# United Company RUSAL Plc

# Consolidated Interim Condensed Financial Information for the three months ended 31 March 2011

| | Note | Three months ended 31 March 2011 (unaudited) USD million | Three months ended 31 March 2010 (unaudited) USD million |
|---|---|---|---|
| **Revenue** | 6 | 2,993 | 2,331 |
| Cost of sales | | (2,004) | (1,566) |
| **Gross profit** | | **989** | **765** |
| Distribution expenses | | (171) | (134) |
| Administrative expenses | | (186) | (240) |
| Impairment of non-current assets | 13 | (120) | (5) |
| Other operating expenses | | (70) | (20) |
| **Results from operating activities** | | **442** | **366** |
| Finance income | 14 | 724 | 37 |
| Finance expenses | | (426) | (404) |
| Share of profits of associates | 8 | 179 | 263 |
| Share of profits of jointly controlled entities | 9 | 20 | 7 |
| **Profit before taxation** | | **939** | **269** |
| Income tax | | (193) | (22) |
| **Net profit for the period** | | **746** | **247** |
| Attributable to: | | | |
| Shareholders of the Company | | 746 | 247 |
| | | | |
| **Earnings per share** | | | |
| Basic and diluted earnings per share (USD) | 7 | 0.05 | 0.02 |



The consolidated interim condensed statement of income is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 9 to 27.

| | Note | Three months ended 31 March | |
|---|---|---|---|
| | | 2011 (unaudited) | 2010 (unaudited) |
| | | USD million | USD million |
| **Net profit for the period** | | **746** | **247** |
| **Other comprehensive income** | | | |
| Actuarial gains on post retirement benefit plans | | - | 28 |
| Share of other comprehensive income of associate | 8 | 8 | 72 |
| Foreign currency translation differences for foreign operations | | 1,102 | 408 |
| | | **1,110** | **508** |
| **Total comprehensive income for the period** | | **1,856** | **755** |
| Attributable to: | | | |
| Shareholders of the Company | | **1,856** | **755** |

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



The consolidated interim condensed statement of comprehensive income is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 9 to 27.

| | Note | 31 March 2011 (unaudited) USD million | 31 December 2010 USD million |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 5,914 | 5,875 |
| Intangible assets | | 4,252 | 4,085 |
| Interests in associates | 8 | 12,114 | 11,151 |
| Interests in jointly controlled entities | 9 | 1,212 | 1,136 |
| Financial investments | | 138 | 111 |
| Deferred tax assets | | 58 | 85 |
| Other non-current assets | | 98 | 104 |
| **Total non-current assets** | | **23,786** | **22,547** |
| **Current assets** | | | |
| Inventories | | 2,652 | 2,429 |
| Trade and other receivables | | 1,275 | 1,058 |
| Cash and cash equivalents | | 519 | 491 |
| **Total current assets** | | **4,446** | **3,978** |
| **Total assets** | | **28,232** | **26,525** |



The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 9 to 27.

| | Note | 31 March 2011 (unaudited) USD million | 31 December 2010 USD million |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | 10 | | |
| Share capital | | 152 | 152 |
| Share premium | | 15,782 | 15,782 |
| Other reserves | | 3,103 | 3,095 |
| Currency translation reserve | | (2,475) | (3,577) |
| Accumulated losses | | (3,250) | (3,996) |
| **Total equity** | | **13,312** | **11,456** |
| **Non-current liabilities** | | | |
| Loans and borrowings | 11 | 9,496 | 10,602 |
| Bonds | 12 | 528 | - |
| Provisions | 13 | 517 | 402 |
| Deferred tax liabilities | | 569 | 415 |
| Derivative financial liabilities | 14 | - | 660 |
| Other non-current liabilities | | 22 | 22 |
| **Total non-current liabilities** | | **11,132** | **12,101** |
| **Current liabilities** | | | |
| Loans and borrowings | 11 | 1,877 | 1,361 |
| Current taxation | | 12 | 40 |
| Trade and other payables | | 1,737 | 1,365 |
| Derivative financial liabilities | 14 | 23 | 78 |
| Provisions | 13 | 139 | 124 |
| **Total current liabilities** | | **3,788** | **2,968** |
| **Total liabilities** | | **14,920** | **15,069** |
| **Total equity and liabilities** | | **28,232** | **26,525** |
| **Net current assets** | | **658** | **1,010** |
| **Total assets less current liabilities** | | **24,444** | **23,557** |

Approved and authorised for issue by the board of directors on 11 May 2011.

**Oleg V. Deripaska**
Chief Executive Officer

**Evgeny D. Kornilov**
Chief Financial Officer



The consolidated interim condensed statement of financial position is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 9 to 27.

| | Note | Share capital | Share premium | Other reserves | Currency translation reserve | Accumulated losses | Total equity |
|---|---|---|---|---|---|---|---|
| | | **USD million** | **USD million** | **USD million** | **USD million** | **USD million** | **USD million** |
| **Balance at 1 January 2011** | | **152** | **15,782** | **3,095** | **(3,577)** | **(3,996)** | **11,456** |
| Total comprehensive income for the period (unaudited) | | - | - | 8 | 1,102 | 746 | 1,856 |
| **Balance at 31 March 2011** (unaudited) | | **152** | **15,782** | **3,103** | **(2,475)** | **(3,250)** | **13,312** |
| | | | | | | | |
| **Balance at 1 January 2010** | | **-** | **13,641** | **3,081** | **(3,527)** | **(6,863)** | **6,332** |
| Total comprehensive income for the period (unaudited) | | - | - | 100 | 408 | 247 | 755 |
| Capitalisation issuance of shares (unaudited) | | 135 | (135) | - | - | - | - |
| Shares issued upon Global Offering, net of related expenses (unaudited) | | 16 | 2,172 | - | - | - | 2,188 |
| Shares issued on exercise of the fee warrants (unaudited) | 10(a) | - | 36 | - | - | - | 36 |
| **Balance at 31 March 2010** (unaudited) | | **151** | **15,714** | **3,181** | **(3,119)** | **(6,616)** | **9,311** |



The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 9 to 27.

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| | Three months ended 31 March | |
|---|---|---|
| | **2011** (unaudited) | **2010** (unaudited) |
| | **USD million** | **USD million** |
| **OPERATING ACTIVITIES** | | |
| **Net profit for the period** | **746** | **247** |
| *Adjustments for:* | | |
| Depreciation | 116 | 110 |
| Amortisation | 4 | 4 |
| Impairment of non-current assets | 120 | 5 |
| Revaluation of financial investments | (27) | (31) |
| Impairment/(reversal of impairment) of trade and other receivables | 7 | (3) |
| Reversal of impairment of inventories | (3) | - |
| Provision for legal claims | 10 | - |
| Tax provision | 5 | 5 |
| Revaluation of derivative financial liabilities | (664) | 14 |
| Foreign exchange losses | 59 | 50 |
| Interest expense | 385 | 327 |
| Interest income | (25) | (6) |
| Income tax expense | 193 | 22 |
| Share of profits of associates | (179) | (263) |
| Share of profits of jointly controlled entities | (20) | (7) |
| | **727** | **474** |
| Increase in inventories | (205) | (219) |
| Increase in trade and other receivables | (176) | (119) |
| Decrease in prepaid expenses and other assets | - | 1 |
| Increase in trade and other payables | 314 | 146 |
| Decrease in provisions | (1) | (23) |
| **Cash generated from operations** | **659** | **260** |
| Income taxes paid | (70) | (31) |
| **Net cash generated from operating activities** | **589** | **229** |



The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to and forming part of the consolidated interim condensed financial information set out on pages 9 to 27.

| | Three months ended 31 March | |
|---|---|---|
| | **2011** (unaudited) | **2010** (unaudited) |
| | **USD million** | **USD million** |
| **INVESTING ACTIVITIES** | | |
| Proceeds from disposal of property, plant and equipment | 1 | 4 |
| Interest received | 2 | 2 |
| Acquisition of property, plant and equipment | (110) | (59) |
| Acquisition of intangible assets | (2) | - |
| Dividends from jointly controlled entities | 10 | 6 |
| Contributions to jointly controlled entities | - | (279) |
| Changes in restricted cash | 1 | 16 |
| **Net cash used in investing activities** | **(98)** | **(310)** |
| **FINANCING ACTIVITIES** | | |
| Proceeds from issuance of Rouble bonds | 530 | - |
| Proceeds from borrowings | - | 208 |
| Repayment of borrowings | (860) | (1,810) |
| Restructuring fees | - | (63) |
| Listing related expenses | - | (82) |
| Interest paid | (140) | (218) |
| Repayment of fee warrants | - | (153) |
| Proceeds from Global Offering | - | 2,236 |
| **Net cash (used in)/generated from financing activities** | **(470)** | **118** |
| **Net increase in cash and cash equivalents** | **21** | **37** |
| Cash and cash equivalents at 1 January | 486 | 215 |
| Effect of exchange rate fluctuations on cash and cash equivalents | 8 | 4 |
| **Cash and cash equivalents at the end of the period** | **515** | **256** |

Restricted cash amounted to USD4 million and USD5 million at 31 March 2011 and 31 December 2010, respectively.

**Major non-cash transactions:**

(i) On 27 January 2010 fee warrants with the carrying value of USD36 million were converted into 26,070,806 ordinary shares of the Company (refer to note 10(a)).

# 1 Background

**Organisation**

United Company RUSAL Plc (the "Company" or "UC RUSAL"), formerly United Company RUSAL Limited, 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 has 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 to a public 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 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.

Shareholding structure of the Company as at 31 March 2011 and 31 December 2010 was as follows:

| | **31 March 2011** | **31 December 2010** |
|---|---|---|
| En+ Group Limited ("En+") | 47.41% | 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% |
| Management held (including 0.22% held by the CEO of the Company) | 0.27% | 0.27% |
| Publicly held | 10.75% | 10.75% |
| **Total** | **100 %** | **100%** |

En+ is controlled by Mr. Oleg Deripaska. SUAL Partners is controlled by Mr. Victor Vekselberg and Mr. Len Blavatnik together. Onexim is controlled by Mr. Mikhail Prokhorov. Amokenga Holdings is a wholly owned subsidiary of Glencore International AG ("Glencore") which is controlled by its management and key employees.

Related party transactions are detailed in note 16.

The consolidated financial statements of the Group as at and for the year ended 31 December 2010 are available at the Company's website www.rusal.com.

# 2 Basis of preparation

**Statement of compliance**

This consolidated interim condensed financial information has been prepared in accordance with International Accounting Standard No. 34 - *Interim Financial Reporting*. This consolidated interim condensed financial information does not include all of the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards and therefore should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2010.

# 3 Significant accounting policies

The accounting policies and judgments applied by the Group in this consolidated interim condensed financial information are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2010, except for adoption of revised IAS 24 *Related Party Disclosures* (2010) and amendments to IFRIC 14: *IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* with effect from 1 January 2011. The adoption of the revised and amended standards did not have any impact on the Group's consolidated interim condensed financial information.

# 4 Seasonality

There are no material seasonal events in business activity of the Group.

# 5 Segment reporting

**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 aluminum 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 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 meets any of the quantitative thresholds for determining reportable segments.

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.

**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.

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 (losses)/profits 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.

***(i) Reportable segments***

**Three months ended 31 March 2011**

| | **Aluminium** | **Alumina** | **Energy** | **Mining and Metals** | **Total** |
|---|---|---|---|---|---|
| | **USD million** | **USD million** | **USD million** | **USD million** | **USD million** |
| Revenue from external customers | 2,508 | 167 | 62 | - | 2,737 |
| Inter-segment revenue | 62 | 551 | - | - | 613 |
| **Total segment revenue** | **2,570** | **718** | **62** | | **3,350** |
| **Segment profit** | **659** | **10** | **21** | **192** | **882** |
| Impairment of non-current assets | (3) | (117) | - | - | **(120)** |
| Share of losses of associates | | (13) | - | - | **(13)** |
| Share of profits of jointly controlled entities | - | - | 20 | - | **20** |
| Depreciation/amortisation | (92) | (23) | (2) | - | **(117)** |
| Non-cash income other than depreciation | (6) | (10) | - | - | **(16)** |
| Additions to non-current segment assets during the period | 73 | 32 | - | - | **105** |

**At 31 March 2011**

| | Aluminium | Alumina | Energy | Mining and Metals | Total |
|---|---|---|---|---|---|
| Segment assets | 12,243 | 2,430 | 109 | 11,640 | 26,422 |
| Interests in associates | - | 465 | - | - | 465 |
| Interests in jointly controlled entities | - | - | 1,212 | - | 1,212 |
| **Total assets** | | | | | **28,099** |
| Segment liabilities | (1,947) | (670) | (6) | - | (2,623) |
| **Total liabilities** | | | | | **(2,623)** |

## Three months ended 31 March 2010

| | Aluminium | Alumina | Energy | Mining and Metals | Total |
|---|---|---|---|---|---|
| | USD million | USD million | USD million | USD million | USD million |
| Revenue from external customers | 1,942 | 134 | 54 | - | 2,130 |
| Inter-segment revenue | 32 | 408 | - | - | 440 |
| **Total segment revenue** | **1,974** | **542** | **54** | **-** | **2,570** |
| **Segment profit** | **451** | **9** | **14** | **266** | **740** |
| Impairment of non-current assets | - | (5) | - | - | **(5)** |
| Share of losses of associates | - | (3) | - | - | **(3)** |
| Share of profits of jointly controlled entities | - | - | 7 | - | **7** |
| Depreciation/amortisation | (89) | (20) | (2) | - | **(111)** |
| Non-cash income/(expense)other than depreciation | 15 | (11) | - | - | **4** |
| Additions to non-current segment assets during the period | 44 | 13 | 1 | - | **58** |

## At 31 December 2010

| | Aluminium | Alumina | Energy | Mining and Metals | Total |
|---|---|---|---|---|---|
| Segment assets | 11,635 | 2,232 | 110 | 10,671 | **24,648** |
| Interests in associates | - | 471 | - | - | **471** |
| Interests in jointly controlled entities | - | - | 1,136 | - | **1,136** |
| **Total segment assets** | | | | | **26,255** |
| Segment liabilities | (2,462) | (363) | (18) | - | **(2,843)** |
| **Total segment liabilities** | | | | | **(2,843)** |

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

| | **Three months ended 31 March** | |
|---|---|---|
| | **2011** | **2010** |
| | **USD million** | **USD million** |
| **Revenue** | | |
| Reportable segment revenue | 3,350 | 2,570 |
| Elimination of inter-segment revenue | (613) | (440) |
| Unallocated revenue | 256 | 201 |
| Consolidated revenue | **2,993** | **2,331** |

| | **Three months ended 31 March** | |
|---|---|---|
| | **2011** | **2010** |
| | **USD million** | **USD million** |
| **Profit** | | |
| Reportable segment profit | 882 | 740 |
| Impairment of non-current assets | (120) | (5) |
| Share of losses of associates | (13) | (3) |
| Share of profits of jointly controlled entities | 20 | 7 |
| Finance income | 724 | 37 |
| Finance expenses | (426) | (404) |
| Unallocated expenses | (128) | (103) |
| Consolidated profit before taxation | **939** | **269** |

| | **31 March 2011** | **31 December 2010** |
|---|---|---|
| | **USD million** | **USD million** |
| **Assets** | | |
| Reportable segment assets | 28,099 | 26,255 |
| Elimination of inter-segment receivables | (505) | (463) |
| Unallocated assets | 638 | 733 |
| Consolidated total assets | **28,232** | **26,525** |

| | **31 March 2011** | **31 December 2010** |
|---|---|---|
| | **USD million** | **USD million** |
| **Liabilities** | | |
| Reportable segment liabilities | (2,623) | (2,843) |
| Elimination of inter-segment payables | 505 | 463 |
| Unallocated liabilities | (12,802) | (12,689) |
| Consolidated total liabilities | **(14,920)** | **(15,069)** |

# 6 Revenue

| | Three months ended 31 March | |
|---|---|---|
| | **2011** | **2010** |
| | **USD million** | **USD million** |
| **Sales of primary aluminium and alloys** | **2,508** | **1,942** |
| *Third parties* | *1,505* | *912* |
| *Related parties – companies capable of exerting significant influence* | *929* | *974* |
| *Related parties – companies under common control* | *74* | *56* |
| **Sales of alumina and bauxite** | **167** | **134** |
| *Third parties* | *122* | *73* |
| *Related parties – companies capable of exerting significant influence* | *41* | *61* |
| *Related parties – companies under common control* | *4* | **-** |
| **Sales of foil** | **73** | **59** |
| *Third parties* | *71* | *58* |
| *Related parties – companies under common control* | *2* | *1* |
| **Other revenue including energy and transportation services** | **245** | **196** |
| *Third parties* | *165* | *129* |
| *Related parties – companies capable of exerting significant influence* | *5* | *3* |
| *Related parties – companies under common control* | *5* | *5* |
| *Related parties – associates* | *70* | *59* |
| | **2,993** | **2,331** |

## 7 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders for the periods ended 31 March 2011 and 31 March 2010.

Weighted average number of shares:

| | Three months ended 31 March | |
|---|---|---|
| | **2011** | **2010** |
| Issued ordinary shares at beginning of the period | 15,193,014,862 | 1,237,000 |
| Issuance of shares on the Global Offering (refer to note 10(a)) | - | 1,127,204,988 |
| Issuance of shares on warrant conversion (refer to note 10(a)) | - | 18,249,564 |
| Effect of capitalisation issue | - | 13,498,763,000 |
| Effect of share-based compensation to management (10(a)) | - | 39,655,856 |
| Weighted average number of shares at end of the period | **15,193,014,862** | **14,685,110,408** |
| **Net profit for the period (USD million)** | **746** | **247** |
| **Basic and diluted earnings per share (USD)** | **0.05** | **0.02** |

There were no outstanding dilutive instruments during the periods ended 31 March 2011 and 31 March 2010.

On 27 January 2010 the Company issued 1,610,292,840 ordinary shares upon the Global Offering and 26,070,806 ordinary shares on conversion of fee warrants (refer to note 10(a)).

The weighted average number of shares for the three month period ended 31 March 2010 includes the effect of the share-based compensation from the date of Global Offering, 27 January 2010. Approval of the Group's lenders and the actual issuance of shares to the Group's management and the CEO took place in April 2010.

No dividends were declared and paid during the periods presented.

# 8 Interests in associates

| | Three months ended 31 March | |
|---|---|---|
| | **2011** | **2010** |
| | **USD million** | **USD million** |
| **Balance at the beginning of the period** | **11,151** | **8,968** |
| Group's share of post acquisition profits | 179 | 263 |
| Group's share of other comprehensive income | 8 | 72 |
| Foreign currency translation | 776 | 300 |
| **Balance at the end of the period** | **12,114** | **9,603** |
| Goodwill included in interests in associates | 5,992 | 5,782 |

**Investment in Norilsk Nickel**

At the date of this consolidated interim condensed financial information the Group was unable to obtain consolidated interim financial information of OJSC MMC Norilsk Nickel ("Norilsk Nickel") as at and for the three-month period ended 31 March 2011. Consequently the Group estimated its share in the profits of Norilsk Nickel for the period ended 31 March 2011 based on publicly available information reported by Norilsk Nickel. Market value of the investment in Norilsk Nickel at 31 March 2011 is USD12,557 million. Market value is determined by multiplying the quoted bid price per share on the Moscow Interbank Currency Exchange ("MICEX") on reporting date by the number of shares held by the Group.

# 9 Interests in jointly controlled entities

| | Three months ended 31 March | |
|---|---|---|
| | **2011** | **2010** |
| | **USD million** | **USD million** |
| **Balance at the beginning of the period** | **1,136** | **778** |
| Contributions to jointly controlled entities | - | 279 |
| Group's share of post acquisition profits | 20 | 7 |
| Dividends | (10) | (11) |
| Foreign currency translation | 66 | 20 |
| **Balance at the end of the period** | **1,212** | **1,073** |

As a result of obtaining project financing at the end of 2010, the BEMO project companies utilise the project financing proceeds to make necessary contributions to the ongoing construction projects and do not require contributions from the joint venture partners at this time.

# 10 Equity

## (a) Share capital

| | **Three months ended 31 March 2011** | | **Three months ended 31 March 2010** | |
|---|---|---|---|---|
| | **USD** | **Number of shares** | **USD** | **Number of shares** |
| Ordinary shares at the end of the period, authorised | 200 million | 20 billion | 200 million | 20 billion |
| Ordinary shares at 1 January | 151,930,148 | 15,193,014,862 | 12,370 | 1,237,000 |
| Issuance of ordinary shares on the Global Offering | - | - | 16,102,928 | 1,610,292,840 |
| Issuance of shares on warrant conversion | - | - | 260,708 | 26,070,806 |
| Effect of capitalisation issue | - | - | 134,987,630 | 13,498,763,000 |
| **Ordinary shares at the end of the period USD0.01 each, issued and paid** | **151,930,148** | **15,193,014,862** | **151,363,636** | **15,136,363,646** |

The details of movements in the Group's share capital are disclosed in the Group's consolidated financial statements as of and for the year ended 31 December 2010.

## (b) Other reserves

Other reserves include the cumulative unrealised actuarial gains and losses on the Group's defined post retirement benefit plans and cumulative unrealised gains and losses on its available-for-sale investments which have been recognised directly in equity.

## (c) 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 debt restructuring agreements.

## (d) Currency translation reserve

The currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

# 11 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings.

| | **31 March 2011** | **31 December 2010** |
|---|---|---|
| | **USD million** | **USD million** |
| ***Non-current liabilities*** | | |
| Secured bank loans | 9,066 | 10,071 |
| Unsecured company loans | 430 | 531 |
| | **9,496** | **10,602** |
| ***Current liabilities*** | | |
| Secured bank loans | 1,691 | 1,228 |
| Unsecured company loans | 153 | 102 |
| Accrued interest | 33 | 31 |
| | **1,877** | **1,361** |

The Group's bank loans are secured by pledges of shares of the Group's subsidiaries, the details of which are disclosed in the Group's consolidated financial statements as of and for the year ended 31 December 2010.

The secured bank loans are also secured by the following:

- property, plant and equipment with a carrying amount of USD1,596 million (31 December 2010: USD1,393 million);
- inventories with a carrying amount of USD595 million (31 December 2010: USD545 million);

As at 31 March 2011 and 31 December 2010, rights, including all monies and claims, arising out of all sales contracts between the Group's trading subsidiaries and ultimate customers, were assigned to secure restructured international debt.

As at 31 March 2011 and 31 December 2010, rights, including all monies and claims, arising out of certain intra-group sales and tolling contracts between the Group's trading subsidiaries and smelters, were assigned to secure restructured international debt in case of the occurrence of an event of default.

During the three months ended 31 March 2011 the Group continued to reduce its debt and repaid USD860 million.

The nominal value of the Group's loans and borrowings was USD11,795 million at 31 March 2011 (31 December 2010: USD12,566 million). During the three-month period ended 31 March 2011 the Group recognised amortisation of USD172 million of the previously recognised gain on extinguishment of debt within interest expense for the period as a result of the significant reduction of debt ahead of schedule (three-month period ended 31 March 2010 – USD41 million).

# 12 Bonds

On 3 March 2011, one of the Group's subsidiaries issued 15 million rouble denominated bonds with a par value of 1,000 roubles each on MICEX. Maturity of the bonds is seven years subject to a put option exercisable in three years. Simultaneously, the Group entered into a cross-currency swap with an unrelated financial institution whereby the rouble denominated bonds with semi-annual coupon payments of 8.3% p.a. were transformed into a USD obligation with a matching maturity of USD530 million bearing interest at 5.13% per annum. The proceeds of the bond issue were used for repayment of part of the Group's outstanding debts. The closing market price registered was 1,000.4 roubles per bond at 31 March 2011.

## 13 Provisions

| | **Pension liabilities** | **Site restoration** | **Provisions for legal claims** | **Tax provisions** | **Total** |
|---|---|---|---|---|---|
| | **USD million** | **USD million** | **USD million** | **USD million** | **USD million** |
| **Balance at 1 January 2011** | 134 | 322 | 40 | 30 | 526 |
| Provisions made during the period | 5 | 112 | 10 | 5 | 132 |
| Provisions reversed during the year | - | (21) | - | - | (21) |
| Provisions utilised during the period | (4) | - | - | - | (4) |
| Foreign currency translation | 8 | 15 | - | - | 23 |
| **Balance at 31 March 2011** | **143** | **428** | **50** | **35** | **656** |
| ***Non-current*** | 127 | 390 | - | - | 517 |
| ***Current*** | 16 | 38 | 50 | 35 | 139 |
| | | | | | |
| **Balance at 1 January 2010** | 138 | 313 | 59 | 76 | 586 |
| Provisions made during the period | 7 | - | - | 5 | 12 |
| Actuarial gains | (28) | - | - | - | (28) |
| Provisions utilised during the period | (4) | - | (23) | - | (27) |
| Foreign currency translation | 2 | 3 | - | - | 5 |
| **Balance at 31 March 2010** | **115** | **316** | **36** | **81** | **548** |

As at 31 March 2011, management reassessed the timing and extent of site restoration and dismantlement activities at Eurallumina and recalculated the related asset retirement obligation. The resulting increase in provisions and impairment of non-current assets of USD112 million was recorded in this consolidated interim condensed financial information. The amount of provision is estimated by discounting the expected expenditures to their present value based on risk free discount rate of 2.87% over 10 year period.

# 14 Derivative financial liabilities

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 long-term contracts set forth maximum amounts of electricity and power to be supplied each year that represent expected volumes to be consumed by certain production companies of the Group which are parties to these contracts. For details refer to the Group's consolidated financial statements of the Group for the year ended 31 December 2010.

During the first quarter of 2011, the rules and regulations of the wholesale electricity and capacity market in the Russian Federation were significantly modified. In particular and amongst other changes, the regulators obligated electricity generating companies to provide electricity to the retail sector on a subsidised basis. Further, a guaranteed capacity supply concept was introduced for generating companies that do not qualify in competitive bidding whereby the customers are obligated to pay a higher tariff to compensate such generating companies. In addition to this all participants of wholesale market are now required to participate in guaranteed capacity supply through Agreements on Provision of Capacity. All these initiatives resulted in a partial replacement of capacity purchases that were previously supplied to the Company under other agreements, including long-term electricity and capacity supply contracts.

As a result of the changes in the regulatory environment in the electricity and capacity market, the Company and its related companies reassessed their approach to purchases and sales of electricity and capacity. Starting from January 2011 parties 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.

As a result, at 31 March 2011 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 gain of USD715 million and the respective tax effect of USD143 million.

# 15 Commitments and contingencies

## (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 operating of the BEMO Project including BoGES and an aluminium plant, the planned main customer of the hydropower station. The parties established two joint companies with 50:50 ownership, into which the Group is committed to invest USD2,196 million by the end of 2015 (31 December 2010: USD2,051 million). As at 31 March 2011, the outstanding commitment of the Group for construction of the aluminium plant was approximately USD925 million to be committed by the end of 2015 (31 December 2010: USD856 million), and the outstanding commitment for the hydropower station construction was USD315 million to be committed by the end of 2012 (31 December 2010: USD279 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 March 2011 and 31 December 2010 approximated USD544 million and USD524 million, respectively. These commitments are due over a number of years.

**(b) 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, 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 March 2011 is USD317 million (31 December 2010: USD403 million).

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. This consolidated interim condensed financial information has 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.

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.

**(c) 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.

**(d) 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 the consolidated interim condensed financial information (refer to note 13). The amount of claims, where management assesses outflow as possible approximates USD173 million (31 December 2010: USD18 million).

In May 2009, the Government of the Republic of Guinea filed a claim against one of the Group's subsidiaries of USD1,000 million contesting the terms of privatisation of the Group's subsidiaries in Guinea. In March 2010, the Group received a decision from an Appeal Court of Conakry overruling the previous court's decision regarding the jurisdiction of local court to consider this claim in Guinea. Management continues to believe that the claim has no merit and the risk of any cash outflow in connection with this claim is low and therefore no provision has been recorded in this regard in these consolidated financial statements.

On 24 November 2006 a claim was issued on behalf of Mr. Michael Cherney ("Mr. Cherney") against Mr. Oleg Deripaska ("Mr. Deripaska"), the controlling shareholder of En+. Neither the Company nor any of its subsidiaries is a party to this dispute which is entirely between two individuals, Mr. Cherney and Mr. Deripaska. The Company has not had access to non-public information about the case and is not privy to the litigation strategy of either party or the prospects of settlement. The claim relates to the alleged breach or repudiation by Mr. Deripaska of certain alleged contractual commitments to sell for Mr. Cherney's benefit 20% of Russian Aluminium, an entity that the claim does not formally identify, but which may be Rusal Limited, now a wholly-owned direct subsidiary of the Company.

The trial of the action has not yet commenced, but is scheduled for April 2012. At present, there is considerable uncertainty as to the possible scope and the potential outcomes in the case and how, if at all, the Company and/or its subsidiaries and/or its or their respective assets might be affected by any decision against Mr. Deripaska. However since neither the Company nor any of its subsidiaries or investees, nor any direct shareholders in the Company, is currently a party in this case and Mr. Deripaska has informed the Company that he strongly denies and will vigorously resist Mr. Cherney's claim, the Company believes that the risk of outflow of any significant economic benefits or any significant adverse impact on the Group's financial position or results of its operations as a result of this claim is low.

# 16 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:

| | Three months ended 31 March | |
|---|---|---|
| | **2011** | **2010** |
| | **USD million** | **USD million** |
| Salaries and bonuses | 22 | 7 |
| Share-based and cash compensation to management in connection with Global Offering | - | 74 |
| | **22** | **81** |

## (b) Transactions with other related parties

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 or its controlling shareholders or Glencore or entities under its control or Onexim or its controlling shareholders.

Sales to related parties for the period are disclosed in note 6.

Purchases of raw materials and services from related parties were as follows:

| | Three months ended 31 March | |
|---|---|---|
| | **2011** | **2010** |
| | **USD million** | **USD million** |
| Purchases of raw materials – companies under common control | (38) | (42) |
| Purchases of alumina, bauxite and other raw materials – companies capable of exerting significant influence | (42) | (19) |
| Energy costs – companies under common control | (194) | (134) |
| Energy costs – companies capable of exerting significant influence | (49) | (38) |
| Other costs – companies under common control | (1) | (1) |
| Other costs – associates | (32) | (31) |
| | **(356)** | **(265)** |

At 31 March 2011 included in non-current assets are balances of USD28 million of companies which are related parties (31 December 2010: USD38 million).

At 31 March 2011 and 31 December 2010, unsecured company loans including interest payable of USD2 million and USD2 million to Onexim amounted to USD585 million and USD635 million, respectively.

Finance income and expenses incurred in transactions with related parties were as follows:

| | **Three months ended 31 March** | |
|---|---|---|
| | **2011** | **2010** |
| | **USD million** | **USD million** |
| **Finance income from related parties, including:** | **1** | **1** |
| *Related parties – companies under common control* | 1 | 1 |
| **Finance expenses from related parties, including:** | **(29)** | **(14)** |
| *Related parties – companies capable of exerting significant influence* | (29) | (14) |

Accounts receivables from related parties were as follows:

| | **As at 31 March 2011** | **As at 31 December 2010** |
|---|---|---|
| | **USD million** | **USD million** |
| **Trade receivables from related parties, including:** | **75** | **35** |
| *Related parties – companies capable of exerting significant influence* | *45* | *25* |
| *Related parties – companies under common control* | *15* | *7* |
| *Related parties – associates* | *15* | *3* |
| ***Advances paid to related parties, including:*** | **82** | **55** |
| *Related parties – companies capable of exerting significant influence* | 2 | *1* |
| *Related parties – companies under common control* | 14 | *2* |
| *Related parties – associates* | 66 | *52* |
| **Other receivables from related parties, including:** | **33** | **36** |
| *Related parties – companies capable of exerting significant influence* | *1* | *1* |
| *Related parties – companies under common control* | *15* | *19* |
| *Related parties – associates* | *17* | *16* |
| | **190** | **126** |

Accounts payable to related parties were as follows:

| | As at 31 March 2011 | As at 31 December 2010 |
|---|---|---|
| | USD million | USD million |
| **Accounts payable to related parties, including:** | **67** | **37** |
| *Related parties – companies capable of exerting significant influence* | *31* | *19* |
| *Related parties – companies under common control* | *36* | *15* |
| *Related parties – associates* | *-* | *3* |
| **Advances received from related parties, including:** | **420** | **356** |
| *Related parties – companies capable of exerting significant influence* | *362* | *292* |
| *Related parties – companies under common control* | *58* | *55* |
| *Related parties – associates* | *-* | *9* |
| **Other payable and accrued liabilities related parties, including:** | **20** | **23** |
| *Related parties – companies capable of exerting significant influence* | *15* | *18* |
| *Related parties – associates* | *5* | *5* |
| **Derivative financial liabilities, including:** | **23** | **738** |
| *Short-term derivative financial liabilities* | *23* | *78* |
| *Long-term derivative financial liabilities* | *-* | *660* |
| | **530** | **1,154** |

### (c) 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.

## 17 Events subsequent to the reporting date

On 18 April 2011, one of the Group's subsidiaries issued the second tranche of rouble denominated bonds with a par value of 1,000 roubles each for 15 billion roubles at par. The bonds are traded on MICEX. Maturity of the bonds is ten years subject to a put option exercisable in four years. Simultaneously, the Group entered into a cross-currency swap with an unrelated financial institution whereby the rouble denominated bonds with semi-annual coupon payments of 8.5% p.a. were transformed into a USD obligation with a matching maturity of USD533 million bearing interest at 5.09% per annum. The proceeds of the bond issue were used for repayment of part of the Group's outstanding debts.