Impairment losses in respect of:                               |                        |             |
| - property, plant and equipment                                | 295                    | 250         |
| - intangible assets                                            | 13                     | -           |
| Mineral restoration tax                                        | 34                     | 27          |
| Increase in provisions (including provisions for legal claims) | 65                     | 120         |
| Auditors' remuneration                                         | 7                      | 10          |
| Operating lease charges in respect of property                 | 14                     | 11          |
| Cost of inventories (refer to note 21)                         | 8,742                  | 8,279       |

## 10 Directors' remuneration

Directors' remuneration disclosed pursuant to the disclosure requirements of section 161 of the Hong Kong Companies Ordinance is as follow:

| <b>Year ended 31 December 2012</b>         |                        |                                                                         |                     |
|--------------------------------------------|------------------------|-------------------------------------------------------------------------|---------------------|
|                                            | <b>Directors' fees</b> | <b>Salaries, allowances, benefits in kind and discretionary bonuses</b> | <b>Total</b>        |
|                                            | <b>USD thousand</b>    | <b>USD thousand</b>                                                     | <b>USD thousand</b> |
| <b>Executive Directors (i)</b>             |                        |                                                                         |                     |
| Oleg Deripaska                             | -                      | 5,536                                                                   | 5,536               |
| Vladislav Soloviev                         | -                      | 6,377                                                                   | 6,377               |
| Petr Sinshinov (a)                         | -                      | 1,444                                                                   | 1,444               |
| Tatiana Soina (b)                          | -                      | 2,383                                                                   | 2,383               |
| Vera Kurochkina                            | -                      | 1,146                                                                   | 1,146               |
| Alexander Livshits (b)                     | -                      | 360                                                                     | 360                 |
| Maksim Sokov (c)                           | -                      | 8,330                                                                   | 8,330               |
| <b>Non-executive Directors</b>             |                        |                                                                         |                     |
| Victor Vekselberg (d)                      | 90                     | -                                                                       | 90                  |
| Maksim Goldman (f)                         | 189                    | -                                                                       | 189                 |
| Dmitry Afanasiev                           | 207                    | -                                                                       | 207                 |
| Len Blavatnik                              | 207                    | -                                                                       | 207                 |
| Ivan Glasenberg                            | 240                    | -                                                                       | 240                 |
| Dmitry Yudin (f)                           | 121                    | -                                                                       | 121                 |
| Dmitry Troshenkov (e)                      | 86                     | -                                                                       | 86                  |
| Dmitry Razumov (e)                         | 198                    | -                                                                       | 198                 |
| Christophe Charlier (f)                    | 40                     | -                                                                       | 40                  |
| Anatoly Tikhonov (e)                       | 87                     | -                                                                       | 87                  |
| Artem Volynets                             | 268                    | -                                                                       | 268                 |
| Gulzhan Moldazhanova (f)                   | 114                    | -                                                                       | 114                 |
| Vadim Geraskin (f)                         | 49                     | -                                                                       | 49                  |
| Petr Sinshinov (a)                         | 48                     | -                                                                       | 48                  |
| <b>Independent Non-executive Directors</b> |                        |                                                                         |                     |
| Matthias Warnig (Chairman) (g)             | 156                    | -                                                                       | 156                 |
| Nigel Kenny                                | 268                    | -                                                                       | 268                 |
| Philip Lader                               | 307                    | -                                                                       | 307                 |
| Elsie Leung Oi-Sie                         | 208                    | -                                                                       | 208                 |
| Barry Cheung Chun-Yuen (h)                 | 414                    | -                                                                       | 414                 |
|                                            | <b>3,297</b>           | <b>25,576</b>                                                           | <b>28,873</b>       |

- a. Petr Sinshinov was re-designated from a Non-executive Director to an Executive Director of the Company in March 2012 and resigned from his position as a member of the Board of Directors in October 2012.
- b. Tatiana Soina and Alexander Livshits resigned from their positions as the members of the Board of Directors in March 2012 and in June 2012, respectively.
- c. Maksim Sokov, Director for Strategic Investments management, was appointed as a member of the Board of Directors in March 2012.
- d. Victor Vekselberg resigned from his positions as the Chairman and the member of the Board of Directors in March 2012.
- e. Dmitry Troshenkov, Anatoly Tikhonov and Dmitry Razumov resigned from their positions as the members of the Board of Directors in May, June and November 2012, respectively.
- f. The following Non-executive Directors were appointed during 2012: Maksim Goldman (in March 2012), Dmitry Yudin (in May 2012), Gulzhan Moldazhanova (in June 2012), Vadim Geraskin (in October 2012) and Christophe Charlier (in November 2012).
- g. Matthias Warnig was appointed as an Independent Non-executive Director in June 2012 and as the Chairman of the Board of Directors with effect from 1 October 2012.
- h. From 16 March until 1 October 2012 Barry Cheung Chun-Yuen was the Chairman of the Board of Directors.
- i. Compensation of Executive Directors in the form of shares of the Company relates to a share-based long-term incentive plan (hereinafter "LTIP") (refer to note 24(b)). The fair value of the share-based compensation was recognised as an employee expense during the vesting period. On 21 November 2012 one-third of LTIP in relation to the CEO and one-fifth of LTIP in relation to other eligible employees were vested as follows:

|                    | <b>Number of shares<br/>awarded</b> | <b>Number of<br/>shares vested<br/>on 21<br/>November 2012</b> | <b>Value of share-<br/>based<br/>compensation<br/>vested<br/>USD thousand</b> |
|--------------------|-------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------|
| Oleg Deripaska     | 2,086,331                           | 417,266                                                        | 274                                                                           |
| Vladislav Soloviev | 1,311,629                           | 262,326                                                        | 172                                                                           |
| Vera Kurochkina    | 354,346                             | 70,869                                                         | 47                                                                            |
| Maksim Sokov       | 401,596                             | 80,319                                                         | 53                                                                            |

| <b>Year ended 31 December 2011</b>         |                        |                                                                         |                     |
|--------------------------------------------|------------------------|-------------------------------------------------------------------------|---------------------|
|                                            | <b>Directors' fees</b> | <b>Salaries, allowances, benefits in kind and discretionary bonuses</b> | <b>Total</b>        |
|                                            | <b>USD thousand</b>    | <b>USD thousand</b>                                                     | <b>USD thousand</b> |
| <b>Executive Directors (d)</b>             |                        |                                                                         |                     |
| Oleg Deripaska                             | -                      | 8,091                                                                   | 8,091               |
| Vladislav Soloviev                         | -                      | 6,921                                                                   | 6,921               |
| Petr Sinshinov (a)                         | -                      | 3,231                                                                   | 3,231               |
| Tatiana Soina                              | -                      | 2,937                                                                   | 2,937               |
| Vera Kurochkina                            | -                      | 1,342                                                                   | 1,342               |
| Alexander Livshits                         | -                      | 1,001                                                                   | 1,001               |
| <b>Non-executive Directors</b>             |                        |                                                                         |                     |
| Victor Vekselberg (Chairman)               | 432                    | -                                                                       | 432                 |
| Dmitry Afanasiev                           | 209                    | -                                                                       | 209                 |
| Len Blavatnik                              | 209                    | -                                                                       | 209                 |
| Ivan Glasenberg                            | 242                    | -                                                                       | 242                 |
| Alexander Popov (b)                        | 191                    | -                                                                       | 191                 |
| Dmitry Troshenkov (c)                      | 17                     | -                                                                       | 17                  |
| Dmitry Razumov                             | 241                    | -                                                                       | 241                 |
| Anatoly Tikhonov                           | 193                    | -                                                                       | 193                 |
| Artem Volynets                             | 261                    | -                                                                       | 261                 |
| Petr Sinshinov (a)                         | 47                     | -                                                                       | 47                  |
| <b>Independent Non-executive Directors</b> |                        |                                                                         |                     |
| Nigel Kenny                                | 271                    | -                                                                       | 271                 |
| Philip Lader                               | 354                    | -                                                                       | 354                 |
| Elsie Leung Oi-Sie                         | 209                    | -                                                                       | 209                 |
| Barry Cheung Chun-Yuen                     | 287                    | -                                                                       | 287                 |
|                                            | <b>3,163</b>           | <b>23,523</b>                                                           | <b>26,686</b>       |

- a. Petr Sinshinov resigned from the Company's Deputy CEO's position in September 2011 which resulted in him becoming a Non-executive Director of the Company from that date.
- b. Alexander Popov resigned from his position as a member of the Board of Directors in November 2011.
- c. Dmitry Troshenkov was appointed as a member of the Board of Directors in November 2011.
- d. Compensation of Executive Directors in the form of shares of the Company relates to a share-based long-term incentive plan (refer to note 24(b)). The fair value of the share-based compensation was recognised as an employee expense during the vesting period. The fair value is determined at the grant date by reference to the quoted share price on that date.

|                    | <b>Number of shares<br/>awarded</b> | <b>Number of<br/>shares vested<br/>on 21<br/>November 2011</b> | <b>Value of share-<br/>based<br/>compensation<br/>vested<br/>USD thousand</b> |
|--------------------|-------------------------------------|----------------------------------------------------------------|-------------------------------------------------------------------------------|
| Oleg Deripaska     | 2,503,597                           | 834,532                                                        | 727                                                                           |
| Vladislav Soloviev | 1,311,629                           | 262,326                                                        | 228                                                                           |
| Petr Sinshinov     | 815,474                             | 163,095                                                        | 142                                                                           |
| Tatiana Soina      | 703,274                             | 140,655                                                        | 122                                                                           |
| Vera Kurochkina    | 354,346                             | 70,869                                                         | 62                                                                            |
| Alexander Livshits | 340,506                             | 68,101                                                         | 59                                                                            |

The remuneration of the executive directors disclosed above includes compensation received starting from the date of the appointment and/or for the period until their termination as a member of the Board of Directors.

Retirement scheme contributions for the directors, who are members of management, are not disclosed as the amount is considered not significant for either year presented. There are no retirement scheme contributions for non-executive directors.

## 11 Individuals with highest emoluments

Of the five individuals with the highest emoluments, two were directors in both the years ended 31 December 2012 and 2011, whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other individuals are as follows:

|                         | <b>Year ended 31 December</b> |                     |
|-------------------------|-------------------------------|---------------------|
|                         | <b>2012</b>                   | <b>2011</b>         |
|                         | <b>USD thousand</b>           | <b>USD thousand</b> |
| Salaries and bonuses(*) | 23,244                        | 20,976              |

(\*) Included in salaries and bonuses is remuneration in the form of shares of the Company for the years ended 31 December 2012 and 2011 in relation to a share-based long-term incentive plan (refer to note 24(b)).

The emoluments of the other individuals with the highest emoluments are within the following bands:

|                                                               | <b>Year ended 31 December</b> |                              |
|---------------------------------------------------------------|-------------------------------|------------------------------|
|                                                               | <b>2012</b>                   | <b>2011</b>                  |
|                                                               | <b>Number of individuals</b>  | <b>Number of individuals</b> |
| HK\$40,000,001-HK\$45,000,000 (US\$5,150,001 – US\$5,800,000) | -                             | -                            |
| HK\$45,000,001-HK\$55,000,000 (US\$5,800,001 – US\$7,100,000) | 2                             | 1                            |
| HK\$55,000,001-HK\$65,000,000 (US\$7,100,001 – US\$8,400,000) | -                             | 2                            |
| HK\$70,000,001-HK\$75,000,000 (US\$9,000,001 – US\$9,700,000) | 1                             | -                            |

No emoluments have been paid to these individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the years presented.

Retirement scheme contributions to individuals with highest emoluments are not disclosed as the amount is considered not significant for either year presented.

## 12 Dividends

No dividends were declared and paid by the Company during the years ended 31 December 2012 and 2011.

The Company is subject to external capital requirements.

## 13 Profit attributable to equity shareholders of the Company

The profit attributable to equity shareholders of the Company includes a profit of USD121 million for the year ended 31 December 2012 (2011: a loss of USD2,680 million) which relates to the financial statements of the Company.

## 14 Earnings per share

The calculation of earnings per share is based on the profit attributable to ordinary equity shareholders of the Company and the weighted average number of shares in issue during the years ended 31 December 2012 and 31 December 2011.

Weighted average number of shares:

|                                                        | <b>Year ended 31 December</b> |                       |
|--------------------------------------------------------|-------------------------------|-----------------------|
|                                                        | <b>2012</b>                   | <b>2011</b>           |
| Issued ordinary shares at beginning of the period      | 15,193,014,862                | 15,193,014,862        |
| Purchase of shares for vesting                         | (1,524,768)                   | -                     |
| Weighted average number of shares at end of the period | <b>15,191,490,094</b>         | <b>15,193,014,862</b> |
| <b>Net (loss)/profit for the period, USD million</b>   | <b>(337)</b>                  | <b>237</b>            |
| <b>Basic and diluted earnings per share, USD</b>       | <b>(0.022)</b>                | <b>0.016</b>          |

There were no outstanding dilutive instruments during the years ended 31 December 2012 and 2011.

## 15 Property, plant and equipment

| USD million                                           | Land and<br>buildings | Machinery<br>and<br>equipment | Electro-<br>lyzers | Other      | Mining<br>assets | Construc-<br>tion in<br>progress | Total         |
|-------------------------------------------------------|-----------------------|-------------------------------|--------------------|------------|------------------|----------------------------------|---------------|
| <b>Cost/Deemed cost</b>                               |                       |                               |                    |            |                  |                                  |               |
| Balance at 1 January 2011                             | 3,607                 | 5,728                         | 1,677              | 121        | 668              | 1,240                            | 13,041        |
| Additions                                             | 131                   | 47                            | 181                | 1          | -                | 424                              | 784           |
| Disposals                                             | (20)                  | (89)                          | -                  | (2)        | -                | (5)                              | (116)         |
| Transfers                                             | 34                    | 216                           | 7                  | (11)       | 3                | (249)                            | -             |
| Foreign currency translation                          | (69)                  | (56)                          | (26)               | (3)        | (29)             | (25)                             | (208)         |
| <b>Balance at 31 December 2011</b>                    | <b>3,683</b>          | <b>5,846</b>                  | <b>1,839</b>       | <b>106</b> | <b>642</b>       | <b>1,385</b>                     | <b>13,501</b> |
| Balance at 1 January 2012                             | 3,683                 | 5,846                         | 1,839              | 106        | 642              | 1,385                            | 13,501        |
| Additions                                             | 21                    | 3                             | 134                | 31         | -                | 348                              | 537           |
| Acquired through business combination                 | 8                     | 14                            | -                  | -          | -                | 1                                | 23            |
| Disposals                                             | (4)                   | (38)                          | -                  | (1)        | -                | (55)                             | (98)          |
| Transfers                                             | 45                    | 152                           | 4                  | 6          | 15               | (222)                            | -             |
| Transfers to intangible assets                        | -                     | -                             | -                  | -          | -                | (10)                             | (10)          |
| Foreign currency translation                          | 61                    | 63                            | 21                 | 2          | 32               | 22                               | 201           |
| <b>Balance at 31 December 2012</b>                    | <b>3,814</b>          | <b>6,040</b>                  | <b>1,998</b>       | <b>144</b> | <b>689</b>       | <b>1,469</b>                     | <b>14,154</b> |
| <b>Accumulated depreciation and impairment losses</b> |                       |                               |                    |            |                  |                                  |               |
| Balance at 1 January 2011                             | 1,502                 | 3,444                         | 1,172              | 59         | 642              | 347                              | 7,166         |
| Depreciation charge                                   | 97                    | 258                           | 166                | 11         | 1                | -                                | 533           |
| Impairment loss                                       | 125                   | 62                            | -                  | -          | 4                | 59                               | 250           |
| Disposals                                             | (6)                   | (44)                          | -                  | (1)        | -                | -                                | (51)          |
| Foreign currency translation                          | (43)                  | (36)                          | (18)               | -          | (28)             | (18)                             | (143)         |
| <b>Balance at 31 December 2011</b>                    | <b>1,675</b>          | <b>3,684</b>                  | <b>1,320</b>       | <b>69</b>  | <b>619</b>       | <b>388</b>                       | <b>7,755</b>  |
| Balance at 1 January 2012                             | 1,675                 | 3,684                         | 1,320              | 69         | 619              | 388                              | 7,755         |
| Depreciation charge                                   | 92                    | 262                           | 167                | 11         | 2                | -                                | 534           |
| Impairment loss                                       | 66                    | 88                            | -                  | 35         | 20               | 86                               | 295           |
| Disposals                                             | (1)                   | (25)                          | -                  | (1)        | -                | -                                | (27)          |
| Foreign currency translation                          | 37                    | 43                            | 14                 | 1          | 31               | 18                               | 144           |
| <b>Balance at 31 December 2012</b>                    | <b>1,869</b>          | <b>4,052</b>                  | <b>1,501</b>       | <b>115</b> | <b>672</b>       | <b>492</b>                       | <b>8,701</b>  |
| <b>Net book value</b>                                 |                       |                               |                    |            |                  |                                  |               |
| <b>At 31 December 2011</b>                            | <b>2,008</b>          | <b>2,162</b>                  | <b>519</b>         | <b>37</b>  | <b>23</b>        | <b>997</b>                       | <b>5,746</b>  |
| <b>At 31 December 2012</b>                            | <b>1,945</b>          | <b>1,988</b>                  | <b>497</b>         | <b>29</b>  | <b>17</b>        | <b>977</b>                       | <b>5,453</b>  |

Depreciation expense of USD500 million (2011: USD475 million) has been charged to cost of goods sold, USD7 million (2011: USD5 million) to distribution expenses and USD21 million (2011: USD21 million) to administrative expenses.

During the years ended 31 December 2012 and 2011, no interest cost was capitalised due to postponement of construction projects as a result of the economic environment.

Included into construction in progress at 31 December 2012 and 2011 are advances to suppliers of property, plant and equipment of USD44 million and USD105 million, respectively.

**(a) Impairment**

At 31 December 2012, management analysed changes in the economic environment and developments in the aluminium industry and the Group's operations since 31 December 2011 and considered it necessary to carry out impairment tests for a number of cash-generating units of the Group, which were partially impaired in the previous years.

Based on results of impairment testing, management has concluded that an impairment loss of USD167 million relating to property, plant and equipment should be recognised in these financial statements in respect of Friguia cash generating unit. Additionally, management identified specific assets that are no longer in use and therefore are not considered to be recoverable amounting to USD128 million and USD250 million at 31 December 2012 and 31 December 2011, respectively. These have been impaired in full. No further impairment or reversal of previously recorded impairment was identified by management.

**(b) Security**

The carrying value of property, plant and equipment subject to lien under loan agreements was USD327 million as at 31 December 2012 (31 December 2011: USD316 million), refer to note 25.

**(c) Net book value of properties**

|                                    | <b>31 December<br/>2012</b> | <b>31 December<br/>2011</b> |
|------------------------------------|-----------------------------|-----------------------------|
|                                    | <b>USD million</b>          | <b>USD million</b>          |
| <b>Owned and leased properties</b> |                             |                             |
| In the Russian Federation          |                             |                             |
| Freehold                           | 1,752                       | 1,770                       |
| short-term leases                  | 22                          | 22                          |
| medium-term leases                 | 7                           | 7                           |
| Outside the Russian Federation     |                             |                             |
| Freehold                           | 164                         | 209                         |
|                                    | <b>1,945</b>                | <b>2,008</b>                |
| Representing                       |                             |                             |
| Land and buildings                 | <b>1,945</b>                | <b>2,008</b>                |

Included in the above mentioned amounts is the land held on long lease in the Russian Federation that comprised USD29 million and USD29 million at 31 December 2012 and 31 December 2011, respectively. The Group does not hold land in Hong Kong.

## 16 Intangible assets

|                                           | <b>Goodwill</b>    | <b>Other<br/>intangible<br/>assets</b> | <b>Total</b>       |
|-------------------------------------------|--------------------|----------------------------------------|--------------------|
|                                           | <b>USD million</b> | <b>USD million</b>                     | <b>USD million</b> |
| <b>Cost</b>                               |                    |                                        |                    |
| Balance at 1 January 2011                 | 3,993              | 522                                    | 4,515              |
| Additions                                 | -                  | 14                                     | 14                 |
| Disposals                                 | (3)                | (49)                                   | (52)               |
| Foreign currency translation              | (125)              | -                                      | (125)              |
| <b>Balance at 31 December 2011</b>        | <b>3,865</b>       | <b>487</b>                             | <b>4,352</b>       |
| Balance at 1 January 2012                 | <b>3,865</b>       | <b>487</b>                             | <b>4,352</b>       |
| Additions                                 | 18                 | 15                                     | 33                 |
| Transfer from PPE                         | -                  | 10                                     | 10                 |
| Disposals                                 | -                  | (2)                                    | (2)                |
| Foreign currency translation              | 133                | -                                      | 133                |
| <b>Balance at 31 December 2012</b>        | <b>4,016</b>       | <b>510</b>                             | <b>4,526</b>       |
| <b>Amortisation and impairment losses</b> |                    |                                        |                    |
| Balance at 1 January 2011                 | (67)               | (363)                                  | (430)              |
| Amortisation charge                       | -                  | (17)                                   | (17)               |
| <b>Balance at 31 December 2011</b>        | <b>(67)</b>        | <b>(380)</b>                           | <b>(447)</b>       |
| Balance at 1 January 2012                 | <b>(67)</b>        | <b>(380)</b>                           | <b>(447)</b>       |
| Impairment                                | -                  | (13)                                   | (13)               |
| Amortisation charge                       | -                  | (15)                                   | (15)               |
| <b>Balance at 31 December 2012</b>        | <b>(67)</b>        | <b>(408)</b>                           | <b>(475)</b>       |
| <b>Net book value</b>                     |                    |                                        |                    |
| <b>At 31 December 2011</b>                | <b>3,798</b>       | <b>107</b>                             | <b>3,905</b>       |
| <b>At 31 December 2012</b>                | <b>3,949</b>       | <b>102</b>                             | <b>4,051</b>       |

**(a) Amortisation charge**

The amortisation charge is included in cost of sales in the consolidated statement of income.

**(b) Goodwill**

Goodwill recognised in these consolidated financial statements initially arose on the formation of the Group in 2000 and the acquisition of a 25% additional interest in the Group by its controlling shareholder in 2003. The amount of goodwill was principally increased in 2007 as a result of the acquisition of certain businesses of SUAL Partners and Glencore.

**(c) Impairment testing of goodwill and other intangible assets**

For the purposes of impairment testing, the entire amount of goodwill is allocated to the aluminium segment of the Group's operations. The aluminium segment represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. The recoverable amount represents value in use as determined by discounting the future cash flows generated from the continuing use of the plants within the Group's aluminium segment.

At 31 December 2012, management analysed changes in the economic environment and developments in the aluminium industry and the Group's operations since 31 December 2011 and performed an impairment test for goodwill at 31 December 2012 using the following assumptions to determine the recoverable amount of the segment:

- Total production was estimated based on average sustainable production levels of 4.3 million metric tonnes of primary aluminium, of 7.5 million metric tonnes of alumina and of 10.4 million metric tonnes of bauxite. Bauxite and alumina will be used primarily internally for production of primary aluminium;
- Sales prices were based on the long-term aluminium price outlook derived from available industry and market sources at USD2,144 per tonne for primary aluminium in 2013, USD2,309 in 2014, USD2,412 in 2015, USD2,466 in 2016, USD2,564 in 2017, USD2,671 in 2018, USD2,761 in 2019 and USD2,824 in 2020 and thereafter. Operating costs were projected based on the historical performance of each cash generating unit;
- Nominal foreign currency exchange rates applied to convert operating costs of the Group denominated in RUB into USD were RUB31.2 for one USD in 2013, RUB32.0 in 2014, RUB32.4 in 2015, RUB32.2 in 2016, RUB32.0 in 2017, RUB32.8 in 2018, RUB33.7 in 2019 and USD34.6 in 2020 and thereafter. Inflation of 5.0% – 6.6% in RUB and 2.2% - 2.5% in USD was assumed in determining recoverable amounts;
- The pre-tax discount rate was estimated in nominal terms based on the weighted average cost of capital basis and was 11.6% ;
- A terminal value was derived following the forecast period assuming a 2.3% annual growth rate.

Values assigned to key assumptions and estimates used to measure the units' recoverable amounts were consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represented the most realistic assessment of future trends. The results were particularly sensitive to the following key assumptions:

- A 5% reduction in the projected aluminium price level would have resulted in a decrease in the recoverable amount by 40% and would lead to an impairment of USD1,876 million;
- A 5% increase in the projected level of electricity and alumina costs in the aluminium production would have resulted in a 27% decrease in the recoverable amount and would lead to an impairment of USD245 million;
- A 1% increase in the discount rate would have resulted in a 13% change in the recoverable amount and would not lead to impairment.

Based on results of impairment testing, management concluded that no impairment should be recorded in the consolidated financial statements as at 31 December 2012.

At 31 December 2011, management analysed changes in the economic environment and developments in the aluminium industry and the Group's operations since 31 December 2010 and

performed an impairment test for goodwill at 31 December 2011 using the following assumptions to determine the recoverable amount of the segment:

- Total production was estimated based on average sustainable production levels of 4.2 million metric tonnes of primary aluminium, of 7.7 million metric tonnes of alumina and of 13.3 million metric tonnes of bauxite. Bauxite and alumina will be used primarily internally for production of primary aluminium;
- Sales prices were based on the long-term aluminium price outlook derived from available industry and market sources at USD2,240 per tonne for primary aluminium in 2012, USD2,483 in 2013, USD2,540 in 2014, USD2,576 in 2015, USD2,600 in 2016, USD2,662 in 2017, USD2,748 in 2018 and USD2,809 in 2019 and thereafter. Operating costs were projected based on the historical performance of each cash generating unit;
- Nominal foreign currency exchange rates applied to convert operating costs of the Group denominated in RUB into USD were RUB30.0 for one USD in 2012, RUB30.1 in 2013 and 2014, RUB29.6 in 2015, RUB28.8 in 2016, RUB29.5 in 2017, RUB30.3 in 2018 and RUB 31.1 in 2019 and thereafter. Inflation of 4.8% – 5.9% in RUB and 2.1 - 2.3% in USD was assumed in determining recoverable amounts;
- The pre-tax discount rate was estimated in nominal terms based on the weighted average cost of capital basis and was 13.4%;
- A terminal value was derived following the forecast period assuming a 2.2% annual growth rate.

Values assigned to key assumptions and estimates used to measure the units' recoverable amounts were consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represented the most realistic assessment of future trends. The results were particularly sensitive to the following key assumptions:

- A 5% reduction in the projected aluminium price level would have resulted in a decrease in the recoverable amount by 33% and would lead to an impairment of USD3,423 million;
- A 5% increase in the projected level of electricity and alumina costs in the aluminium production would have resulted in a 15% decrease in the recoverable amount and would lead to an impairment of USD1,506 million;
- A 1% increase in the discount rate would have resulted in a 11% change in the recoverable amount and would not lead to impairment.

Based on results of impairment testing, management concluded that no impairment should be recorded in the consolidated financial statements as at 31 December 2011.

## 17 Interests in associates

|                                                                                         | <b>31 December</b> |                    |
|-----------------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                         | <b>2012</b>        | <b>2011</b>        |
|                                                                                         | <b>USD million</b> | <b>USD million</b> |
| Balance at the beginning of the year                                                    | 9,714              | 11,151             |
| Group's share of profits/(losses) and other gains and losses attributable to associates | 469                | (349)              |
| Dividends                                                                               | (285)              | (306)              |
| Group's share of other comprehensive income                                             | (5)                | (193)              |
| Foreign currency translation                                                            | 591                | (589)              |
| <b>Balance at the end of the year</b>                                                   | <b>10,484</b>      | <b>9,714</b>       |
| Goodwill included in interests in associates                                            | 5,626              | 5,315              |

The following list contains only the particulars of associates, all of which are corporate entities, which principally affected the results or assets of the Group.

| Name of associate          | Form of business structure | Place of incorporation and operation | Particulars of issued and paid up capital | Proportion of ownership interest |                          | Principal activity                              |
|----------------------------|----------------------------|--------------------------------------|-------------------------------------------|----------------------------------|--------------------------|-------------------------------------------------|
|                            |                            |                                      |                                           | Group's effective interest       | Group's nominal interest |                                                 |
| OJSC MMC Norilsk Nickel    | Incorporated               | Russian Federation                   | 190,627,747 shares, RUB1 par value        | 30.27%                           | 25.13%                   | Nickel and other metals production              |
| Queensland Alumina Limited | Incorporated               | Australia                            | 2,212,000 shares, AUD2 par value          | 20%                              | 20%                      | Production of alumina under a tolling agreement |

On 10 December 2012, the Company, Interros, Millhouse, and the beneficial owners of Interros and Millhouse entered into a shareholders agreement establishing the corporate governance requirements, dividend policy, and voting rights in respect to managing the operations of Norilsk Nickel. The shareholders agreement requires the Company to dispose 3,873,537 shares to Millhouse at USD160 per share in cash upon the satisfaction of a number of conditions specified in the agreement including partial redemption of quasi-treasury shares of Norilsk Nickel. Following the redemption of all quasi-treasury shares held by Norilsk Nickel and disposal of shares to Millhouse, it is expected that the Company will hold a 27.8% interest in Norilsk Nickel. As at 31 December 2012, satisfaction of the conditions subsequent was still in process and the sale of shares to Millhouse had not been executed.

The summary of the consolidated financial statements of associates is presented below:

|                                                                   | <u>Assets</u>      | <u>Liabilities</u> | <u>Revenues</u>    | <u>Profit</u>      |
|-------------------------------------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                                                   | <u>USD million</u> | <u>USD million</u> | <u>USD million</u> | <u>USD million</u> |
| <b>31 December 2012</b>                                           |                    |                    |                    |                    |
| 100 per cent                                                      | 22,094             | 8,955              | 13,009             | 2,180              |
| Group's effective interest including post acquisition adjustments | 13,764             | 2,966              | 3,841              | 469                |
| <b>31 December 2011</b>                                           |                    |                    |                    |                    |
| 100 per cent                                                      | 19,988             | 8,573              | 15,193             | 3,628              |
| Group's effective interest including post acquisition adjustments | 12,905             | 2,874              | 4,067              | (349)              |

*(a) OJSC MMC Norilsk Nickel*

The carrying value and market value of the Group's investment in Norilsk Nickel as at 31 December 2012 and 31 December 2011 were as follows:

|                  | <u>31 December</u> | <u>31 December</u> |
|------------------|--------------------|--------------------|
|                  | <u>2012</u>        | <u>2011</u>        |
|                  | <u>USD million</u> | <u>USD million</u> |
| Carrying value   | 10,028             | 9,247              |
| Market value (a) | 8,859              | 7,365              |

- a. Market value is determined by multiplying the quoted bid price per share on the Moscow Interbank Currency Exchange on the year-end date by the number of shares held by the Group.

As at 31 December 2011 the carrying value of the investment in Norilsk Nickel was affected by the entity's sales and purchases of its own shares. The impact of changes in the net assets of Norilsk Nickel, following a series of transactions with treasury shares, as well as the estimation of the recoverable amount of the investment is that the Group has recognised a loss of USD1,279 million.

The recoverable amount of the investment at 31 December 2012 was determined based on the underlying value in use of its businesses based on the following significant assumptions.

- The long term commodity price forecasts for nickel, copper and other by-products, are management's estimates based on their experience of the specific commodities markets as at the date of the impairment test, and are within the range of external market forecasts. The prices used were as follows:

| <u>Metal</u> | <u>Units</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017</u> |
|--------------|--------------|-------------|-------------|-------------|-------------|-------------|
| Nickel       | USD/tonne    | 18,363      | 20,556      | 21,929      | 23,040      | 23,152      |
| Copper       | USD/tonne    | 8,122       | 8,055       | 7,696       | 7,396       | 7,170       |
| Platinum     | USD/oz       | 1,692       | 1,768       | 1,840       | 1,869       | 1,906       |
| Palladium    | USD/oz       | 722         | 799         | 836         | 850         | 877         |

- Total production volume was based on existing production levels for 2011 adjusted for a growth rate of 1.5-3.0% per year.
- The nominal foreign currency exchange rates applied to convert operating costs denominated in RUB into USD were RUB31.2 in 2013, RUB32.0 in 2014, RUB32.4 in 2015, RUB32.2 in 2016, RUB32.0 in 2017 and thereafter. Inflation of 5.0% – 6.6% in RUB and 2.2%-2.5% in USD was assumed in determining recoverable amounts.

The pre-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and was 13.06%.

Management concluded that no impairment is required to be recognised as a result of impairment testing. Values assigned to key assumptions and estimates used to measure the units' recoverable amounts were consistent with external sources of information and historic data. Management believes that the values assigned to the key assumptions and estimates represented the most realistic assessment of future trends. The results were particularly sensitive to the following key assumptions:

- A 5% reduction in the projected sales price level of main metals for a five-year period would have resulted in a decrease in the recoverable amount by 16% and would result in impairment of USD766 million;
- A 1% increase in the discount rate would have resulted in a 14% decrease in the recoverable amount and would result in impairment USD512 million.

The recoverable amount of the investment at 31 December 2011 was determined based on the underlying value in use of its businesses based on the following significant assumptions.

- The long term commodity price forecasts for nickel, copper and other by-products, are management's estimates based on their experience of the specific commodities markets as at the date of the impairment test, and are within the range of external market forecasts. The prices used were as follows:

| <b>Metal</b> | <b>Units</b> | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> |
|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Nickel       | USD/tonne    | 19,543      | 19,613      | 19,535      | 19,385      | 19,811      | 20,247      |
| Copper       | USD/tonne    | 8,190       | 8,191       | 8,113       | 8,022       | 8,198       | 8,379       |
| Platinum     | USD/oz       | 1,530       | 1,540       | 1,574       | 1,609       | 1,644       | 1,680       |
| Palladium    | USD/oz       | 657         | 670         | 685         | 700         | 716         | 731         |

- Total production volume was based on existing production levels for 2010 adjusted for a growth rate of 1.5-3.0% per year.
- The nominal foreign currency exchange rates applied to convert operating costs denominated in RUB into USD were RUB30.0 for one USD in 2012, RUB30.1 in 2013 and 2014, RUB29.6 in 2015, RUB28.8 in 2016, RUB29.5 in 2017, RUB30.3 in 2018 and RUB31.1 in 2019 and thereafter. Inflation of 4.8% – 5.9% in RUB and 2.1%-2.3% in USD was assumed in determining recoverable amounts.

The pre-tax discount rate was estimated in nominal terms based on the weighted average cost of capital and was 14.09%.

Management concluded that no further impairment is required to be recognised as a result of impairment testing. Values assigned to key assumptions and estimates used to measure the units' recoverable amounts were consistent with external sources of information and historic data. Management believes that the values assigned to the key assumptions and estimates represented the most realistic assessment of future trends. The results were particularly sensitive to the following key assumptions:

- A 5% reduction in the projected sales price level of main metals for a five-year period would have resulted in a decrease in the recoverable amount by 4% and would result in impairment of USD256 million;
- A 1% increase in the discount rate would have resulted in a 12% change in the recoverable amount and would result in impairment of USD1,002 million.

## 18 Interests in jointly controlled entities

The Group has the following movements in investments in jointly controlled entities:

|                                              | <b>31 December</b> |                    |
|----------------------------------------------|--------------------|--------------------|
|                                              | <b>2012</b>        | <b>2011</b>        |
|                                              | <b>USD million</b> | <b>USD million</b> |
| Balance at the beginning of the year         | 1,102              | 1,136              |
| Acquisitions                                 | 16                 | 32                 |
| Contributions to jointly controlled entities | 4                  | 2                  |
| Group's share of profits                     | 55                 | 25                 |
| Dividends                                    | (72)               | (48)               |
| Foreign currency translation                 | 51                 | (45)               |
| <b>Balance at the end of the year</b>        | <b>1,156</b>       | <b>1,102</b>       |

Details of the Group's interest in the jointly controlled entities are as follows:

| Name of jointly controlled entity                | Form of business structure | Place of incorporation and operation              | Particulars of issued and paid up capital                                     | Proportion of ownership interest |                          | Principal activity                                       |
|--------------------------------------------------|----------------------------|---------------------------------------------------|-------------------------------------------------------------------------------|----------------------------------|--------------------------|----------------------------------------------------------|
|                                                  |                            |                                                   |                                                                               | Group's effective interest       | Group's nominal interest |                                                          |
| LLP Bogatyr Komir and its trading companies      | Incorporated               | Russian Federation/<br>Kazakhstan                 | 18,150 shares, EUR1                                                           | 50%                              | 50%                      | Coal mining                                              |
| BEMO project                                     | Incorporated               | Russian Federation                                | BOGES Limited – 10,000 shares EUR1.71<br>BALP Limited – 10,000 shares EUR1.71 | 50%                              | 50%                      | Energy / Aluminium production – construction in progress |
| Mega Business & Alliances B.V. and its companies | Incorporated               | Netherlands/<br>Russian Federation/<br>Kazakhstan | 18,000 shares, EUR1                                                           | 50%                              | 50%                      | Transportation business                                  |
| North United Aluminium                           | Incorporated               | China                                             | 170,375,940 RMB                                                               | 33%                              | 33%                      | Aluminium alloys trading                                 |

Summary of the consolidated financial statements of jointly controlled entities – Group's effective interest is presented below:

|                                                                 | 31 December  | 31 December  |
|-----------------------------------------------------------------|--------------|--------------|
|                                                                 | 2012         | 2011         |
|                                                                 | USD million  | USD million  |
| Non-current assets                                              | 1,798        | 1,413        |
| Current assets                                                  | 301          | 101          |
| Non-current liabilities                                         | (673)        | (323)        |
| Current liabilities                                             | (270)        | (89)         |
| Net assets                                                      | <b>1,156</b> | <b>1,102</b> |
| Income                                                          | 811          | 436          |
| Expenses                                                        | (756)        | (411)        |
| Profit for the year                                             | <b>55</b>    | <b>25</b>    |
| Foreign currency translation differences for foreign operations | 51           | (45)         |

On 28 September 2011 the Group sold a 50% interest in several wholly owned subsidiaries engaged in the transportation business in Kazakhstan and Russia to an unrelated party for USD47 million. The transaction resulted in a gain of USD15 million and the recognition of an investment in a jointly controlled entity of USD32 million. The consideration related to the sale agreement was received on 4 October 2011 in full.

#### *North United Aluminium*

In April 2012 the Group acquired a 33% interest in North United Aluminium for USD16 million. North United Aluminium is a Chinese trader specialising in the trade of aluminium, alloys and other non-ferrous metals.

## 19 Investments in subsidiaries

### The Company

|                          | 31 December   |               |
|--------------------------|---------------|---------------|
|                          | 2012          | 2011          |
|                          | USD million   | USD million   |
| Unlisted shares, at cost | 26,248        | 26,248        |
| Less: impairment         | (7,670)       | (8,435)       |
|                          | <b>18,578</b> | <b>17,813</b> |

Details of the principal subsidiaries are set out in note 34 to the consolidated financial statements. The decrease in the amount of impairment loss relates to partial reversal of previously recorded impairment of the Company's investments in subsidiaries.

## 20 Deferred tax assets and liabilities

### (a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following temporary differences:

| USD million                                  | Assets           |                  | Liabilities      |                  | Net              |                  |
|----------------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                              | 31 December 2012 | 31 December 2011 | 31 December 2012 | 31 December 2011 | 31 December 2012 | 31 December 2011 |
| Property, plant and equipment                | 43               | 61               | (556)            | (597)            | (513)            | (536)            |
| Inventories                                  | 19               | 20               | (1)              | (5)              | 18               | 15               |
| Trade and other receivables                  | 8                | 6                | (4)              | (2)              | 4                | 4                |
| Derivative financial liabilities             | 9                | 4                | (3)              | (5)              | 6                | (1)              |
| Losses carried forward                       | 109              | 100              | -                | -                | 109              | 100              |
| Others                                       | 65               | 26               | (110)            | (137)            | (45)             | (111)            |
| Deferred tax assets/(liabilities)            | 253              | 217              | (674)            | (746)            | (421)            | (529)            |
| Set off of deferred taxation                 | (154)            | (151)            | 154              | 151              | -                | -                |
| <b>Net deferred tax assets/(liabilities)</b> | <b>99</b>        | <b>66</b>        | <b>(520)</b>     | <b>(595)</b>     | <b>(421)</b>     | <b>(529)</b>     |

**(b) Movement in deferred tax assets/(liabilities) during the year**

| <b>USD million</b>               | <b>1 January<br/>2011</b> | <b>Recognised in<br/>the statement of<br/>income</b> | <b>Foreign<br/>currency<br/>translation</b> | <b>31 December<br/>2011</b> |
|----------------------------------|---------------------------|------------------------------------------------------|---------------------------------------------|-----------------------------|
| Property, plant and equipment    | (549)                     | 13                                                   | -                                           | (536)                       |
| Inventories                      | 22                        | (7)                                                  | -                                           | 15                          |
| Trade and other receivables      | 3                         | 1                                                    | -                                           | 4                           |
| Derivative financial liabilities | 147                       | (148)                                                | -                                           | (1)                         |
| Losses carried forward           | 57                        | 43                                                   | -                                           | 100                         |
| Other items                      | (10)                      | (109)                                                | 8                                           | (111)                       |
| <b>Total</b>                     | <b>(330)</b>              | <b>(207)</b>                                         | <b>8</b>                                    | <b>(529)</b>                |

| <b>USD million</b>               | <b>1 January<br/>2012</b> | <b>Recognised in<br/>the statement of<br/>income</b> | <b>Foreign<br/>currency<br/>translation</b> | <b>31 December<br/>2012</b> |
|----------------------------------|---------------------------|------------------------------------------------------|---------------------------------------------|-----------------------------|
| Property, plant and equipment    | (536)                     | 20                                                   | 3                                           | (513)                       |
| Inventories                      | 15                        | 6                                                    | (3)                                         | 18                          |
| Trade and other receivables      | 4                         | -                                                    | -                                           | 4                           |
| Derivative financial liabilities | (1)                       | 7                                                    | -                                           | 6                           |
| Losses carried forward           | 100                       | 9                                                    | -                                           | 109                         |
| Other items                      | (111)                     | 63                                                   | 3                                           | (45)                        |
| <b>Total</b>                     | <b>(529)</b>              | <b>105</b>                                           | <b>3</b>                                    | <b>(421)</b>                |

Recognised tax losses expire in the following years:

|                       | <b>31 December<br/>2012</b> | <b>31 December<br/>2011</b> |
|-----------------------|-----------------------------|-----------------------------|
| <b>Year of expiry</b> | <b>USD million</b>          | <b>USD million</b>          |
| Without expiry        | -                           | 27                          |
| From 6 to 10 years    | 91                          | 44                          |
| From 2 to 5 years     | 15                          | 18                          |
| Up to 1 year          | 3                           | 11                          |
|                       | <b>109</b>                  | <b>100</b>                  |

**(c) Unrecognised deferred tax assets**

Deferred tax assets have not been recognised in respect of the following items:

|                                  | <b>31 December</b> | <b>31 December</b> |
|----------------------------------|--------------------|--------------------|
|                                  | <b>2012</b>        | <b>2011</b>        |
|                                  | <b>USD million</b> | <b>USD million</b> |
| Deductible temporary differences | 347                | 332                |
| Tax loss carry-forwards          | 524                | 422                |
|                                  | <b>871</b>         | <b>754</b>         |

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits therefrom. Tax losses expire in the following years:

|                       | <b>31 December</b> | <b>31 December</b> |
|-----------------------|--------------------|--------------------|
|                       | <b>2012</b>        | <b>2011</b>        |
| <b>Year of expiry</b> | <b>USD million</b> | <b>USD million</b> |
| Without expiry        | 441                | 351                |
| From 6 to 10 years    | 82                 | 68                 |
| From 2 to 5 years     | 1                  | 3                  |
|                       | <b>524</b>         | <b>422</b>         |

**(d) Unrecognised deferred tax liabilities**

Retained earnings of the Group's subsidiaries where dividend distributions are subject to taxation included USD4,130 million and USD4,975 million as at 31 December 2012 and 31 December 2011, respectively, for which deferred taxation has not been provided because remittance of the earnings has been indefinitely postponed through reinvestment and, as a result, such amounts are considered to be permanently invested. It was not practicable to determine the amount of temporary differences relating to investments in subsidiaries where the Group is able to control the timing of reversal of the difference. Reversal is not expected in the foreseeable future. For other subsidiaries in the Group, including the significant trading companies, the distribution of dividends does not give rise to taxes.

**(e) Current taxation in the consolidated statement of financial position represents:**

|                                                                  | <b>31 December</b> | <b>31 December</b> |
|------------------------------------------------------------------|--------------------|--------------------|
|                                                                  | <b>2012</b>        | <b>2011</b>        |
|                                                                  | <b>USD million</b> | <b>USD million</b> |
| Net income tax (receivable)/payable at the beginning of the year | (21)               | 20                 |
| Income tax for the year                                          | 131                | 166                |
| Income tax paid                                                  | (104)              | (176)              |
| Translation difference                                           | (8)                | (31)               |
|                                                                  | <b>(2)</b>         | <b>(21)</b>        |
| Represented by:                                                  |                    |                    |
| Income tax payable                                               | 18                 | 16                 |
| Prepaid income tax (note 22)                                     | (20)               | (37)               |
| Net income tax recoverable                                       | <b>(2)</b>         | <b>(21)</b>        |

## **21 Inventories**

|                                          | <b>31 December</b> | <b>31 December</b> |
|------------------------------------------|--------------------|--------------------|
|                                          | <b>2012</b>        | <b>2011</b>        |
|                                          | <b>USD million</b> | <b>USD million</b> |
| Raw materials and consumables            | 1,173              | 1,333              |
| Work in progress                         | 854                | 797                |
| Finished goods and goods held for resale | 782                | 1,033              |
|                                          | 2,809              | 3,163              |
| Provision for inventory obsolescence     | (185)              | (161)              |
|                                          | <b>2,624</b>       | <b>3,002</b>       |

Inventories at 31 December 2012 and 31 December 2011 are stated at cost.

**The analysis of the amount of inventories recognised as an expense is as follows:**

|                                     | <b>Year ended 31 December</b> |                    |
|-------------------------------------|-------------------------------|--------------------|
|                                     | <b>2012</b>                   | <b>2011</b>        |
|                                     | <b>USD million</b>            | <b>USD million</b> |
| Carrying amount of inventories sold | 8,718                         | 8,246              |
| Write-down of inventories           | 24                            | 33                 |
|                                     | <b>8,742</b>                  | <b>8,279</b>       |

## 22 Trade and other receivables

### The Group

|                                                                                       | <u>31 December</u> | <u>31 December</u> |
|---------------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                                       | <u>2012</u>        | <u>2011</u>        |
|                                                                                       | <u>USD million</u> | <u>USD million</u> |
| Trade receivables from third parties                                                  | 203                | 200                |
| Impairment loss on trade receivables                                                  | (34)               | (41)               |
| <b>Net trade receivables from third parties</b>                                       | <b>169</b>         | <b>159</b>         |
| <b>Trade receivables from related parties, including:</b>                             | <b>28</b>          | <b>40</b>          |
| <i>Companies capable of exerting significant influence</i>                            | 29                 | 32                 |
| <i>Impairment loss</i>                                                                | (8)                | (8)                |
| <i>Net trade receivables from companies capable of exerting significant influence</i> | 21                 | 24                 |
| <i>Companies under common control</i>                                                 | 4                  | 8                  |
| <i>Related parties – associates</i>                                                   | 3                  | 8                  |
| VAT recoverable                                                                       | 449                | 529                |
| Impairment loss on VAT recoverable                                                    | (60)               | (56)               |
| <b>Net VAT recoverable</b>                                                            | <b>389</b>         | <b>473</b>         |
| Advances paid to third parties                                                        | 107                | 102                |
| Impairment loss on advances paid                                                      | (3)                | (4)                |
| <b>Net advances paid to third parties</b>                                             | <b>104</b>         | <b>98</b>          |
| <b>Advances paid to related parties, including:</b>                                   | <b>79</b>          | <b>68</b>          |
| <i>Related parties – companies capable of exerting significant influence</i>          | 1                  | -                  |
| <i>Related parties – companies under common control</i>                               | 2                  | -                  |
| <i>Related parties – associates</i>                                                   | 76                 | 68                 |
| <b>Prepaid expenses</b>                                                               | <b>20</b>          | <b>42</b>          |
| <b>Prepaid income tax</b>                                                             | <b>20</b>          | <b>37</b>          |
| <b>Prepaid other taxes</b>                                                            | <b>20</b>          | <b>14</b>          |
| Other receivables from third parties                                                  | 98                 | 100                |
| Impairment loss on other receivables                                                  | (26)               | (24)               |
| <b>Net other receivables from third parties</b>                                       | <b>72</b>          | <b>76</b>          |
| <b>Other receivables from related parties, including:</b>                             | <b>24</b>          | <b>25</b>          |
| <i>Related parties – companies capable of exerting significant influence</i>          | -                  | 1                  |
| <i>Related parties – companies under common control</i>                               | 12                 | 11                 |
| <i>Related parties – associates</i>                                                   | 12                 | 13                 |
|                                                                                       | <b>925</b>         | <b>1,032</b>       |

All of the trade and other receivables are expected to be settled or recognised as an expense within one year or are repayable on demand.

The specific allowance for doubtful trade and other receivables and the uncollectible amount of trade and other receivables written off during the year ended 31 December 2012 amounted USD20 million and USD22 million, respectively (31 December 2011: USD18 million and USD32 million, respectively).

**(a) Ageing analysis**

Included in trade and other receivables are trade receivables (net of allowance for doubtful debts) with the following ageing analysis as of the reporting dates:

|                        | <b>31 December</b> | <b>31 December</b> |
|------------------------|--------------------|--------------------|
|                        | <b>2012</b>        | <b>2011</b>        |
|                        | <b>USD million</b> | <b>USD million</b> |
| Current                | 161                | 137                |
| Past due 0-90 days     | 23                 | 52                 |
| Past due 91-365 days   | 10                 | 8                  |
| Past due over 365 days | 3                  | 2                  |
| Amounts past due       | 36                 | 62                 |
|                        | <b>197</b>         | <b>199</b>         |

Trade receivables are on average due within 60 days from the date of billing. The receivables that are neither past due nor impaired (i.e. current) relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances. Further details of the Group's credit policy are set out in note 30(e).

**(b) Impairment of trade receivables**

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

|                                      | <b>Year ended 31 December</b> |                    |
|--------------------------------------|-------------------------------|--------------------|
|                                      | <b>2012</b>                   | <b>2011</b>        |
|                                      | <b>USD million</b>            | <b>USD million</b> |
| Balance at the beginning of the year | (49)                          | (73)               |
| Impairment loss recognised           | 5                             | (2)                |
| Uncollectible amounts written off    | 2                             | 26                 |
| Balance at the end of the year       | <b>(42)</b>                   | <b>(49)</b>        |

As at 31 December 2012 and 31 December 2011, the Group's trade receivables of USD42 million and USD49 million, respectively, were individually determined to be impaired. Management assessed that the receivables were not expected to be recovered. Consequently, specific allowances for doubtful debts were recognised.

The Group does not hold any collateral over these balances.

### **The Company**

|                   | <b>31 December</b> | <b>31 December</b> |
|-------------------|--------------------|--------------------|
|                   | <b>2012</b>        | <b>2011</b>        |
|                   | <b>USD million</b> | <b>USD million</b> |
| Other receivables | 16                 | 29                 |

## **23 Cash and cash equivalents**

### **The Group**

|                                                                       | <b>31 December</b> | <b>31 December</b> |
|-----------------------------------------------------------------------|--------------------|--------------------|
|                                                                       | <b>2012</b>        | <b>2011</b>        |
|                                                                       | <b>USD million</b> | <b>USD million</b> |
| Bank balances, USD                                                    | 211                | 292                |
| Bank balances, RUB                                                    | 52                 | 39                 |
| Bank balances, other currencies                                       | 46                 | 49                 |
| Cash in transit                                                       | 5                  | 3                  |
| Short-term bank deposits                                              | 176                | 230                |
| Cash and cash equivalents in the consolidated statement of cash flows | 490                | 613                |
| Restricted cash                                                       | 15                 | 33                 |
|                                                                       | <b>505</b>         | <b>646</b>         |

As at 31 December 2012 and 31 December 2011 included in cash and cash equivalents was restricted cash of USD15 million and USD33 million, respectively, mainly pledged under a Swiss Law Pledged Agreement with BNP Paribas (Suisse) SA and Banca Nazionale Del Lavoro S.p.A.

### **The Company**

|                 | <b>31 December</b> | <b>31 December</b> |
|-----------------|--------------------|--------------------|
|                 | <b>2012</b>        | <b>2011</b>        |
|                 | <b>USD million</b> | <b>USD million</b> |
| Restricted cash | 13                 | 13                 |
|                 | <b>13</b>          | <b>13</b>          |

## 24 Equity

### (a) Share capital

|                                                                                | 31 December<br>2012 |                       | 31 December<br>2011 |                       |
|--------------------------------------------------------------------------------|---------------------|-----------------------|---------------------|-----------------------|
|                                                                                | USD                 | Number of<br>shares   | USD                 | Number of<br>shares   |
| Ordinary shares at the end of the year, authorised                             | 200 million         | 20 billion            | 200 million         | 20 billion            |
| Ordinary shares at 1 January                                                   | 151,930,148         | 15,193,014,862        | 151,930,148         | 15,193,014,862        |
| <b>Ordinary shares at the end of the year of USD0.01 each, issued and paid</b> | <b>151,930,148</b>  | <b>15,193,014,862</b> | <b>151,930,148</b>  | <b>15,193,014,862</b> |

### (b) Share-based compensation

On 11 May 2011 the Board of Directors of the Company approved a share-based long-term incentive plan that regulates share-based compensation for eligible employees of the Group. On an annual basis, the Board of Directors considers and approves eligible employees for participation in the LTIP. The number of awarded shares is determined by the Company and approved by the Board of Directors on the grant date. The vesting period for the currently approved eligible employees is as follows:

- CEO: awarded shares vest over a 3-year period in equal instalments, subject to the terms of the LTIP Rules
- Other eligible employees: awarded shares vest over a 5-year period in equal instalments.

The vesting period started in November 2010.

During 2011, some 14,603,764 shares were granted under the plan. The fair value of shares as at 31 December 2012 totalled USD14 million (USD11 million as at 31 December 2011).

The Company recognised additional employee expense in relation to share-based LTIP in the amount of USD4 million for the year ended 31 December 2012 (USD12 million in 2011), with a corresponding increase in equity.

In November 2012 2,224,967 previously granted shares were vested with a corresponding value of USD3 million (in November 2011 - 3,254,566 shares with a corresponding value of USD5 million).

During 2012 the trustee acquired 3,059,914 shares on the open market for USD2 million. As at 31 December 2012 the trustee held the remaining balance of USD1 million comprised 834,947 shares under the LTIP ("Shares held for vesting").

### (c) Other reserves

The acquisition of RUSAL Limited by the Company has been accounted for as a non-substantive acquisition. The consolidated share capital and share premium represent only the share capital and share premium of the Company and the share capital and other paid in capital of RUSAL Limited prior to the acquisition has been included in other reserves.

In addition, other reserves include the cumulative unrealised actuarial gains and losses on the Group's defined post retirement benefit plans, the effective portion of the accumulative net change in fair value of cash flow hedges and the Group's share of other comprehensive income.

**(d) Distributions**

In accordance with the Companies (Jersey) Law 1991 (the "Law"), the Company may make distributions at any time in such amounts as are determined by the Company out of the assets of the Company other than the capital redemption reserves and nominal capital accounts, provided that the directors of the Company make a solvency statement in accordance with that Law of Jersey at the time the distributions are proposed. Dividend pay-outs are restricted in accordance with the credit facility agreements.

**(e) Currency translation reserve**

The currency translation reserve comprises all foreign exchange differences arising from the translation of the consolidated financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(b).

**(f) Movement in components of equity within the Company**

| USD million                                                    | Share capital | Reserves     | Total        |
|----------------------------------------------------------------|---------------|--------------|--------------|
| <b>Balance at 1 January 2011</b>                               | 152           | 8,760        | 8,912        |
| Loss and total comprehensive income for the year               | -             | (2,680)      | (2,680)      |
| Other changes resulting from transactions under common control | -             | (131)        | (131)        |
| <b>Balance at 31 December 2011</b>                             | <b>152</b>    | <b>5,949</b> | <b>6,101</b> |
| <b>Balance at 1 January 2012</b>                               | <b>152</b>    | <b>5,949</b> | <b>6,101</b> |
| Profit and total comprehensive income for the year             | -             | 121          | 121          |
| Other changes resulting from transactions under common control | -             | (10)         | (10)         |
| <b>Balance at 31 December 2012</b>                             | <b>152</b>    | <b>6,060</b> | <b>6,212</b> |

## 25 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk refer to notes 30(c)(ii) and 30(c)(iii), respectively.

|                                | <b>31 December<br/>2012</b> | <b>31 December<br/>2011</b> |
|--------------------------------|-----------------------------|-----------------------------|
|                                | <b>USD million</b>          | <b>USD million</b>          |
| <b>Non-current liabilities</b> |                             |                             |
| Secured bank loans             | 8,907                       | 9,505                       |
| Unsecured bank loans           | 508                         | 629                         |
|                                | <b>9,415</b>                | <b>10,134</b>               |
| <b>Current liabilities</b>     |                             |                             |
| Secured bank loans             | 769                         | 574                         |
| Unsecured bank loans           | 127                         | -                           |
| Accrued interest               | 35                          | 55                          |
|                                | <b>931</b>                  | <b>629</b>                  |

### Terms and debt repayment schedule as at 31 December 2012

|                                      | <b>TOTAL</b>           | <b>2013</b>            | <b>2014</b>            | <b>2015</b>            | <b>2016</b>            | <b>2017</b>            | <b>Later years</b>     |
|--------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|                                      | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> |
| <b>Secured bank loans</b>            |                        |                        |                        |                        |                        |                        |                        |
| <b>Variable</b>                      |                        |                        |                        |                        |                        |                        |                        |
| USD – 3M Libor + 4.25%               | 2,751                  | 371                    | 789                    | 793                    | 798                    | -                      | -                      |
| USD – 3M Libor + 5.25%               | 973                    | -                      | -                      | -                      | -                      | 496                    | 477                    |
| USD – 1Y Libor + 4.5%                | 4,963                  | -                      | -                      | -                      | 4,963                  | -                      | -                      |
| RUB – refinancing rate of RCB + 1.5% | 398                    | 398                    | -                      | -                      | -                      | -                      | -                      |
| <b>Fixed</b>                         |                        |                        |                        |                        |                        |                        |                        |
| RUB – 9.7%                           | 591                    | -                      | -                      | -                      | 591                    | -                      | -                      |
|                                      | <b>9,676</b>           | <b>769</b>             | <b>789</b>             | <b>793</b>             | <b>6,352</b>           | <b>496</b>             | <b>477</b>             |
| <b>Unsecured bank loans</b>          |                        |                        |                        |                        |                        |                        |                        |
| <b>Variable</b>                      |                        |                        |                        |                        |                        |                        |                        |
| USD – 3M Libor + 6.5%                | 451                    | 90                     | 120                    | 120                    | 121                    | -                      | -                      |
| EURO – 3M Libor + 6.5%               | 184                    | 37                     | 49                     | 49                     | 49                     | -                      | -                      |
| <b>Total</b>                         | <b>635</b>             | <b>127</b>             | <b>169</b>             | <b>169</b>             | <b>170</b>             | <b>-</b>               | <b>-</b>               |
| Accrued interest                     | 35                     | 35                     | -                      | -                      | -                      | -                      | -                      |
| <b>Total</b>                         | <b>10,346</b>          | <b>931</b>             | <b>958</b>             | <b>962</b>             | <b>6,522</b>           | <b>496</b>             | <b>477</b>             |

The secured bank loans are secured by pledges of shares of the following Group companies:

- 25% + 1 share of Rusal Novokuznetsk
- 36% + 1 share of SUAL
- 25% + 1 share of Rusal Sayanogorsk
- 25% + 1 share of Rusal Bratsk
- 25% + 1 share of Rusal Krasnoyarsk

The secured bank loans are also secured by pledges of shares of associate:

- 25% + 1 share of Norilsk Nickel

The secured bank loans are also secured by properties, plant and equipment with a carrying amount of USD327 million.

As at 31 December 2012 rights, including all monies and claims, arising out of certain sales contracts between the Group's trading subsidiaries and its ultimate customers, were assigned to secure the USD4.75 billion syndicated facility.

The nominal value of the Group's loans and borrowings was USD10,522 million at 31 December 2012 (31 December 2011: USD10,928 million).

On 26 January 2012 the Group successfully completed negotiations with its international and Russian lenders to obtain an option to exercise a covenant holiday for a 12-month period during which certain financial covenants are not applied commencing from any quarter in 2012. On 30 March 2012 the Group decided to exercise this option with effect from the first quarter of 2012. In November 2012 the Group agreed with the lenders to extend the period of the covenant holiday till 31 December 2013 (inclusive).

Under the covenant holiday option the extended margin grid will be applied as follows:

| <b>Leverage Ratio</b>                            | <b>Supplemental Margin</b> |
|--------------------------------------------------|----------------------------|
| Greater than 5:1                                 | 1.4 per cent. per annum    |
| Greater than 4.5:1 but less than or equal to 5:1 | 0.95 per cent. per annum   |
| Greater than 4:1 but less than or equal to 4.5:1 | 0.55 per cent. per annum   |
| Less than or equal to 4:1                        | 0 per cent. per annum      |

During the year 2012 the Group made the following repayments:

- On 30 January 2012 the Group made an early repayment of Tranche A loans under the USD4.75 billion syndicated facility in the amount of USD500 million using proceeds of a Sberbank facility obtained in January 2012 with a credit limit of RUB18.3 billion and a maturity of five years;
- On 16 March 2012 the Group made a principal repayment of RUB2 billion against its VTB loan;
- On 30 March 2012 the Group repaid in full its loan with Natixis in the amount of USD66 million;

- On 14 November 2012 the Group made an early repayment of Tranche A loans under the USD4.75 billion syndicated facility in the amount of USD406 million (scheduled for the first and second quarters of 2013) out of the remaining proceeds of the Sberbank facility and the Group's own funds.

On 28 December 2012 the Group entered into a new credit facility of USD300 million with Gazprombank with a maturity of 5 years and an interest rate of 3-months Libor plus 6.5% p.a.

In 2012 the Group has entered into several cross-currency swaps, for details refer to note 28.

**Terms and debt repayment schedule as at 31 December 2011**

|                                         | <b>TOTAL</b>           | <b>2012</b>            | <b>2013</b>            | <b>2014</b>            | <b>2015</b>            | <b>2016</b>            | <b>Later years</b>     |
|-----------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|                                         | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> |
| <b>Secured bank loans</b>               |                        |                        |                        |                        |                        |                        |                        |
| <b>Variable</b>                         |                        |                        |                        |                        |                        |                        |                        |
| USD – Libor + 1.6%                      | 66                     | 33                     | 33                     | -                      | -                      | -                      | -                      |
| USD – 3M Libor + 2.6%                   | 3,658                  | 481                    | 793                    | 793                    | 793                    | 798                    | -                      |
| USD – 3M Libor + 3.85%                  | 975                    | -                      | -                      | -                      | -                      | -                      | 975                    |
| USD – 1Y Libor + 4.5%                   | 4,944                  | -                      | -                      | -                      | -                      | 4,944                  | -                      |
| RUB – refinancing rate of<br>RCB + 2.5% | 436                    | 60                     | 376                    | -                      | -                      | -                      | -                      |
|                                         | <b>10,079</b>          | <b>574</b>             | <b>1,202</b>           | <b>793</b>             | <b>793</b>             | <b>5,742</b>           | <b>975</b>             |
| <b>Unsecured bank loans</b>             |                        |                        |                        |                        |                        |                        |                        |
| <b>Variable</b>                         |                        |                        |                        |                        |                        |                        |                        |
| USD – 3M Libor + 4.5%                   | 450                    | -                      | 90                     | 120                    | 120                    | 120                    | -                      |
| EURO – 3M Libor + 4.5%                  | 179                    | -                      | 36                     | 48                     | 48                     | 47                     | -                      |
| <b>Total</b>                            | <b>629</b>             | <b>-</b>               | <b>126</b>             | <b>168</b>             | <b>168</b>             | <b>167</b>             | <b>-</b>               |
| Accrued interest                        | 55                     | 55                     | -                      | -                      | -                      | -                      | -                      |
| <b>Total</b>                            | <b>10,763</b>          | <b>629</b>             | <b>1,328</b>           | <b>961</b>             | <b>961</b>             | <b>5,909</b>           | <b>975</b>             |

The secured bank loans are secured by pledges of shares of the following Group companies:

- 25% + 1 share of Rusal Novokuznetsk
- 36% + 1 share of SUAL
- 25% + 1 share of Rusal Sayanogorsk
- 25% + 1 share of Rusal Bratsk
- 25% + 1 share of Rusal Krasnoyarsk
- 100% of Albaco

The secured bank loans are also secured by pledges of shares of associate:

- 25% + 1 share of Norilsk Nickel

The secured bank loans are also secured by the following:

- Properties, plant and equipment with a carrying amount of USD316 million.

As at 31 December 2011 rights, including all monies and claims, arising out of certain sales contracts between the Group's trading subsidiaries and ultimate customers, were assigned to secure the new facility agreement.

In 2011 the Group has entered into several interest rate swaps, for details refer to note 28.

### ***Debt refinancing during the year ended 31 December 2011***

On 23 September 2011, the Group and Sberbank of Russia signed an amendment to the USD4.58 billion loan agreement effective immediately. This amendment includes extension of the maturity of the loan until September 2016, change of the interest rate to one year LIBOR + 4.5% and the cancellation of the Vnesheconombank (VEB) guarantee and the relevant release from pledge of 5% of the Company's shares.

On 29 September 2011, the Group entered into a new facility agreement with Russian and international lenders up to USD4.75 billion. The facility proceeds were used to refinance the outstanding debt under the International Override Agreement and Onexim liabilities on 5 October 2011.

The facility was provided in two tranches:

- Tranche A amounting to USD3.75 billion is being repaid in equal quarterly instalments starting from the 15th month after the first drawdown and with a final maturity falling 60 months after the first drawdown with USD500 million repaid during the first 12 months from the date of the first drawdown. Loans under tranche A bear interest at the rate of 3-month LIBOR plus margin based on Total Net Debt/EBITDA ratio which is revised quarterly.

| <b>Total Net Debt/EBITDA</b>                     | <b>Tranche A Margin</b>  |
|--------------------------------------------------|--------------------------|
| Greater than 4:1                                 | 2.85 per cent. per annum |
| Greater than 3.5:1 but less than or equal to 4:1 | 2.60 per cent. per annum |
| Greater than 3:1 but less than or equal to 3.5:1 | 2.35 per cent. per annum |
| Greater than 2.5:1 but less than or equal to 3:1 | 2.10 per cent. per annum |
| Less than or equal to 2.5:1                      | 1.75 per cent. per annum |

- Tranche B amounting to USD1 billion to be repaid in equal quarterly instalments starting from the 63rd month after the first drawdown with a final maturity date falling 84 months after the date of the facility documentation. Loans under tranche B bear interest at the rate of 3-month LIBOR plus 3.85% per annum.

In addition, the Group completed the refinancing of Sberbank of Russia loans of USD453 million with a five year maturity and 1-year LIBOR plus 4.5% interest rate and signed an agreement with Gazprombank on a new loan facility up to USD455 million and EURO140 million with a five year maturity and a 3-month LIBOR plus 4.5% interest rate.

On 1 December 2011 the Group signed an agreement with Sberbank of Russia on a new loan facility up to RUB18.3 billion with a five year maturity and 9.7% interest rate.

The refinancing agreements have imposed certain obligations on the Group, including standard financial covenants and restrictions on dividend distributions.

## The Company

|                                      | 31 December  |              |
|--------------------------------------|--------------|--------------|
|                                      | 2012         | 2011         |
|                                      | USD million  | USD million  |
| <b>Non-current liabilities</b>       |              |              |
| Secured bank loans                   | 8,907        | 9,096        |
| Unsecured loans from related parties | 329          | 427          |
|                                      | <b>9,236</b> | <b>9,523</b> |
| <b>Current liabilities</b>           |              |              |
| Secured bank loans                   | 371          | 481          |
| Unsecured loans from related parties | 462          | 15           |
| Accrued interest                     | 61           | 59           |
|                                      | <b>894</b>   | <b>555</b>   |

## Terms and debt repayment schedule as at 31 December 2012

|                                             | TOTAL         | 2013        | 2014         | 2015        | 2016         | 2017        | Later years |
|---------------------------------------------|---------------|-------------|--------------|-------------|--------------|-------------|-------------|
|                                             | USD million   | USD million | USD million  | USD million | USD million  | USD million | USD million |
| <b>Secured bank loans</b>                   |               |             |              |             |              |             |             |
| <b>Variable</b>                             |               |             |              |             |              |             |             |
| USD – 1Y Libor + 4.5%                       | 4,963         | -           | -            | -           | 4,963        | -           | -           |
| USD – 3M Libor + 4.25%                      | 2,751         | 371         | 789          | 793         | 798          | -           | -           |
| USD – 3M Libor + 5.25%                      | 973           | -           | -            | -           | -            | 496         | 477         |
| <b>Fixed</b>                                |               |             |              |             |              |             |             |
| RUB – 9.7%                                  | 591           | -           | -            | -           | 591          | -           | -           |
|                                             | <b>9,278</b>  | <b>371</b>  | <b>789</b>   | <b>793</b>  | <b>6,352</b> | <b>496</b>  | <b>477</b>  |
| <b>Unsecured loans from related parties</b> |               |             |              |             |              |             |             |
| Interest free                               | 301           | 301         | -            | -           | -            | -           | -           |
| USD – fixed 4.6%                            | 161           | 161         | -            | -           | -            | -           | -           |
| RUB – fixed 8.31%-8.51%                     | 329           | -           | 329          | -           | -            | -           | -           |
|                                             | <b>791</b>    | <b>462</b>  | <b>329</b>   | <b>-</b>    | <b>-</b>     | <b>-</b>    | <b>-</b>    |
| Accrued interest                            | 61            | 61          | -            | -           | -            | -           | -           |
| <b>Total</b>                                | <b>10,130</b> | <b>894</b>  | <b>1,118</b> | <b>793</b>  | <b>6,352</b> | <b>496</b>  | <b>477</b>  |

The secured bank loans are secured by pledges of shares of the following Group companies:

- 25% + 1 share of Rusal Bratsk
- 25% + 1 share of Rusal Krasnoyarsk
- 25% + 1 share of Rusal Sayanogorsk
- 25% + 1 share of Novokuznetsk
- 25% + 1 share of SUAL.

The secured bank loans are also secured by pledges of shares of associate:

- 25% + 1 share of Norilsk Nickel.

**Terms and debt repayment schedule as at 31 December 2011**

|                                             | <b>TOTAL</b>           | <b>2012</b>            | <b>2013</b>            | <b>2014</b>            | <b>2015</b>            | <b>2016</b>            | <b>Later years</b>     |
|---------------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
|                                             | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> | <b>USD<br/>million</b> |
| <b>Secured bank loans</b>                   |                        |                        |                        |                        |                        |                        |                        |
| <b>Variable</b>                             |                        |                        |                        |                        |                        |                        |                        |
| USD – 1Y Libor + 4.5%                       | 4,944                  | -                      | -                      | -                      | -                      | 4,944                  | -                      |
| USD – 3M Libor + 2.6%                       | 3,658                  | 481                    | 793                    | 793                    | 793                    | 798                    | -                      |
| USD – 3M Libor + 3.85%                      | 975                    | -                      | -                      | -                      | -                      | -                      | 975                    |
|                                             | <b>9,577</b>           | <b>481</b>             | <b>793</b>             | <b>793</b>             | <b>793</b>             | <b>5,742</b>           | <b>975</b>             |
| <b>Unsecured loans from related parties</b> |                        |                        |                        |                        |                        |                        |                        |
| Interest free                               | 15                     | 15                     | -                      | -                      | -                      | -                      | -                      |
| RUB – fixed 8.31%-8.51%                     | 427                    | -                      | -                      | 427                    | -                      | -                      | -                      |
|                                             | <b>442</b>             | <b>15</b>              | <b>-</b>               | <b>427</b>             | <b>-</b>               | <b>-</b>               | <b>-</b>               |
| Accrued interest                            | 59                     | 59                     | -                      | -                      | -                      | -                      | -                      |
| <b>Total</b>                                | <b>10,078</b>          | <b>555</b>             | <b>793</b>             | <b>1,220</b>           | <b>793</b>             | <b>5,742</b>           | <b>975</b>             |

The secured bank loans are secured by pledges of shares of the following Group companies:

- 25% + 1 share of Rusal Bratsk
- 25% + 1 share of Rusal Krasnoyarsk
- 25% + 1 share of Rusal Sayanogorsk
- 25% + 1 share of Novokuznetsk
- 25% + 1 share of SUAL.

The secured bank loans are also secured by pledges of shares of associate:

- 25% + 1 share of Norilsk Nickel.

## 26 Bonds

On 3 March and 18 April 2011, one of the Group's subsidiaries issued two tranches of rouble denominated bonds, each including 15 million bonds, with a par value of 1,000 roubles each on MICEX. Maturity of the first tranche is seven years subject to a put option exercisable in three years. Maturity of the second tranche is ten years subject to a put option exercisable in four years.

Simultaneously, the Group entered into cross-currency swaps with an unrelated financial institution in relation to each tranche whereby the first tranche with semi-annual coupon payments of 8.3% p.a. was transformed into a USD obligation with a matching maturity of USD530 million bearing interest at 5.13% p. a. and the second tranche with semi-annual coupon payments of 8.5% p.a. was transformed into a USD obligation with a matching maturity of USD533 million bearing interest at 5.09% p. a. The proceeds of the bond issues were used for repayment of part of the Group's outstanding debts. The closing market price at 31 December 2012 was 956.0 roubles and 929.9 roubles per bond for the first and second tranches respectively.

## 27 Provisions

| USD million                         | Pension liabilities | Site restoration | Provisions for legal claims | Tax provisions | Total      |
|-------------------------------------|---------------------|------------------|-----------------------------|----------------|------------|
| Balance at 1 January 2011           | 134                 | 322              | 40                          | 30             | 526        |
| Provisions made during the year     | 17                  | 138              | 12                          | 44             | 211        |
| Provisions reversed during the year | (30)                | (32)             | (2)                         | (27)           | (91)       |
| Actuarial loss                      | 4                   | -                | -                           | -              | 4          |
| Provisions utilised during the year | (15)                | (5)              | (14)                        | -              | (34)       |
| Foreign currency translation        | (5)                 | (22)             | -                           | -              | (27)       |
| Balance at 31 December 2011         | <b>105</b>          | <b>401</b>       | <b>36</b>                   | <b>47</b>      | <b>589</b> |
| Balance at 1 January 2012           | 105                 | 401              | 36                          | 47             | 589        |
| Provisions made during the year     | 16                  | 123              | 4                           | 10             | 153        |
| Provisions reversed during the year | -                   | (37)             | (7)                         | (44)           | (88)       |
| Actuarial loss                      | 41                  | -                | -                           | -              | 41         |
| Provisions utilised during the year | (15)                | (7)              | (10)                        | -              | (32)       |
| Foreign currency translation        | 4                   | 14               | -                           | -              | 18         |
| Balance at 31 December 2012         | <b>151</b>          | <b>494</b>       | <b>23</b>                   | <b>13</b>      | <b>681</b> |
| <b>Non-current</b>                  | <b>135</b>          | <b>486</b>       | <b>-</b>                    | <b>-</b>       | <b>621</b> |
| <b>Current</b>                      | <b>16</b>           | <b>8</b>         | <b>23</b>                   | <b>13</b>      | <b>60</b>  |
|                                     | <b>151</b>          | <b>494</b>       | <b>23</b>                   | <b>13</b>      | <b>681</b> |

**(a) Pension liabilities**

*Group subsidiaries in the Russian Federation and Ukraine*

The Group voluntarily offers a number of pension and employee benefit programs to employees at its Russian production facilities, including:

- Occupational pension programs under which retirees are entitled to a whole-life regular (old age or disability) pension from the Group. Future pension levels for some of the programs are independent of salary levels and are either fixed monetary amounts or are dependent on past service of an employee;
- Regular whole-life pensions to its veterans of World War II;
- Long-term and post-employment benefits to its employees including death-in-service, lump sum upon retirement, material support for pensioners and death-in-pension benefits.

Due to legal requirements, the Ukrainian subsidiaries are responsible for partial financing of the State hardship pensions for those of its employees who worked, or still work, under severe and hazardous labour conditions (hardship early retirement pensions). These pensions are paid until the recipient reaches the age of entitlement to the State old age pension (55 years for female and 60 years for male employees). In Ukraine, the Group also voluntarily provides long-term and post-employment benefits to its employees including death-in-service, lump sum benefits upon retirement and death-in-pension benefits.

All the above pension and employee benefit programs are of a defined benefit nature. The Group finances these programs on an unfunded pay-as-you-go basis.

The number of employees eligible for the plans as at 31 December 2012 and 2011 was 65,149 and 64,861, respectively. The number of pensioners as at 31 December 2012 and 2011 was 35,575 and 34,933, respectively.

*Group subsidiaries outside the Russian Federation and Ukraine*

In Ireland, the Group offers employees a final pay pension plan, with a pension equal to 1/60th of pensionable salary, adjusted for social security and shift earnings, for each year of service. Apart from that the Group offers long-term and post-employment benefits to its employees including death-in-service, lump sum upon retirement and death-in-pension benefits. The plans in Ireland and Jamaica are funded plans.

In Sweden, the Group provides defined benefit lifelong and temporary pension benefits. The lifelong benefits are dependent on the past service and average salary level of the employee, with an accrual rate that depends on the salary bracket the employee is in. The liability relates only to benefits accrued before 1 January 2004. These plans are unfunded.

In several other subsidiaries, the Group provides lump sum benefits upon retirement which are financed on an unfunded pay-as-you-go basis.

The following tables summarise the components of the benefit expense recognised in the consolidated statement of income and the amounts recognised in the consolidated statement of financial position and in the consolidated statement of comprehensive income in relation to the plans. The amounts recognised in the consolidated statement of income are as follows:

|                                                                   | <b>31 December<br/>2012</b> | <b>31 December<br/>2011</b> |
|-------------------------------------------------------------------|-----------------------------|-----------------------------|
|                                                                   | <b>USD million</b>          | <b>USD million</b>          |
| Current service cost                                              | 8                           | 8                           |
| Past service costs recognised during the year                     | (1)                         | 4                           |
| Interest cost                                                     | 15                          | 17                          |
| Actuarial expected return on plan assets                          | (6)                         | (8)                         |
| Curtailment/settlement                                            | -                           | (33)                        |
| <b>Net income/(expense) recognised in the statement of income</b> | <b>16</b>                   | <b>(12)</b>                 |

The reconciliation of the present value of the defined benefit obligation to the liabilities recognised in the consolidated statement of financial position is as follows:

|                                                             | <b>31 December<br/>2012</b> | <b>31 December<br/>2011</b> |
|-------------------------------------------------------------|-----------------------------|-----------------------------|
|                                                             | <b>USD million</b>          | <b>USD million</b>          |
| Present value of defined benefit obligations                | 314                         | 243                         |
| Fair value of plan assets                                   | (161)                       | (136)                       |
| Present value of obligations                                | 153                         | 107                         |
| Unrecognised past service cost                              | (2)                         | (2)                         |
| <b>Net liability in the statement of financial position</b> | <b>151</b>                  | <b>105</b>                  |

Changes in the present value of the net liability are as follows:

|                                                   | <b>31 December<br/>2012</b> | <b>31 December<br/>2011</b> |
|---------------------------------------------------|-----------------------------|-----------------------------|
|                                                   | <b>USD million</b>          | <b>USD million</b>          |
| Net liability at beginning of the year            | 105                         | 134                         |
| Net expense recognised in the statement of income | 16                          | (12)                        |
| Contributions paid into the plan by the employers | (15)                        | (15)                        |
| Actuarial losses charged directly to equity       | 41                          | 4                           |
| Foreign currency translation                      | 4                           | (6)                         |
| <b>Net liability at end of the year</b>           | <b>151</b>                  | <b>105</b>                  |

The change of the present value of the defined benefit obligations (“DBO”) is as follows:

|                                                                            | <b>31 December<br/>2012</b> | <b>31 December<br/>2011</b> |
|----------------------------------------------------------------------------|-----------------------------|-----------------------------|
|                                                                            | <b>USD million</b>          | <b>USD million</b>          |
| Present value of defined benefit obligations at beginning of the year      | 243                         | 272                         |
| Service cost                                                               | 8                           | 8                           |
| Interest cost                                                              | 15                          | 17                          |
| Actuarial losses/(gains)                                                   | 52                          | (4)                         |
| Currency exchange losses/(gains)                                           | 7                           | (9)                         |
| Contributions by employees                                                 | 3                           | 3                           |
| Benefits paid                                                              | (14)                        | (12)                        |
| Translation difference                                                     | -                           | 1                           |
| Settlement and curtailment gain                                            | -                           | (33)                        |
| <b>Present value of defined benefit obligations at the end of the year</b> | <b>314</b>                  | <b>243</b>                  |

Movement in fair value of plan assets:

|                                                         | <b>31 December<br/>2012</b> | <b>31 December<br/>2011</b> |
|---------------------------------------------------------|-----------------------------|-----------------------------|
|                                                         | <b>USD million</b>          | <b>USD million</b>          |
| Fair value of plan assets at the beginning of the year  | 136                         | 132                         |
| Actuarial expected return on plan assets                | 6                           | 8                           |
| Contributions paid into the plans by the employers      | 15                          | 15                          |
| Contributions paid into the plans by the employees      | 3                           | 3                           |
| Benefits paid by the plan                               | (13)                        | (12)                        |
| Investment gains/(losses)                               | 12                          | (6)                         |
| Currency exchange gain/(losses)                         | 2                           | (4)                         |
| <b>Fair value of plan assets at the end of the year</b> | <b>161</b>                  | <b>136</b>                  |

Actuarial gains and losses recognised in the consolidated statement of comprehensive income:

|                                                 | <b>Year ended 31 December<br/>2012</b> | <b>2011</b>        |
|-------------------------------------------------|----------------------------------------|--------------------|
|                                                 | <b>USD million</b>                     | <b>USD million</b> |
| Cumulative amount at beginning of the year      | 15                                     | 19                 |
| Recognised during the year                      | (41)                                   | (4)                |
| <b>Cumulative amount at the end of the year</b> | <b>(26)</b>                            | <b>15</b>          |

At 31 December 2012 the fair value of plan assets comprised investments in different asset categories as follows:

| <b>Asset class</b>       | <b>USD million</b> | <b>%</b>   |
|--------------------------|--------------------|------------|
| Equity                   | 52                 | 32         |
| Fixed income             | 106                | 66         |
| Real estate              | -                  | -          |
| Cash equivalents         | 3                  | 2          |
| <b>Total plan assets</b> | <b>161</b>         | <b>100</b> |

The Group expects to pay the defined benefit retirement plans an amount of USD16 million during the 12 month period beginning on 1 January 2013.

*Actuarial valuation of pension liabilities*

The actuarial valuation of the Group and the portion of the Group funds specifically designated for the Group's employees were completed by a qualified actuary, Robert van Leeuwen AAG, as at 31 December 2012, using the projected unit credit method as stipulated by IAS 19.

The key actuarial assumptions (weighted average, weighted by DBO) are as follows:

|                                | <b>31 December<br/>2012</b>                                         | <b>31 December<br/>2011</b>                                         |
|--------------------------------|---------------------------------------------------------------------|---------------------------------------------------------------------|
|                                | <b>% per annum</b>                                                  | <b>% per annum</b>                                                  |
| Discount rate                  | 5.2                                                                 | 6.3                                                                 |
| Expected return on plan assets | 4.3                                                                 | 4.9                                                                 |
| Future salary increases        | 5.1                                                                 | 5.1                                                                 |
| Future pension increases       | 0.7                                                                 | 0.6                                                                 |
| Staff turnover                 | 4.0                                                                 | 4.0                                                                 |
| Mortality                      | USSR population table for 1985, Ukrainian population table for 2000 | USSR population table for 1985, Ukrainian population table for 2000 |
| Disability                     | 70% Munich Re for Russia; 40% of death probability for Ukraine      | 70% Munich Re for Russia; 40% of death probability for Ukraine      |

The market value of plan assets as at the date of their valuation is as follows:

|                                              | <b>31 December<br/>2012</b> | <b>31 December<br/>2011</b> |
|----------------------------------------------|-----------------------------|-----------------------------|
|                                              | <b>USD million</b>          | <b>USD million</b>          |
| Present value of defined benefit obligations | 314                         | 243                         |
| Fair value of plan assets                    | (161)                       | (136)                       |
| <b>Deficit in plan</b>                       | <b>153</b>                  | <b>107</b>                  |

The actuarial valuation shows that the Group's obligations are 51% covered by the plan assets held as at 31 December 2012 (31 December 2011: 56%).

The analysis of amounts arising from schemes that are wholly unfunded and schemes that are partly funded are as follows:

|                  | <b>31 December 2012</b>         |                      | <b>31 December 2011</b>         |                      |
|------------------|---------------------------------|----------------------|---------------------------------|----------------------|
|                  | <b>USD million</b>              |                      | <b>USD million</b>              |                      |
|                  | <b>Present value of the DBO</b> | <b>Net liability</b> | <b>Present value of the DBO</b> | <b>Net liability</b> |
| Wholly unfunded  | 128                             | 126                  | 93                              | 91                   |
| Partially funded | 186                             | 25                   | 150                             | 14                   |
| <b>Total</b>     | <b>314</b>                      | <b>151</b>           | <b>243</b>                      | <b>105</b>           |

**(b) Site restoration**

The Group provides for site restoration obligations when there is a specific legal or constructive obligation for mine reclamation, landfill closure (primarily comprising red mud basin disposal sites) or specific lease restoration requirements. The Group does not record any obligations with respect to decommissioning of its refining or smelting facilities and restoration and rehabilitation of the surrounding areas unless there is a specific plan to discontinue operations at a facility. This is because any significant costs in connection with decommissioning of refining or smelting facilities and restoration and rehabilitation of the surrounding areas would be incurred no earlier than when the facility is closed and the facilities are currently expected to operate over a term in excess of 50-100 years due to the perpetual nature of the refineries and smelters and continuous maintenance and upgrade programs resulting in the fair values of any such liabilities being negligible.

The site restoration provision recorded in these consolidated financial statements relates primarily to mine reclamation and red mud basin disposal sites at alumina refineries and is estimated by discounting the risk-adjusted expected expenditure to its present value based on the following key assumptions:

|                                                            | <b>31 December 2012</b>                                                                                     | <b>31 December 2011</b>                                                                                     |
|------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Timing of cash outflows                                    | 2013: USD8 million<br>2014 -2018: USD137 million<br>2019-2029: USD366 million<br>after 2029: USD151 million | 2012: USD8 million<br>2013 -2017: USD150 million<br>2018-2028: USD280 million<br>after 2028: USD170 million |
| Risk free discount rate before adjusting for inflation (a) | 1.96%                                                                                                       | 2.95%                                                                                                       |

- (a) the risk free rate for the year 2012 represents an effective rate, which comprises rates differentiated by years of obligation settlement and by currencies in which the provisions was calculated

At each reporting date the Directors have assessed the provisions for site restoration and environmental matters and concluded that the provisions and disclosures are adequate.

As at 31 March 2012, management reassessed the timing of site restoration activities at OJSC SUBR and recalculated the related asset retirement obligation. The resulting increase in provisions and impairment of non-current assets of USD20 million was recorded in these consolidated financial statements. The amount of provision is estimated by discounting the expected expenditures to their present value based on risk free discount rates ranging from 0.33% to 3.32% at 31 December 2012.

**(c) Provisions for legal claims**

The Group's subsidiaries are subject to a variety of lawsuits and claims in the ordinary course of its business. As at 31 December 2012, there were several claims filed against the Group's subsidiaries contesting breaches of contract terms and non-payment of existing obligations. Management has reviewed the circumstances and estimated that the amount of probable outflow related to these claims should not exceed USD23 million (31 December 2011: USD36 million). The amount of claims, where management assesses outflow as possible approximates USD213 million (31 December 2011: USD164 million).

At each reporting date the Directors have assessed the provisions for litigation and claims and concluded that the provisions and disclosures are adequate.

**(d) Tax provisions**

As at 31 December 2012, management of the Group reassessed certain tax claims with high probability of outflow and decreased the provision by USD44 million relating to excise tax obligation at Eurallumina.

At each reporting date the Directors have assessed the provisions for taxation and concluded that the provisions and disclosures are adequate.

**28 Derivative financial assets/liabilities**

|                                                         | 31 December 2012  |                        | 31 December 2011  |                        |
|---------------------------------------------------------|-------------------|------------------------|-------------------|------------------------|
|                                                         | USD million       |                        | USD million       |                        |
|                                                         | Derivative assets | Derivative liabilities | Derivative assets | Derivative liabilities |
| Cross-currency swaps                                    | -                 | 103                    | -                 | 164                    |
| Petroleum coke supply contracts and other raw materials | 15                | 40                     | 25                | 16                     |
| Interest rate swaps                                     | -                 | 76                     | -                 | 9                      |
| Structured investment                                   | -                 | -                      | 9                 | -                      |
| Electricity contracts                                   | -                 | 7                      | -                 | 9                      |
| <b>Total</b>                                            | <b>15</b>         | <b>226</b>             | <b>34</b>         | <b>198</b>             |

The following significant assumptions were used in estimating derivative instruments:

|                                   | 2013  | 2014  | 2015  | 2016  |
|-----------------------------------|-------|-------|-------|-------|
| LME Al Forward, USD per tonne     | 2,103 | 2,195 | 2,290 | 2,380 |
| Platt's FOB Brent, USD per barrel | 107   | 102   | 98    | 95    |
| Forward exchange rate, RUB to USD | 31.43 | 33.07 | 34.79 | 36.57 |
| Forward 1Y LIBOR, %               | 0.93  | 0.96  | 1.20  | 1.50  |

### *Cross-currency swaps*

During the year ended 31 December 2011, the Group entered into cross-currency swaps to transform the two tranches of its rouble bonds into USD obligations of USD530 million and USD533 million respectively (refer to note 26). The terms of the swaps are 3 and 4 years respectively.

In February 2012 – May 2012 the Group entered into additional cross-currency swaps to convert RUB15.2 billion of 5 year rouble denominated credit facility into a USD denominated liability of USD504 million.

### *Petroleum coke supply contracts and other raw materials*

In May and September 2011, the Group entered into long-term petroleum coke supply contracts where the price of coke is determined with reference to the LME aluminium price and the Brent oil price. The strike price for aluminium is set at USD2,403.45 per tonne and USD2,497.72 per tonne respectively, while the strike price for oil is set at USD61.10 per barrel and USD111.89 per barrel respectively.

### *Interest rate swap*

During the year ended 31 December 2011, the Group entered into an interest rate swap to convert the floating 1Y Libor rate into a fixed rate of 2.4795% on a portion of USD4.58 billion facility with Sberbank of Russia. The notional amount of facility subject to this swap is USD3.3 billion and the swap is effective from 30 September 2012 until the maturity of the underlying loans.

### *Structured investment*

The structured investment is a derivative financial instrument linked to the share price of Norilsk Nickel which expired in 2012.

### *Electricity contracts*

In November 2009, the Group entered into long-term electricity contracts for 9 to 11 years for electricity and power supply with related parties controlled by the immediate parent company of the Group. The companies have to submit and register notifications for purchase and sale of electricity and capacity under the long-term electricity and capacity supply contracts with the administrator of trading system (“ATS”) on a monthly or quarterly basis. The Company believes that at this time these long-term contracts represent an intention to purchase electricity and capacity of up to a stated volume at a pre-agreed price.

At 31 December 2012 the Company revalued the embedded derivatives based on the contractually committed volumes of electricity and capacity stated in the notices submitted to the ATS and recognised a loss of USD71 million.

## 29 Trade and other payables

|                                                                              | <b>31 December</b> | <b>31 December</b> |
|------------------------------------------------------------------------------|--------------------|--------------------|
|                                                                              | <b>2012</b>        | <b>2011</b>        |
|                                                                              | <b>USD million</b> | <b>USD million</b> |
| <b>Accounts payable to third parties</b>                                     | <b>640</b>         | <b>537</b>         |
| <b>Accounts payable to related parties, including:</b>                       | <b>153</b>         | <b>87</b>          |
| <i>Related parties – companies capable of exerting significant influence</i> | 73                 | 53                 |
| <i>Related parties – companies under common control</i>                      | 80                 | 29                 |
| <i>Related parties – associates</i>                                          | -                  | 5                  |
| <b>Advances received</b>                                                     | <b>226</b>         | <b>262</b>         |
| <b>Advances received from related parties, including:</b>                    | <b>278</b>         | <b>453</b>         |
| <i>Related parties – companies capable of exerting significant influence</i> | 255                | 394                |
| <i>Related parties – companies under common control</i>                      | 5                  | 57                 |
| <i>Related parties – associates</i>                                          | 18                 | 2                  |
| <b>Other payables and accrued liabilities</b>                                | <b>218</b>         | <b>168</b>         |
| <b>Other payable and accrued liabilities related parties, including:</b>     | <b>6</b>           | <b>5</b>           |
| <i>Related parties – associates</i>                                          | 6                  | 5                  |
| <b>Other taxes payable</b>                                                   | <b>133</b>         | <b>153</b>         |
| <b>Non-trade payables to third parties</b>                                   | <b>2</b>           | <b>2</b>           |
|                                                                              | <b>1,656</b>       | <b>1,667</b>       |

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

Included in trade and other payables are trade payables with the following ageing analysis as at the reporting date.

|                                       | <b>31 December</b> | <b>31 December</b> |
|---------------------------------------|--------------------|--------------------|
|                                       | <b>2012</b>        | <b>2011</b>        |
|                                       | <b>USD million</b> | <b>USD million</b> |
| Due within twelve months or on demand | 793                | 624                |

### The Company

|                          | <b>31 December</b> | <b>31 December</b> |
|--------------------------|--------------------|--------------------|
|                          | <b>2012</b>        | <b>2011</b>        |
|                          | <b>USD million</b> | <b>USD million</b> |
| Trade and other payables | 822                | 803                |

## 30 Financial risk management and fair values

### (a) Fair values

Management believes that the fair values of financial assets and liabilities approximate their carrying amounts.

The methods used to estimate the fair values of the financial instruments are as follows:

**Trade and other receivables, cash and cash equivalents, current loans and borrowings and trade and other payables:** the carrying amounts approximate fair value because of the short maturity period of the instruments.

**Long-term loans and borrowings, other non-current liabilities:** the fair values of other non-current liabilities are based on the present value of the anticipated cash flows and approximate carrying value, other than bonds issued. Fair value of bonds issued at 31 December 2012 was USD931 million (31 December 2011: USD854 million).

**Derivatives:** the fair value of derivative financial instruments, including embedded derivatives, is based on quoted market prices. Where no price information is available from a quoted market source, alternative market mechanisms or recent comparable transactions, fair value is estimated based on the Group's views on relevant future prices, net of valuation allowances to accommodate liquidity, modelling and other risks implicit in such estimates. Option-based derivatives are valued using Black-Scholes models and Monte-Carlo simulations. The derivative financial instruments are recorded at their fair value at each reporting date.

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in IFRS 7, *Financial Instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

**As at 31 December 2012**

**The Group**

|                                  | Level 1     | Level 2     | Level 3     | Total       |
|----------------------------------|-------------|-------------|-------------|-------------|
|                                  | USD million | USD million | USD million | USD million |
| <b>Assets</b>                    |             |             |             |             |
| Derivative financial assets      | -           | -           | 15          | 15          |
|                                  | -           | -           | <b>15</b>   | <b>15</b>   |
| <b>Liabilities</b>               |             |             |             |             |
| Derivative financial liabilities | -           | -           | 226         | 226         |
|                                  | -           | -           | <b>226</b>  | <b>226</b>  |

**As at 31 December 2011**

**The Group**

|                                  | Level 1     | Level 2     | Level 3     | Total       |
|----------------------------------|-------------|-------------|-------------|-------------|
|                                  | USD million | USD million | USD million | USD million |
| <b>Assets</b>                    |             |             |             |             |
| Derivative financial assets      | -           | -           | 34          | 34          |
|                                  | -           | -           | <b>34</b>   | <b>34</b>   |
| <b>Liabilities</b>               |             |             |             |             |
| Derivative financial liabilities | -           | -           | 198         | 198         |
|                                  | -           | -           | <b>198</b>  | <b>198</b>  |

The movement in the balance of Level 3 fair value measurements is as follows:

| <b>Derivative financial instruments:</b>                          | <b>USD million</b> |
|-------------------------------------------------------------------|--------------------|
| At 1 January 2011                                                 | 627                |
| Changes in fair value estimation recognised during the year       | (224)              |
| Realised portion of electricity contracts                         | (239)              |
| Balance at 31 December 2011/1 January 2012                        | <b>164</b>         |
| Changes in fair value estimation recognised during the year       | 129                |
| Realised portion of electricity, coke and raw materials contracts | (82)               |
| <b>Balance at 31 December 2012</b>                                | <b>211</b>         |

**(b) Financial risk management objectives and policies**

The Group's principal financial instruments comprise bank loans and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. Management reviews and agrees policies for managing each of these risks which are summarised below.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established a risk management group within its Department of Internal Control, which is responsible for developing and monitoring the Group's risk management policies. The Department reports regularly to the Board of Directors on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in its oversight role by the Group's Internal Audit function which undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

**(c) 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 within acceptable parameters, while optimising returns.

**(i) Commodity price risk**

During the years ended 31 December 2012 and 2011, the Group has entered into certain long term electricity contracts and other commodity derivatives contracts in order to manage its exposure of commodity price risks. Details of the contracts are disclosed in note 28.

**(ii) Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates (refer to note 25). The Group's policy is to manage its interest costs by monitoring changes in interest rates with respect to its borrowings.

The following table details the interest rate profile of the Group's and the Company's borrowings at the reporting date.

**The Group**

|                                           | <b>31 December 2012</b>          |                    | <b>31 December 2011</b>          |                    |
|-------------------------------------------|----------------------------------|--------------------|----------------------------------|--------------------|
|                                           | <b>Effective interest rate %</b> | <b>USD million</b> | <b>Effective interest rate %</b> | <b>USD million</b> |
| <b>Fixed rate loans and borrowings</b>    |                                  |                    |                                  |                    |
| Loans and borrowings                      | 5.09%-10.13%                     | 4,909              | 5.09%-5.8%                       | 4,301              |
|                                           |                                  | <b>4,909</b>       |                                  | <b>4,301</b>       |
| <b>Variable rate loans and borrowings</b> |                                  |                    |                                  |                    |
| Loans and borrowings                      | 5.15%-9.94%                      | 6,468              | 1.88%-10.7%                      | 7,470              |
|                                           |                                  | <b>6,468</b>       |                                  | <b>7,470</b>       |
|                                           |                                  | <b>11,377</b>      |                                  | <b>11,771</b>      |

The Group's fixed rate loans and borrowings for the year ended 31 December 2012 include a USD obligation of USD530 million bearing interest at 5.13% per annum and a USD obligation of USD533 million bearing interest at 5.09% per annum. These obligations represent the hedged amount of rouble bonds (for detailed information, refer to note 26). Also, it includes a USD3.3 billion of credit facility, which is hedged with an interest rate swap and RUB18.3 billion credit facility, partially hedged with cross-currency swap (for detailed information refer to note 28).

**The Company**

|                                           | <b>31 December 2012</b>          |                    | <b>31 December 2011</b>          |                    |
|-------------------------------------------|----------------------------------|--------------------|----------------------------------|--------------------|
|                                           | <b>Effective interest rate %</b> | <b>USD million</b> | <b>Effective interest rate %</b> | <b>USD million</b> |
| <b>Fixed rate loans and borrowings</b>    |                                  |                    |                                  |                    |
| Loans and borrowings                      | 0%-10.13%                        | 1,382              | 0%-8.51%                         | 442                |
|                                           |                                  | <b>1,382</b>       |                                  | <b>442</b>         |
| <b>Variable rate loans and borrowings</b> |                                  |                    |                                  |                    |
| Loans and borrowings                      | 5.15%-5.96%                      | 8,687              | 3.53%-5.8%                       | 9,577              |
|                                           |                                  | <b>8,687</b>       |                                  | <b>9,577</b>       |
|                                           |                                  | <b>10,069</b>      |                                  | <b>10,019</b>      |

The following table demonstrates the sensitivity to cash flows from interest rate risk arising from floating rate non-derivative instruments held by the Group at the reporting date in respect of a reasonably possible change in interest rates, with all other variables held constant. The impact on the Group's profit before taxation and equity and retained profits/accumulated losses is estimated as an annualised input on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis for all years presented.

***The Group***

|                               | <b>Increase/ decrease<br/>in basis points</b> | <b>Effect on profit before<br/>taxation for the year</b> | <b>Effect on equity for<br/>the year</b> |
|-------------------------------|-----------------------------------------------|----------------------------------------------------------|------------------------------------------|
|                               |                                               | <b>USD million</b>                                       | <b>USD million</b>                       |
| <b>As at 31 December 2012</b> |                                               |                                                          |                                          |
| Basis percentage points       | +14                                           | (9)                                                      | 7                                        |
| Basis percentage points       | -14                                           | 9                                                        | (7)                                      |
| <b>As at 31 December 2011</b> |                                               |                                                          |                                          |
| Basis percentage points       | +24                                           | (18)                                                     | 15                                       |
| Basis percentage points       | -24                                           | 18                                                       | (15)                                     |

**(iii) *Foreign 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 group entities, primarily USD but also the Russian Rouble, Ukrainian Hryvna and Euros. The currencies in which these transactions primarily are denominated are RUB, USD and EUR.

Borrowings are primarily denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD but also RUB and EUR. This provides an economic hedge.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances or entering into currency swap arrangements.

The Group's exposure at the reporting date to foreign currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate is set out in the table below. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are ignored.

|                                                                      | USD-denominated<br>vs. RUB functional<br>currency |                        | RUB-denominated<br>vs. USD functional<br>currency |                        | EUR-denominated<br>vs. USD functional<br>currency |                        | Denominated in<br>other currencies vs.<br>USD functional<br>currency |                        |
|----------------------------------------------------------------------|---------------------------------------------------|------------------------|---------------------------------------------------|------------------------|---------------------------------------------------|------------------------|----------------------------------------------------------------------|------------------------|
| As at<br>31 December                                                 | 2012<br>USD<br>million                            | 2011<br>USD<br>million | 2012<br>USD<br>Million                            | 2011<br>USD<br>million | 2012<br>USD<br>Million                            | 2011<br>USD<br>million | 2012<br>USD<br>million                                               | 2011<br>USD<br>million |
| Non-current assets                                                   | -                                                 | -                      | 2                                                 | 2                      | 17                                                | -                      | 20                                                                   | 48                     |
| Trade and other<br>receivables                                       | 1                                                 | -                      | 294                                               | 340                    | 32                                                | 88                     | 69                                                                   | 22                     |
| Cash and cash<br>equivalents                                         | 106                                               | -                      | 113                                               | 165                    | 35                                                | 29                     | 11                                                                   | 14                     |
| Derivative<br>financial assets                                       | -                                                 | -                      | 15                                                | 25                     | -                                                 | -                      | -                                                                    | -                      |
| Loans and<br>borrowings                                              | (228)                                             | (227)                  | (390)                                             | (327)                  | (184)                                             | (179)                  | -                                                                    | -                      |
| Provisions                                                           | -                                                 | -                      | (127)                                             | (102)                  | (59)                                              | (40)                   | (40)                                                                 | (18)                   |
| Derivative<br>financial liabilities                                  | -                                                 | -                      | (47)                                              | (24)                   | -                                                 | -                      | -                                                                    | -                      |
| Non-current<br>liabilities                                           | -                                                 | -                      | -                                                 | (1)                    | -                                                 | -                      | -                                                                    | -                      |
| Income taxation                                                      | -                                                 | -                      | (3)                                               | (6)                    | (1)                                               | (1)                    | (10)                                                                 | (6)                    |
| Trade and other<br>payables                                          | -                                                 | (1)                    | (522)                                             | (338)                  | (71)                                              | (40)                   | (73)                                                                 | (85)                   |
| Net exposure<br>arising from<br>recognised assets<br>and liabilities | <b>(121)</b>                                      | <b>(228)</b>           | <b>(665)</b>                                      | <b>(266)</b>           | <b>(231)</b>                                      | <b>(143)</b>           | <b>(23)</b>                                                          | <b>(25)</b>            |

#### Foreign currency sensitivity analysis

The following tables indicate the instantaneous change in the Group's profit before taxation (and accumulated losses) and other comprehensive income that could arise if foreign exchange rates to which the Group has significant exposure at the reporting date had changed at that date, assuming all other risk variables remained constant.

|                                          | Year ended<br>31 December 2012 |                                                                    |                                                 |
|------------------------------------------|--------------------------------|--------------------------------------------------------------------|-------------------------------------------------|
|                                          | Change in<br>exchange<br>rates | USD million<br>Effect on profit<br>before taxation for<br>the year | USD million<br>Effect on equity<br>for the year |
| Depreciation of USD vs. RUB              | 5%                             | (27)                                                               | (32)                                            |
| Depreciation of USD vs. EUR              | 5%                             | (12)                                                               | (12)                                            |
| Depreciation of USD vs. other currencies | 5%                             | (1)                                                                | (1)                                             |

|                                          | <b>Year ended</b>                       |                                                              |                                          |
|------------------------------------------|-----------------------------------------|--------------------------------------------------------------|------------------------------------------|
|                                          | <b>31 December 2011</b>                 |                                                              |                                          |
|                                          | <b>USD million</b>                      | <b>USD million</b>                                           |                                          |
|                                          | <b>Change in<br/>exchange<br/>rates</b> | <b>Effect on profit<br/>before taxation for<br/>the year</b> | <b>Effect on equity<br/>for the year</b> |
| Depreciation of USD vs. RUB              | 5%                                      | (2)                                                          | (5)                                      |
| Depreciation of USD vs. EUR              | 5%                                      | (7)                                                          | (7)                                      |
| Depreciation of USD vs. other currencies | 5%                                      | (1)                                                          | (1)                                      |

Results of the analysis as presented in the above tables represent an aggregation of the instantaneous effects on the Group entities' profit before taxation and other comprehensive income measured in the respective functional currencies, translated into USD at the exchange rates ruling at the reporting date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the reporting date. The analysis excludes differences that would result from the translation of other financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis for all years presented.

**(d) 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 policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operating and financial commitments.

The following tables show the remaining contractual maturities at the reporting date of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates, or if floating, based on rates current at the reporting date) and the earliest the Group can be required to pay.

**The Group**

| <b>31 December 2012</b>                          |                                           |                                                           |                                                            |                              |                    |                            |
|--------------------------------------------------|-------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------|------------------------------|--------------------|----------------------------|
| <b>Contractual undiscounted cash outflow</b>     |                                           |                                                           |                                                            |                              |                    |                            |
|                                                  | <b>Within<br/>1 year or on<br/>demand</b> | <b>More than<br/>1 year but<br/>less than 2<br/>years</b> | <b>More than<br/>2 years but<br/>less than 5<br/>years</b> | <b>More than<br/>5 years</b> | <b>TOTAL</b>       | <b>Carrying<br/>amount</b> |
|                                                  | <b>USD million</b>                        | <b>USD million</b>                                        | <b>USD million</b>                                         | <b>USD million</b>           | <b>USD million</b> | <b>USD million</b>         |
| Trade and other payables to third parties        | 860                                       | -                                                         | -                                                          | -                            | 860                | 860                        |
| Trade and other payables to related parties      | 159                                       | -                                                         | -                                                          | -                            | 159                | 159                        |
| Bonds, including interest payable                | 54                                        | 564                                                       | 546                                                        | -                            | 1,164              | 988                        |
| Loans and borrowings, including interest payable | 1,575                                     | 1,536                                                     | 8,963                                                      | 510                          | 12,584             | 10,346                     |
|                                                  | <b>2,648</b>                              | <b>2,100</b>                                              | <b>9,509</b>                                               | <b>510</b>                   | <b>14,767</b>      | <b>12,353</b>              |

| <b>31 December 2011</b>                          |                                           |                                                           |                                                            |                              |                    |                            |
|--------------------------------------------------|-------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------|------------------------------|--------------------|----------------------------|
| <b>Contractual undiscounted cash outflow</b>     |                                           |                                                           |                                                            |                              |                    |                            |
|                                                  | <b>Within<br/>1 year or on<br/>demand</b> | <b>More than<br/>1 year but<br/>less than 2<br/>years</b> | <b>More than<br/>2 years but<br/>less than 5<br/>years</b> | <b>More than<br/>5 years</b> | <b>TOTAL</b>       | <b>Carrying<br/>amount</b> |
|                                                  | <b>USD million</b>                        | <b>USD million</b>                                        | <b>USD million</b>                                         | <b>USD million</b>           | <b>USD million</b> | <b>USD million</b>         |
| Trade and other payables to third parties        | 707                                       | -                                                         | -                                                          | -                            | 707                | 707                        |
| Trade and other payables to related parties      | 92                                        | -                                                         | -                                                          | -                            | 92                 | 92                         |
| Bonds, including interest payable                | 54                                        | 54                                                        | 1,102                                                      | -                            | 1,210              | 932                        |
| Loans and borrowings, including interest payable | 1,157                                     | 1,874                                                     | 9,153                                                      | 1,048                        | 13,232             | 10,763                     |
|                                                  | <b>2,010</b>                              | <b>1,928</b>                                              | <b>10,255</b>                                              | <b>1,048</b>                 | <b>15,241</b>      | <b>12,494</b>              |

**The Company**

| <b>31 December 2012</b>                          |                                           |                                                           |                                                            |                              |                    |                            |
|--------------------------------------------------|-------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------|------------------------------|--------------------|----------------------------|
| <b>Contractual undiscounted cash outflow</b>     |                                           |                                                           |                                                            |                              |                    |                            |
|                                                  | <b>Within<br/>1 year or on<br/>demand</b> | <b>More than<br/>1 year but<br/>less than<br/>2 years</b> | <b>More than<br/>2 years but<br/>less than 5<br/>years</b> | <b>More than<br/>5 years</b> | <b>TOTAL</b>       | <b>Carrying<br/>amount</b> |
|                                                  | <b>USD million</b>                        | <b>USD million</b>                                        | <b>USD million</b>                                         | <b>USD million</b>           | <b>USD million</b> | <b>USD million</b>         |
| Trade and other payables to third parties        | 3                                         | -                                                         | -                                                          | -                            | 3                  | 3                          |
| Trade and other payables to related parties      | 819                                       | -                                                         | -                                                          | -                            | 819                | 819                        |
| Loans and borrowings, including interest payable | 1,192                                     | 1,660                                                     | 8,621                                                      | 510                          | 11,983             | 10,130                     |
| Other liabilities                                | 1,630                                     | -                                                         | -                                                          | -                            | 1,630              | 1,452                      |
|                                                  | <b>3,644</b>                              | <b>1,660</b>                                              | <b>8,621</b>                                               | <b>510</b>                   | <b>14,435</b>      | <b>12,404</b>              |

| <b>31 December 2011</b>                          |                                           |                                                           |                                                            |                              |                    |                            |
|--------------------------------------------------|-------------------------------------------|-----------------------------------------------------------|------------------------------------------------------------|------------------------------|--------------------|----------------------------|
| <b>Contractual undiscounted cash outflow</b>     |                                           |                                                           |                                                            |                              |                    |                            |
|                                                  | <b>Within<br/>1 year or on<br/>demand</b> | <b>More than<br/>1 year but<br/>less than<br/>2 years</b> | <b>More than<br/>2 years but<br/>less than 5<br/>years</b> | <b>More than<br/>5 years</b> | <b>TOTAL</b>       | <b>Carrying<br/>amount</b> |
|                                                  | <b>USD million</b>                        | <b>USD million</b>                                        | <b>USD million</b>                                         | <b>USD million</b>           | <b>USD million</b> | <b>USD million</b>         |
| Trade and other payables to third parties        | 2                                         | -                                                         | -                                                          | -                            | 2                  | 2                          |
| Trade and other payables to related parties      | 801                                       | -                                                         | -                                                          | -                            | 801                | 801                        |
| Loans and borrowings, including interest payable | 1,038                                     | 1,303                                                     | 9,039                                                      | 1,048                        | 12,428             | 10,078                     |
| Other liabilities                                | -                                         | 1,718                                                     | -                                                          | -                            | 1,718              | 1,383                      |
|                                                  | <b>1,841</b>                              | <b>3,021</b>                                              | <b>9,039</b>                                               | <b>1,048</b>                 | <b>14,949</b>      | <b>12,264</b>              |

**(e) Credit risk**

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The majority of the Group's third party trade receivables represent balances with the world's leading international corporations operating in the metals industry. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. Goods are normally sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables. The details of impairment of trade and other receivables are disclosed in note 22. The extent of the Group's credit exposure is represented by the aggregate balance of financial assets and financial guarantees given.

At 31 December 2012 and 2011, the Group has certain concentrations of credit risk as 1.4% and 0.1% of the total trade receivables were due from the Group's largest customer and 6.9% and 16.1% of the total trade receivables were due from the Group's five largest customers, respectively (refer to note 5 for the disclosure on revenue from largest customer).

With respect to credit risk arising from guarantees, the Group's policy is to provide financial guarantees only to wholly-owned subsidiaries and associates.

**(f) Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Group defines as net operating income divided by total shareholders' equity, excluding non-controlling interests. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Board seeks to maintain a balance between higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Group's approach to capital management during the year.

The Company and its subsidiaries were subject to externally imposed capital requirements in the both years presented in these consolidated financial statements.

## **31 Commitments**

### **(a) Capital commitments**

In May 2006, the Group signed a Co-operation agreement with OJSC HydroOGK and RAO UES. Under this Co-operation agreement OJSC HydroOGK and the Group have jointly committed to finance the construction and future operation of Boguchansk hydropower station (“BoGES”) and an aluminium plant, the planned main customer of the hydropower station, together referred to as the “BEMO project”. The parties established two joint companies with 50:50 ownership, into which the Group is committed to invest USD2,121 million by the end of 2015 (31 December 2011: USD1,946 million). As at 31 December 2012 the outstanding commitment of the Group for construction of the aluminium plant was approximately USD510 million to be committed by the end of 2015 (31 December 2011: USD738 million) and the outstanding commitment for the hydropower station construction was USD83 million to be committed by the end of 2013 (31 December 2011: USD12 million).

The Group has entered into contracts that result in contractual obligations primarily relating to various construction and capital repair works. The commitments at 31 December 2012 and 2011 approximated USD371 million and USD388 million, respectively. These commitments are due over a number of years.

### **(b) Purchase commitments**

Commitments with third parties for purchases of alumina, bauxite and other raw materials in 2013-2034 under supply agreements are estimated from USD2,853 million to USD2,941 million at 31 December 2012 (31 December 2011: USD3,012 million to USD3,088 million) depending on the actual purchase volumes and applicable prices.

Commitments with related parties for purchases of alumina and other raw materials in 2013-2014 under supply agreements are estimated from USD230 million to USD272 million at 31 December 2012 (31 December 2011: USD339 million to USD393 million). These commitments will be settled at the market price at the date of delivery. There are no purchase commitments for the transportation service with third parties under long-term agreements at 31 December 2012 (31 December 2011: from USD8 million to USD12 million).

### **(c) Sale commitments**

Commitments with third parties for sales of alumina and other raw materials in 2013 - 2016 are estimated from USD799 million to USD965 million at 31 December 2012 (31 December 2011: from USD819 million to USD974 million) and will be settled at market prices at the date of delivery. Commitments with related parties for sales of alumina in 2013-2015 approximated USD698 million at 31 December 2012 (31 December 2011: USD115 million).

Commitments with related parties for sales of primary aluminium and alloys in 2013 - 2016 are estimated to range from USD5,029 million to USD5,715 million at 31 December 2012 (31 December 2011: from USD4,208 million to USD4,935 million). Commitments with third parties for sales of primary aluminium and alloys at 31 December 2012 are estimated to range from USD1,244 million to USD1,297 million at 31 December 2012 (31 December 2011: from USD1,139 million to USD1,316 million). These commitments will be settled at market price at the date of delivery. Commitments include sales to Glencore in accordance with a recently concluded long-term contract for which the sales volumes will depend on the actual production in 2013-2018. The volume of sales commitments to Glencore for 2013 year under the agreement is specified and is estimated to be from USD3,253 to USD3,386 million.

**(d) Operating lease commitments**

Non-cancellable operating lease rentals are payable as follows:

|                            | <u>31 December</u> | <u>31 December</u> |
|----------------------------|--------------------|--------------------|
|                            | <u>2012</u>        | <u>2011</u>        |
|                            | <u>USD million</u> | <u>USD million</u> |
| Less than one year         | 3                  | 5                  |
| Between one and five years | 11                 | 15                 |
|                            | <b>14</b>          | <b>20</b>          |

**(e) Social commitments**

The Group contributes to the maintenance and upkeep of the local infrastructure and the welfare of its employees, including contributions toward the development and maintenance of housing, hospitals, transport services, recreation and other social needs of the regions of the Russian Federation where the Group's production entities are located. The funding of such assistance is periodically determined by management and is appropriately capitalised or expensed as incurred.

## **32 Contingencies**

**(a) Taxation**

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activities of the Group may be challenged by the relevant local, regional and federal authorities. Notably recent developments in the Russian environment suggest that the authorities in this country are becoming more active in seeking to enforce, through the Russian court system, interpretations of the tax legislation, in particular in relation to the use of certain commercial trading structures, which may be selective for particular tax payers and different to the authorities' previous interpretations or practices. Different and selective interpretations of tax regulations by various government authorities and inconsistent enforcement create further uncertainties in the taxation environment in the Russian Federation.

Tax declarations, together with related documentation, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Fiscal periods remain open to review by the authorities for three calendar years preceding the year of review (one year in the case of customs). Under certain circumstances reviews may cover longer periods. In addition, in some instances, new tax regulations effectively have been given retroactive effect. Additional taxes, penalties and interest which may be material to the financial position of the taxpayers may be assessed in the Russian Federation as a result of such reviews.

In addition to the amounts of income tax the Group has provided (refer to note 27), there are certain tax positions taken by the Group where it is reasonably possible (though less than 50% likely) that additional tax may be payable upon examination by the tax authorities or in connection with ongoing disputes with tax authorities. The Group's best estimate of the aggregate maximum of additional amounts that it is reasonably possible may become payable if these tax positions were not sustained at 31 December 2012 and 2011 is USD409 million and USD278 million, respectively.

The Group's major trading companies are incorporated in low tax jurisdictions outside Russia and a significant portion of the Group's profit is realised by these companies. Management believes that these trading companies are not subject to taxes outside their countries of incorporation and that the commercial terms of transactions between them and other Group companies are acceptable to the relevant tax authorities. These consolidated financial statements have been prepared on this basis. However, as these companies are involved in a significant level of cross border activities, there is a risk that Russian or other tax authorities may challenge the treatment of cross-border activities and assess additional tax charges. It is not possible to quantify the financial exposure resulting from this risk.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB3 billion in 2012, RUB2 billion in 2013, and RUB1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect, if any, of the new transfer pricing rules on these consolidated financial statements.

The Company believes it is compliant with the new rules as it has historically applied the OECD - based transfer pricing principles.

Estimating additional tax which may become payable is inherently imprecise. It is, therefore, possible that the amount ultimately payable may exceed the Group's best estimate of the maximum reasonably possible liability; however, the Group considers that the likelihood that this will be the case is remote.

**(b) Environmental contingencies**

The Group and its predecessor entities have operated in the Russian Federation, Ukraine, Jamaica, Guyana, the Republic of Guinea and the European Union for many years and certain environmental problems have developed. Governmental authorities are continually considering environmental regulations and their enforcement and the Group periodically evaluates its obligations related thereto. As obligations are determined, they are recognised immediately. The outcome of environmental liabilities under proposed or any future legislation, or as a result of stricter enforcement of existing legislation, cannot reasonably be estimated. Under current levels of enforcement of existing legislation, management believes there are no possible liabilities, which will have a material adverse effect on the financial position or the operating results of the Group. However, the Group anticipates undertaking significant capital projects to improve its future environmental performance and to bring it into full compliance with current legislation.

**(c) Legal contingencies**

The Group's business activities expose it to a variety of lawsuits and claims which are monitored, assessed and contested on the ongoing basis. Where management believes that a lawsuit or another claim would result in the outflow of the economic benefits for the Group, a best estimate of such outflow is included in provisions in these consolidated financial statements (refer to note 27(c)).

In May 2009, the Republic of Guinea filed a claim in Guinea against one of the Group's subsidiaries of USD1,000 million contesting the terms of privatisation of the Group's subsidiary in Guinea. The subsidiary appealed that decision and received a decision from the Appeal Court of Conakry overruling the previous court's decision regarding the jurisdiction of the local court to consider this claim in Guinea. In June 2011 the relevant Group subsidiary filed a request for arbitration with the International Chamber of Commerce in Paris against the Republic of Guinea for, among other things, a declaration that the privatization is valid. In May 2012 the Republic of Guinea filed an answer and counterclaim that the privatisation is invalid. Thereafter, the Republic of Guinea withdrew its counterclaim, and merely denies that the relevant Group subsidiary is entitled to the relief it seeks. The final hearing in the case is scheduled for September 2013. On the basis that the counterclaim has been withdrawn management believes the risk of a significant cash outflow in connection with the case is remote.

On 24 November 2006 a claim was issued on behalf of Mr. Michael Cherney ("Mr. Cherney") against Mr. Oleg V. Deripaska ("Mr. Deripaska"), the controlling shareholder of En+. Mr. Deripaska advised the Company on 27 September 2012 that Mr. Cherney's litigation in London against Mr. Deripaska has been terminated on the basis that Mr. Cherney will make no claim against the shares or assets of the Company or Mr. Deripaska.

On 4 April and 23 July 2012, the Company received separate requests for arbitration made to the London Court of International Arbitration ("LCIA"), pursuant to the LCIA arbitration rules, for the commencement of arbitration by SUAL Partners against Glencore International AG, En+, the Company and Mr. Oleg Deripaska. The two arbitrations were subsequently joined in one arbitration proceeding. The dispute relates to certain shareholder arrangements between the parties in respect of the Company. SUAL Partners alleges, inter alia, that certain contracts between the Company and Glencore International AG and a contract between the Company and a company indirectly controlled by En+ were, or will be, in breach of those shareholder arrangements. SUAL Partners seek injunctive relief preventing the Group from performing the contracts, annulment of the contracts, an account of profits from, and damages against the defendants. Management do not expect that the arbitration will have a material adverse effect on the Group's financial position or its operation as a whole.

**(d) Risks and concentrations**

A description of the Group's major products and its principal markets, as well as exposure to foreign currency risks are provided in note 1 "Background" and note 3 "Significant accounting policies". The price at which the Group can sell its products is one of the primary drivers of the Group's revenue. The Group's prices are largely determined by prices set in the international market. The Group's future profitability and overall performance is strongly affected by the price of primary aluminium that is set in the international market.

**(e) Insurance**

The insurance industry in the Russian Federation is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption or third party liability in respect of property or environmental damage arising from accidents on Group properties or relating

to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

## **33 Related party transactions**

### **(a) Transactions with management and close family members**

#### ***Management remuneration***

Key management received the following remuneration, which is included in personnel costs (refer to note 9(a)):

|                          | <b>Year ended 31 December</b> |                    |
|--------------------------|-------------------------------|--------------------|
|                          | <b>2012</b>                   | <b>2011</b>        |
|                          | <b>USD million</b>            | <b>USD million</b> |
| Salaries and bonuses     | 91                            | 81                 |
| Share-based compensation | 3                             | 8                  |
|                          | <b>94</b>                     | <b>89</b>          |

### **(b) Transactions with associates and joint ventures**

Sales to associates are disclosed in note 5, trade receivables from associates are disclosed in note 22 and accounts payable to associates are disclosed in note 29.

### **(c) Transactions with other related parties**

#### **The Group**

The Group transacts with other related parties, the majority of which are entities under common control with the Group or under the control of SUAL Partners Limited or its controlling shareholders or Glencore International Plc or entities under its control or Onexim Holdings Limited or its controlling shareholders.

Sales to related parties for the year are disclosed in note 5, trade receivables from related parties are disclosed in note 22, cash and cash equivalents are disclosed in note 23, accounts payable to related parties are disclosed in note 29, commitments with related parties are disclosed in note 31 and other transactions with shareholders are disclosed in note 24.

Purchases of raw materials and services from related parties and interest income and expense are recurring and for the year were as follows:

|                                                                                                             | <b>Year ended 31 December</b> |                    |
|-------------------------------------------------------------------------------------------------------------|-------------------------------|--------------------|
|                                                                                                             | <b>2012</b>                   | <b>2011</b>        |
|                                                                                                             | <b>USD million</b>            | <b>USD million</b> |
| Purchases of raw materials – companies under common control                                                 | 148                           | 135                |
| Purchases of alumina, bauxite and other raw materials – companies capable of exerting significant influence | 345                           | 246                |
| Purchases of raw materials – associates                                                                     | 30                            | 29                 |
| Energy costs – companies under common control                                                               | 742                           | 782                |
| Energy costs – companies capable of exerting significant influence                                          | 182                           | 190                |
| Other costs – companies under common control                                                                | 17                            | 9                  |
| Other costs – associates                                                                                    | 198                           | 191                |
| Distribution expenses - companies under common control                                                      | 10                            | 5                  |
|                                                                                                             | <b>1,672</b>                  | <b>1,587</b>       |

#### *Electricity contracts*

The Group has indicated the intention to purchase electricity during the years 2012 through 2020 under long-term agreements with related parties. The estimated value of this commitment for each year is presented in the table below and is based on the expected 2011 T(basic) component, as defined in the notes 28 and 30(c)(i), excluding the impact of embedded derivatives recognised in these consolidated financial statements.

| <b>Year</b>                  | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> | <b>2019</b> | <b>2020</b> |
|------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Volumes, KWh million         | 45,898      | 46,128      | 46,384      | 46,735      | 46,900      | 46,952      | 18,300      | 18,300      |
| Estimated value, USD million | 409         | 414         | 419         | 425         | 430         | 435         | 100         | 105         |

In the beginning of 2011, the rules and regulations of the wholesale electricity and capacity market in the Russian Federation changed. Amongst all the changes, companies are required to submit and register notifications for purchase and sale of electricity and capacity under the long-term electricity and capacity supply contracts on a monthly and quarterly basis.

## The Company

|                                                  | <b>31 December</b> |                    |
|--------------------------------------------------|--------------------|--------------------|
|                                                  | <b>2012</b>        | <b>2011</b>        |
|                                                  | <b>USD million</b> | <b>USD million</b> |
| Investments in subsidiaries                      | 18,578             | 17,813             |
| Loans to related parties (Group companies)       | 9                  | 510                |
| Trade and other receivables from related parties | 15                 | 15                 |
| Loans and borrowings from related parties        | 833                | 463                |
| Trade and other payables to related parties      | 819                | 801                |
| Other liabilities (i)                            | 1,452              | 1,383              |

- (i) Included in other liabilities is a payable for 1,600 ordinary shares issued by one of the Company's subsidiaries on 12 February 2010 and redeemable at the option of that subsidiary. The nominal value of the payable, which is repayable on demand on or after 7 December 2013, is USD1,600 million. The fair value of the payable at initial recognition amounted to USD1,057 million was determined by discounting at applicable current interest rates and the resultant difference between nominal and fair value was recorded directly in equity of the Company. The carrying value of the payable balance as at 31 December 2012 is USD1,425 million (31 December 2011: USD1,284 million).

The remainder of other liabilities represents a promissory note payable issued by the Company to a subsidiary in an amount of USD553 million, bearing zero interest and repayable on demand. Upon initial recognition the fair value of the payable was determined by discounting at applicable interest rates at USD420 million, with the resultant difference between nominal and fair value recorded directly in equity. The carrying value of the payable balance as at 31 December 2012 is USD27 million (31 December 2011: USD99 million).

### (d) Related parties balances

At 31 December 2012 included in non-current assets are balances of USD32 million related to companies which are related parties (31 December 2011: USD30 million).

### (e) Pricing policies

Prices for transactions with related parties are determined on a case by case basis but are not necessarily at arm's length.

The Group has entered into three categories of related-party transactions: (i) those entered into on an arm's length basis, (ii) those entered into on non-arm's length terms but as part of a wider deal resulting from arms' length negotiations with unrelated third parties, and (iii) transactions unique to the Group and the counterparty.

## 34 Particulars of subsidiaries

As at 31 December 2012 and 2011, the Company has direct and indirect interests in the following subsidiaries, which principally affected the results, assets and liabilities of the Group:

| Name                                    | Place of incorporation and operation | Date of incorporation | Particulars of issued and paid up capital | Attributable equity interest | Principal activities                    |
|-----------------------------------------|--------------------------------------|-----------------------|-------------------------------------------|------------------------------|-----------------------------------------|
| Compagnie Des Bauxites De Kindia S.A.   | Guinea                               | 29 November 2000      | 2,000 shares of GNF 25,000 each           | 100.0%                       | Bauxite mining                          |
| Friguia                                 | Guinea                               | 9 February 1957       | 388 649 shares of GNF 1,987,831, 98 each  | 100.0%                       | Alumina                                 |
| OJSC RUSAL Achinsk                      | Russian Federation                   | 20 April 1994         | 4,188,531 shares of RUB 1 each            | 100.0%                       | Alumina                                 |
| RUSAL Mykolaev Ltd                      | Ukraine                              | 16 September 2004     | 1,332,226 shares of UAH 720 each          | 100.0%                       | Alumina                                 |
| OJSC RUSAL Boxitogorsk Alumina          | Russian Federation                   | 27 October 1992       | 1,012,350 shares of RUB 1 each            | 100.0%                       | Alumina                                 |
| Eurallumina SpA                         | Italy                                | 21 March 2002         | 10,000,000 shares of Euro 1.55 each       | 100.0%                       | Alumina                                 |
| OJSC RUSAL Bratsk                       | Russian Federation                   | 26 November 1992      | 5,505,305 shares of RUB 0.2 each          | 100.0%                       | Smelting                                |
| OJSC RUSAL Krasnoyarsk                  | Russian Federation                   | 16 November 1992      | 85,478,536 shares of RUB 20 each          | 100.0%                       | Smelting                                |
| OJSC RUSAL Novokuznetsk                 | Russian Federation                   | 26 June 1996          | 53,997,170 shares of RUB 0.1 each         | 100.0%                       | Smelting                                |
| OJSC RUSAL Sayanogorsk                  | Russian Federation                   | 29 July 1999          | 59,902,661,099 shares of RUB 0.068 each   | 100.0%                       | Smelting                                |
| Khakas Aluminium Smelter Ltd            | Russian Federation                   | 23 July 2003          | charter fund of RUB10,077,594,515.7       | 100.0%                       | Smelting                                |
| RUSAL Resal Ltd                         | Russian Federation                   | 15 November 1994      | charter fund of RUB27,951,217.29          | 100.0%                       | Processing                              |
| OJSC RUSAL SAYANAL                      | Russian Federation                   | 29 December 2001      | 59,902,661,099 shares of RUB 0.006 each   | 100.0%                       | Foil                                    |
| CJSC RUSAL ARMENAL                      | Armenia                              | 17 May 2000           | 3,140,700 shares of AMD 1,000 each        | 100.0%                       | Foil                                    |
| RUS-Engineering Ltd                     | Russian Federation                   | 18 August 2005        | charter fund of RUB2,026,200,136.37       | 100.0%                       | Repairs and maintenance                 |
| OJSC Russian Aluminium                  | Russian Federation                   | 25 December 2000      | 23,124,000,000 shares of RUB 1 each       | 100.0%                       | Holding company                         |
| Rusal Global Management B.V.            | Russian Federation                   | 8 March 2001          | charter fund of RUB50,000                 | 100.0%                       | Management company                      |
| OJSC United Company RUSAL Trading House | Russian Federation                   | 15 March 2000         | 163,660 shares of RUB 100 each            | 100.0%                       | Trading                                 |
| Rusal America Corp.                     | USA                                  | 29 March 1999         | 1,000 shares of USD 0.01 each             | 100.0%                       | Trading                                 |
| RS International GmbH                   | Switzerland                          | 22 May 2007           | 1 share with nominal value of CHF 20,000  | 100.0%                       | Trading                                 |
| Rusal Marketing GmbH                    | Switzerland                          | 22 May 2007           | Capital quota of CHF2,000,000             | 100.0%                       | Trading                                 |
| RTI Limited                             | Jersey                               | 27 October 2006       | 62 shares of USD 1 each                   | 100.0%                       | Trading                                 |
| Alumina & Bauxite Company Limited       | British Virgin Islands               | 3 March 2004          | 50,000 shares of USD 1 each               | 100.0%                       | Trading                                 |
| CJSC Komi Aluminii                      | Russian Federation                   | 13 February 2003      | 1,703,000,000 shares of RUB 1 each        | 100.0%                       | Alumina                                 |
| OJSC Bauxite-Timana                     | Russian Federation                   | 29 December 1992      | 44,500,000 shares of RUB 10 each          | 80.0%                        | Bauxite mining                          |
| OJSC Severo-Uralsky Bauxite Mine        | Russian Federation                   | 24 October 1996       | 2,386,254 shares of RUB 275.85 each       | 100.0%                       | Bauxite mining                          |
| OJSC SUAL                               | Russian Federation                   | 26 September 1996     | 2,542,941,932 shares of RUB 1 each        | 100.0%                       | Primary aluminum and alumina production |

| Name                                      | Place of incorporation and operation | Date of incorporation | Particulars of issued and paid up capital | Attributable equity interest | Principal activities                    |
|-------------------------------------------|--------------------------------------|-----------------------|-------------------------------------------|------------------------------|-----------------------------------------|
| OJSC Zaporozhye Aluminum Combine ("ZALK") | Ukraine                              | 30 September 1994     | 622,729,120 shares of RUB 0.25 each       | 98.0%                        | Primary aluminum and alumina production |
| SUAL-PM LLC                               | Russian Federation                   | 20 October 1998       | charter fund of RUB56,300,959             | 100.0%                       | Aluminum powders production             |
| CJSC Kremniy                              | Russian Federation                   | 3 August 1998         | 320,644 shares of RUB 1,000 each          | 100.0%                       | Silicon production                      |
| SUAL-Kremniy-Ural LLC                     | Russian Federation                   | 1 March 1999          | charter fund of RUB 8,763,098             | 100.0%                       | Silicon production                      |
| UC RUSAL Alumina Jamaica Limited (a)      | Jamaica                              | 26 April 2001         | 1,000,000 shares of USD 1 each            | 100.0%                       | Alumina                                 |
| UC RUSAL Alumina Jamaica II Limited (b)   | Jamaica                              | 16 May 2004           | 200 shares of USD 1 each                  | 100.0%                       | Alumina                                 |
| Kubikenborg Aluminium AB                  | Sweden                               | 26 January 1934       | 25,000 shares of SEK 1,000 each           | 100.0%                       | Smelting                                |
| Aughinish Alumina Ltd                     | Ireland                              | 22 September 1977     | 1,000 shares of Euro 2 each               | 100.0%                       | Alumina                                 |

Trading entities are engaged in the sale of products to and from the production entities.

(a) owns a 93% interest in the Windalco jointly owned mine and refinery.

(b) owned a 65% interest in the Alpart jointly owned mine and refinery as at 1 January 2011.

On 16 September 2011 UC RUSAL entered into a share purchase agreement with Norway's Norsk Hydro ASA to acquire the remaining 35% stake in the Alumina Partners of Jamaica ("Alpart") for cash consideration of USD46 million and the company became a wholly-controlled operation thereafter.

## 35 Immediate and ultimate controlling party

At 31 December 2012 and 2011, the directors consider the immediate parent of the Group to be En+, which is incorporated in Jersey with its registered office at Ogier House, The Esplanade, St. Helier, Jersey, JE4 9WG, Channel Islands. En+ is controlled by Fidelitas Investments Limited (a company incorporated in the British Virgin Islands) through its wholly-owned subsidiary. Mr. Oleg V. Deripaska is the founder, the trustee and a principal beneficiary of a discretionary trust, which controls Fidelitas Investments Limited. None of these entities produce financial statements available for public use.

## 36 Events subsequent to the reporting date

In January 2013 the Group obtained a USD400 million multicurrency credit facility for a term of 5 years, and in February 2013 drew down USD328 million of the facility. The drawn down funds together with USD78 million of the Group's own funds were used for early repayment of principal amounts originally scheduled for the third and fourth quarters of 2013 under the USD4.75 billion syndicated facility.

In January 2013, the Company received a writ of summons and statement of claim filed in the High Court of Justice of the Federal Capital Territory of Nigeria (Abuja) by plaintiff BFIG Group Divino Corporation ("BFIG") against certain subsidiaries of the Company. It is a claim for damages arising out of the defendants' alleged tortious interference in the bid process for the sale of the Nigerian government's majority stake in the Aluminium Smelter Company of Nigeria ("ALSCON") and alleged loss of BFIG's earnings resulting from its failed bid for the said stake in ALSCON. BFIG seeks compensatory damages in the amount of USD2.8 billion. Based on a

preliminary assessment of the claim, the Company does not expect the case to have any material adverse effect on the Group's financial position or its operation as a whole.

In February 2013 the Group made a principal repayment of RUB2 billion against its VTB loan utilising the its own funds.

## **37 Accounting estimates and judgements**

The Group has identified the following critical accounting policies under which significant judgements, estimates and assumptions are made and where actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

### *Property, plant and equipment – recoverable amount*

In accordance with the Group's accounting policies, each asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use.

Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties and is generally determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset, including any expansion prospects, and its eventual disposal.

Value in use is also generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a risk-adjusted pre-tax discount rate appropriate to the risks inherent in the asset. Future cash flow estimates are based on expected production and sales volumes, commodity prices (considering current and historical prices, price trends and related factors), reserves (refer to 'Bauxite reserve estimates' below), operating costs, restoration and rehabilitation costs and future capital expenditure. This policy requires management to make these estimates and assumptions which are subject to risk and uncertainty; hence there is a possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be impaired and the impairment would be charged against the statement of income.

### *Inventories – net realisable value*

The Group recognises write-downs of inventories based on an assessment of the net realisable value of the inventories. A write-down is applied to the inventories where events or changes in circumstances indicate that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimates, such difference will impact the carrying value of the inventories and the write-down of inventories charged to the statement of income in the periods in which such estimate has been changed.

### *Goodwill – recoverable amount*

In accordance with the Group's accounting policies, goodwill is allocated to the Group's Aluminium segment as it represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is tested for impairment annually by preparing a

formal estimate of the recoverable amount. The recoverable amount is estimated as the value in use of the Aluminium segment.

Similar considerations to those described above in respect of assessing the recoverable amount of property, plant and equipment apply to goodwill.

*Investments in associates and jointly controlled entities – recoverable amount*

In accordance with the Group's accounting policies, each investment in an associate or jointly controlled entity is evaluated every reporting period to determine whether there are any indications of impairment after application of the equity method of accounting. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss recognised to the extent that the carrying amount exceeds the recoverable amount. For impairment purposes, an investment in an associate is treated as a single unit of account. The recoverable amount of an investment in an associate or jointly controlled entity is measured at the higher of fair value less costs to sell and value in use.

Similar considerations to those described above in respect of assessing the recoverable amount of property, plant and equipment apply to investments in associates or jointly controlled entities. In addition to the considerations described above the Group may also assess the estimated future cash flows expected to arise from dividends to be received from the investment, if such information is available and considered reliable.

*Legal proceedings*

In the normal course of business the Group may be involved in legal proceedings. Where management considers that it is more likely than not that proceedings will result in the Group compensating third parties a provision is recognised for the best estimate of the amount expected to be paid. Where management considers that it is more likely than not that proceedings will not result in the Group compensating third parties or where, in rare circumstances, it is not considered possible to provide a sufficiently reliable estimate of the amount expected to be paid, no provision is made for any potential liability under the litigation but the circumstances and uncertainties involved are disclosed as contingent liabilities. The assessment of the likely outcome of legal proceedings and the amount of any potential liability involves significant judgement. As law and regulations in many of the countries in which the Group operates are continuing to evolve, particularly in the areas of taxation, sub-soil rights and protection of the environment, uncertainties regarding litigation and regulation are greater than those typically found in countries with more developed legal and regulatory frameworks.

*Provision for restoration and rehabilitation*

The Group's accounting policies require the recognition of provisions for the restoration and rehabilitation of each site when a legal or constructive obligation exists to dismantle the assets and restore the site. The provision recognised represents management's best estimate of the present value of the future costs required. Significant estimates and assumptions are made in determining the amount of restoration and rehabilitation provisions. Those estimates and assumptions deal with uncertainties such as: changes to the relevant legal and regulatory framework; the magnitude of possible contamination and the timing, extent and costs of required restoration and rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the statement of financial position by adjusting both the restoration and rehabilitation asset and provision. Such changes give rise to a change in future depreciation and interest charges. For closed sites, changes to estimated costs are recognised immediately in the statement of income.

## *Taxation*

The Group's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets, including those arising from carried forward tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and is not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, commodity prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditure, dividends and other capital management transactions. Assumptions are also required about the application of income tax legislation. These estimates and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the statement of financial position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of income.

The Group generally provides for current tax based on positions taken (or expected to be taken) in its tax returns. Where it is more likely than not that upon examination by the tax authorities of the positions taken by the Group additional tax will be payable, the Group provides for its best estimate of the amount expected to be paid (including any interest and/or penalties) as part of the tax charge.

## *Bauxite reserve estimates*

Reserves are estimates of the amount of product that can be economically and legally extracted from the Group's properties. In order to calculate reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs, commodity demand, commodity prices and exchange rates.

The Group determines ore reserves under the Australasian Code for Reporting of Mineral Resources and Ore Reserves September 1999, known as the JORC Code. The JORC Code requires the use of reasonable investment assumptions to calculate reserves.

Estimating the quantity and/or grade of reserves requires the size, shape and depth of ore bodies or fields to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

Since economic assumptions used to estimate reserves change from period to period, and since additional geological data is generated during the course of operations, estimates of reserves may change from period to period.

Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

- Asset carrying values may be affected due to changes in estimated future cash flows.
- Depletion charged in the statement of income may change where such charges are determined by the units of production basis, or where the useful economic lives of assets change.
- Decommissioning, site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities.

### *Exploration and evaluation expenditure*

The Group's accounting policy for exploration and evaluation expenditure results in certain items of expenditure being capitalised for an area of interest where it is considered likely to be recoverable by future exploitation or sale or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. This policy requires management to make certain estimates and assumptions as to future events and circumstances, in particular whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised the expenditure under the policy, a judgement is made that recovery of the expenditure is unlikely, the relevant capitalised amount will be written off to the statement of income.

### *Development expenditure*

Development activities commence after project sanctioning by the appropriate level of management. Judgement is applied by management in determining when a project has reached a stage at which economically recoverable reserves exist such that development may be sanctioned. In exercising this judgement, management is required to make certain estimates and assumptions similar to those described above for capitalised exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after having commenced the development activity, a judgement is made that a development asset is impaired, the appropriate amount will be written off to the statement of income.

### *Defined benefit pension and other post retirement schemes*

For defined benefit pension schemes, the cost of benefits charged to the statement of income includes current and past service costs, interest costs on defined benefit obligations and the effect of any curtailments or settlements, net of expected returns on plan assets. An asset or liability is consequently recognised in the statement of financial position based on the present value of defined obligations, less any unrecognised past service costs and the fair value of plan assets.

The accounting policy requires management to make judgements as to the nature of benefits provided by each scheme and thereby determine the classification of each scheme. For defined benefit pension schemes, management is required to make annual estimates and assumptions about future returns on classes of scheme assets, future remuneration changes, employee attrition rates, administration costs, changes in benefits, inflation rates, exchange rates, life expectancy and expected remaining periods of service of employees. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. Where actual experience differs to these estimates, actuarial gains and losses are recognised directly in the statement of comprehensive income.

### *Fair values of identifiable net assets of acquired companies*

The Group's policy is to engage an independent appraiser to assist in determining fair values of identifiable net assets of acquired companies for all significant business combinations.

A variety of valuation techniques is applied to appraise the acquired net assets depending on the nature of the assets acquired and available market information. The details of methods used and assumptions made to determine fair values of property, plant and equipment are disclosed in note 15, intangible assets – in note 16 and provisions – in note 27. Other assets and liabilities acquired including provisions are evaluated in accordance with the Group's applicable accounting policies disclosed in note 3.

## 38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year

The IASB has issued the following amendments, new standards and interpretations which are not yet effective in respect of the financial years included in these consolidated financial statements, and which have not been adopted in these consolidated financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application but is not yet in a position to state whether these amendments, new standards and interpretations would have a significant impact on the Group's results of operations and financial position.

|                                                                                                                         | <b>Effective for<br/>accounting periods<br/>beginning on or after</b> |
|-------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------|
| Amendments to IFRS 7, <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> | 1 January 2013                                                        |
| IFRS 12, <i>Disclosure of Interest in Other Entities</i>                                                                | 1 January 2013                                                        |
| IFRS 10, <i>Consolidated financial statements</i>                                                                       | 1 January 2013                                                        |
| IFRS 11, <i>Joint arrangements</i>                                                                                      | 1 January 2013                                                        |
| <i>Investment Entities ( Amendments to IFRS 11, IFRS 12 and IAS 27)</i>                                                 | 1 January 2014                                                        |
| IFRS 13, <i>Fair value measurement</i>                                                                                  | 1 January 2013                                                        |
| IAS 27, <i>Separate financial statements (2011)</i>                                                                     | 1 January 2013                                                        |
| IAS 28, <i>Investments in associates and joint ventures (2011)</i>                                                      | 1 January 2013                                                        |
| IFRIC 20, <i>Stripping costs in the production phase of surface mine</i>                                                | 1 January 2013                                                        |
| IAS 19, <i>Employee benefits(2011)</i>                                                                                  | 1 July 2013                                                           |
| IFRS 9, <i>Financial instruments</i>                                                                                    | 1 January 2015                                                        |
| Amendments to IAS 32 <i>Financial Instruments: Presentation – offsetting Financial Assets and Financial Liabilities</i> | 1 January 2014                                                        |