Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2009

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

The following statement, which should be read in conjunction with the independent auditors' responsibilities stated in the independent auditors' report on the consolidated financial statements set out on pages 2-3, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the Group at 31 December 2009, and the results of its operations, cash flows and changes in shareholders'equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2009 were approved on 2 April 2010 by:

R. S. Takhautdinov First Vice-President for Strategic Development and Metallurgy	**M. A. Zhemchueva** Chief Accountant

2 April 2010
Magnitogorsk, Russia

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INDEPENDENT AUDITORS’ REPORT

To the Shareholders of OJSC Magnitogorsk Iron & Steel Works:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the “Group”), which comprise the consolidated statement of financial position at 31 December 2009 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management’s responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the accompanying consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors’ responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 auditors’ judgment, 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 auditors consider internal control relevant to the Group’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group at 31 December 2009, and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

2 April 2010
Moscow, Russia

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2009

(In millions of U.S. Dollars, unless otherwise stated)

	Notes	Years ended 31 December 2009	2008
REVENUE	6	5,081	10,550
COST OF SALES	8	(3,940)	(7,835)
GROSS PROFIT		**1,141**	**2,715**
General and administrative expenses	9	(349)	(513)
Selling and distribution expenses	10	(453)	(650)
Other operating expenses, net	11	(51)	(378)
OPERATING PROFIT		**288**	**1,174**
Share of results of associates	17	(31)	32
Impairment of investment in associate	17	-	(56)
Gain on revaluation of investment in associate upon acquisition of majority ownership	5	175	-
Finance income		20	92
Finance costs		(96)	(110)
Foreign exchange gain, net		9	16
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	5	30	13
Change in net assets attributable to minority participants		6	12
Other income		2	53
Other expenses	12	(146)	(120)
PROFIT BEFORE INCOME TAX		**257**	**1,106**
INCOME TAX	13	(38)	(25)
PROFIT FOR THE YEAR		**219**	**1,081**
OTHER COMPREHENSIVE INCOME/(LOSSES)			
Increase/(decrease) in fair value of available-for-sale investments		397	(779)
Income tax related to (increase)/decrease in fair value of available-for-sale investments		(79)	188
Translation of foreign operations		2	8
Effect of translation to presentation currency		(270)	(2,010)
OTHER COMPREHENSIVE INCOME/(LOSSES) FOR THE YEAR, NET OF TAX		**50**	**(2,593)**
TOTAL COMPREHENSIVE INCOME/(LOSSES) FOR THE YEAR		**269**	**(1,512)**
Profit attributable to:			
Shareholders of the Parent Company		232	1,075
Non-controlling interests		(13)	6
		219	**1,081**
Total comprehensive income/(losses) attributable to:			
Shareholders of the Parent Company		290	(1,486)
Non-controlling interests		(21)	(26)
		269	**(1,512)**
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.02	0.10
Weighted average number of ordinary shares outstanding (in thousands)		11,098,862	11,160,335

The notes on pages 9 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2009
(In millions of U.S. Dollars)

	Notes	31 December 2009	31 December 2008
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	14	11,276	9,751
Goodwill	15	309	45
Other intangible assets	16	37	36
Investments in securities and other financial assets	20	627	358
Investments in associates	17	22	228
Deferred tax assets	13	115	137
Other assets		17	14
Total non-current assets		12,403	10,569
CURRENT ASSETS:			
Inventories	18	856	996
Trade and other receivables	19	941	991
Investments in securities and other financial assets	20	221	138
Income tax receivable		12	133
Value added tax recoverable		235	264
Cash and cash equivalents	21	165	1,106
Total current assets		2,430	3,628
TOTAL ASSETS		**14,833**	**14,197**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	22	386	386
Treasury shares	22	(67)	(72)
Share premium		1,103	1,104
Investments revaluation reserve	20	341	23
Translation reserve		(2,230)	(1,970)
Retained earnings		10,424	10,192
Equity attributable to shareholders of the Parent Company		9,957	9,663
Non-controlling interests		368	189
Total equity		10,325	9,852
NON-CURRENT LIABILITIES:			
Long-term borrowings	23	1,266	405
Obligations under finance leases	24	24	26
Retirement benefit obligations	25	19	31
Deferred tax liabilities	13	1,422	1,243
Total non-current liabilities		2,731	1,705
CURRENT LIABILITIES:			
Short-term borrowings and current portion of long-term borrowings	27	808	1,276
Current portion of obligations under finance leases	24	20	19
Current portion of retirement benefit obligations	25	2	3
Trade and other payables	26	928	1,321
Net assets attributable to minority participants		19	21
Total current liabilities		1,777	2,640
TOTAL EQUITY AND LIABILITIES		**14,833**	**14,197**

The notes on pages 9 to 63 are an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009
(In millions of U.S. Dollars)

		Attributable to shareholders of the Parent Company								
	Notes	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
BALANCE AT 1 JANUARY 2008		**386**	**(1)**	**1,105**	**614**	**-**	**9,530**	**11,634**	**152**	**11,786**
Total comprehensive income for the period		-	-	-	(591)	(1,970)	1,075	**(1,486)**	(26)	**(1,512)**
Purchase of treasury shares		-	(86)	-	-	-	-	**(86)**	-	**(86)**
Issuance of ordinary shares from treasury shares		-	15	(1)	-	-	-	**14**	-	**14**
Increase in non-controlling interests due to additional share issue by subsidiary	5	-	-	-	-	-	-	**-**	81	**81**
Increase in non-controlling interests due to acquisition of subsidiaries		-	-	-	-	-	-	**-**	1	**1**
Decrease in non-controlling interests due to increase of Group's share in subsidiaries		-	-	-	-	-	-	**-**	(18)	**(18)**
Dividends	22	-	-	-	-	-	(413)	**(413)**	(1)	**(414)**
BALANCE AT 31 DECEMBER 2008		**386**	**(72)**	**1,104**	**23**	**(1,970)**	**10,192**	**9,663**	**189**	**9,852**
Total comprehensive income for the period		-	-	-	318	(260)	232	**290**	(21)	**269**
Purchase of treasury shares		-	(2)	-	-	-	-	**(2)**	-	**(2)**
Issuance of ordinary shares from treasury shares		-	7	(1)	-	-	-	**6**	-	**6**
Increase in non-controlling interests due to additional share issue by subsidiary	5	-	-	-	-	-	-	**-**	47	**47**
Increase in non-controlling interests due to acquisition of subsidiaries	5	-	-	-	-	-	-	**-**	153	**153**
BALANCE AT 31 DECEMBER 2009		**386**	**(67)**	**1,103**	**341**	**(2,230)**	**10,424**	**9,957**	**368**	**10,325**

The notes on pages 9 to 63 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009
(In millions of U.S. Dollars)

	Notes	Years ended 31 December 2009	2008
OPERATING ACTIVITIES:			
Profit for the year		219	1,081
Adjustments to profit for the year:			
Income tax		38	25
Depreciation and amortisation	8,9	735	945
Finance costs		96	110
Loss on disposal of property, plant and equipment	11	118	109
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	5	(30)	(13)
Bad debt expense	11,19	71	40
(Gain)/loss on revaluation and sale of trading securities	11,20	(113)	238
Inventory allowance and impairment	18	11	339
Finance income		(20)	(92)
Foreign exchange gain, net		(9)	(16)
Share of results of associates	17	31	(32)
Impairment of investment in associate	17	-	56
Gain on revaluation of investment in associate upon acquisition of majority ownership	5	(175)	-
Change in net assets attributable to minority participants		(6)	(12)
		966	2,778
Movements in working capital			
Decrease/(increase) in trade and other receivables		113	(47)
Decrease/(increase) in value added tax recoverable		28	(117)
Decrease/(increase) in inventories		138	(536)
Decrease in investments classified as trading securities		19	27
(Decrease)/increase in trade and other payables		(425)	404
Cash generated from operations		839	2,509
Interest paid		(109)	(104)
Income tax refund/(paid)		135	(480)
Net cash generated by operating activities		865	1,925
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1,613)	(2,112)
Purchase of intangible assets		(11)	(24)
Proceeds from sale of property, plant and equipment		12	63
Acquisition of subsidiaries, net of cash acquired	5	(278)	(7)
Acquisition of associate	17	-	(234)
Interest received		23	211
Loans provided to related parties	28	-	(206)
Loans repaid by related parties	28	-	284
Purchase of securities and other financial assets		6	(77)
Proceeds from sale of securities and other financial assets		20	27
Net change in bank deposits		148	1,096
Dividends received from associate		4	-
Net cash used in investing activities		(1,689)	(979)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009 (CONTINUED)
(In millions of U.S. Dollars)

	Notes	Years ended 31 December 2009	2008
FINANCING ACTIVITIES:			
Proceeds from borrowings		2,935	3,974
Repayments of borrowings		(2,974)	(3,562)
Net decrease in bank overdrafts		-	(8)
Proceeds from capital transactions of subsidiaries		47	77
Purchase of treasury shares		(2)	(86)
Proceeds from issuance of ordinary shares from treasury shares		6	14
Principal repayments of obligations under finance leases		(36)	(33)
Dividends paid to:			
- equity holders of the Parent Company		(16)	(313)
- non-controlling interests		-	(1)
Net cash (used in)/generated by financing activities		(40)	62
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(859)	1,008
CASH AND CASH EQUIVALENTS, beginning of year		1,106	256
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		(77)	(158)
CASH AND CASH EQUIVALENTS, end of year		**165**	**1,106**

The notes on pages 9 to 63 are an integral part of these consolidated financial statements.

(In millions of U.S. Dollars, unless otherwise stated)

1. GENERAL INFORMATION

OJSC Magnitogorsk Iron & Steel Works ("the Parent Company") is an open joint stock company as defined by the Civil Code of the Russian Federation. The Parent Company was established as a state owned enterprise in 1932. It was incorporated as an open joint stock company on 17 October 1992 as part of and in accordance with the Russian Federation privatization program.

The Parent Company, together with its subsidiaries ("the Group"), is a producer of ferrous metal products. The Group's products are sold in the Russian Federation and internationally. The subsidiaries of the Parent Company are mainly involved in the various sub-processes within the production cycle of ferrous metal products or in the distribution of those products.

In the first half of 2009, the Group was significantly impacted by a severe fall in prices and demand for commodities, including steel. This decline began in the latter part of 2008 and is directly associated with the worldwide economic slowdown. The Group responded to this market reversal by embarking on a cost-cutting program and renewed efforts to geographically diversify their product sales. During the second half of 2009 whilst prices remained weak, tonnages of steel shipped increased to approximately 75% of pre-crisis volumes. Additionally the Group improved its liquidity position by securing longer term financing to replace existing short term borrowings.

In the development of Group's business plans, management uses projected cash flows. These projected cash flows are dependent on various assumptions including historical experience and growth rates. As a result of the volatility in the global and Russian financial markets, management's estimates may change and result in a significant impact on the Group.

The ultimate beneficiary of the Parent Company is Mr. Viktor F. Rashnikov, the Chairman of its Board of Directors.

At 31 December 2009 and 2008, the Group's principal subsidiaries as follows:

		Effective % held at 31 December	
Subsidiary by country of incorporation	**Nature of business**	**2009**	**2008**
Russian Federation			
OJSC Metizno-Kalibrovochny Zavod "MMK-Metiz"	Production of metal hardware products	90.32	90.21
LLC IK RFC	Investing activities	100.00	100.00
CJSC Stroitelny Fond	Renting services	100.00	100.00
CJSC Stroitelny Komplex	Construction	100.00	100.00
CJSC Ogneupor	Production of refractory materials	100.00	100.00
CJSC Mekhanoremontny Komplex	Maintenance of metallurgical equipment	100.00	100.00
CJSC Mechanoremont	Renting services	98.93	98.93
OJSC MTSOZ	Production of cement and refractory materials	100.00	100.00
LLC Bakalskoe Rudoupravlenie	Mining	51.00	51.00
CJSC Profit (Note 5)	Collection and processing of metal scrap	100.00	-
LLC Torgovy Dom MMK	Trading activities	100.00	100.00
LLC TD MMK-Ural (former LLC Uralsibtrade)	Trading activities	100.00	100.00
LLC TD MMK-Moskva (former LLC MAGMA trade)	Trading activities	100.00	100.00
OJSC Belon (Note 5)	Holding company, trading activities	82.60	41.30
CJSC Shakhta Kostromovskaya	Coal mining	82.60	41.30

(In millions of U.S. Dollars, unless otherwise stated)

		Effective % held at 31 December	
Subsidiary by country of incorporation	**Nature of business**	**2009**	**2008**
LLC Shakhta Listvyazhnaya	Coal mining	82.60	41.30
LLC Shakhta Chertinskaya-Yuzhnaya	Coal mining	82.60	41.30
LLC Shakhta Chertinskaya-Cocksovaya	Coal mining	82.60	41.30
CJSC OF Listvyazhnaya	Refining of coal	82.60	41.30
Cyprus			
Onarbay Enterprises Ltd (Note 5)	Holding company	100.00	50.00
Turkey			
MMK Atakas Metalurji	Construction of metal plant	50.00	50.00
Switzerland			
MMK Steel Trade AG	Trading activities	100.00	100.00
MMK Trading AG	Trading activities	99.60	99.60

The effective ownerships indicated in the table above are also the nominal holdings, except for CJSC Shakhta Kostromovskaya, LLC Shakhta Listvyazhnaya, LLC Shakhta Chertinskaya-Yuzhnaya, LLC Shakhta Chertinskaya-Cocksovaya and CJSC OF Listvyazhnaya where 100% is held by OJSC Belon.

2. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

New and revised Standards and Interpretations adopted in the current period

The following new standards, amendments to standards or interpretations are adopted by the Group and effective for the financial year commencing 1 January 2009:

- IFRS 3 (Revised) “Business combinations” (“IFRS 3(R)”);
- IFRS 7 “Financial instruments: disclosures” – amendment;
- IFRS 8 “Operating segments”;
- IAS 1 “Presentation of financial statements” – amendment;
- IAS 16 “Property, plant and equipment” – amendment;
- IAS 19 “Employee benefits” – amendment;
- IAS 20 “Government grants and disclosure of government assistance” – amendment;
- IAS 23 “Borrowing costs” – amendment;
- IAS 27 “Consolidated and separate financial statements” – amendment;
- IAS 28 “Investments in associates” – amendment;
- IAS 32 “Financial Instruments: presentation” – amendment;
- IAS 34 “Interim financial reporting” – amendment;
- IAS 36 “Impairment of assets” – amendment;
- IAS 38 “Intangible assets” – amendment;
- IAS 39 “Financial instruments: recognition and measurement” – amendment;
- IFRIC 18 “Transfers of assets from customers”.

IAS 1 (revised 2007) “Presentation of Financial Statements” has introduced a number of terminology changes (including revised titles for financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised Standard has had no impact on the reported results or financial position of the Group.

(In millions of U.S. Dollars, unless otherwise stated)

IFRS 3(R) and IAS 27 (Amended), which are effective for annual periods beginning on or after 1 July 2009, have been early adopted in the current year. The adoption has affected the accounting for business combinations in the current period, resulting in a significant revaluation gain in the consolidated statement of comprehensive income (see below).

In accordance with the relevant transitional provisions, IFRS 3(R) and IAS 27 (Amended) have been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2009. The impact of the adoption of IFRS 3(R) and IAS 27 (Amended) has been:

- The definition of a business was broadened so that it contains also activities and assets that are not managed as a business as long as the seller is capable of operating them as a business;
- To allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as ‘minority’ interests) either at fair value or at the non-controlling interests’ share of the fair value of the identifiable net assets of the acquiree;
- To change the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the ‘measurement period’ (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognised in profit or loss;
- Subsequent measurement of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date will be against profit or loss and not as adjustment to goodwill;
- A transaction with the non-controlling interests, whether a sale or an acquisition, will be accounted for as an equity transaction and will therefore not be recognised in the consolidated statement of comprehensive income or have any effect on the amount of goodwill, respectively;
- Where the business combination in effect settles a pre-existing relationship between the Group and the acquiree, to require the recognition of a settlement gain or loss; and
- To require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

In the current period, these changes in policies have affected the accounting for the acquisition of Onarbay Enterprises Ltd (Note 5) as follows:

Consolidated statement of financial position

	31 December 2009
Excess of the fair value of non-controlling interests in Onarbay Enterprises Ltd over their share of the fair value of the identifiable net assets (reflected in non-controlling interests)	53
Gain on revaluation of investment in associate upon acquisition of majority ownership	175
Additional goodwill recognised as result of the adoption of IFRS 3(R)	**228**

(In millions of U.S. Dollars, unless otherwise stated)

Consolidated statement of comprehensive income

The revaluation gain resulting from remeasurement of previously held interest in amount of USD 175 million has been recorded in the consolidated statement of comprehensive income, which gain would not have resulted prior to the adoption of IFRS 3(R).

Early adoption of IFRS 3(R) did not affect the accounting for the acquisition of CJSC Profit.

IFRS 3(R) has also required additional disclosures in respect of the business combinations in the period (Note 5).

The amendmends to IFRS 7 "Financial instruments: disclosures" (revised and effective 1 January 2009) require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. Since majority of Group's financial assets is allocated to Level 1 and there were no significant transfers between classes during the year ended 31 December 2009, management chose not to present such information in these consolidated financial statements.

The first time application of other aforementioned amendments to standards from 1 January 2009 had no material effect on the consolidated financial statements of the Group.

Standards and Interpretations in issue not yet adopted

At the date of approval of the Group's consolidated financial statements, the following new and revised Standards and Interpretations have been issued, but are not effective for the current year:

	Effective for annual periods beginning on or after
IAS 1 "Presentation of financial statements" – amendment	1 January 2010
IAS 7 "Statement of cash flows" – amendment	1 January 2010
IAS 17 "Leases" – amendment	1 January 2010
IAS 24 "Related party disclosure" – revision	1 January 2011
IAS 32 "Financial instruments: presentation" – amendment	1 February 2010
IAS 36 "Impairment of assets" – amendment	1 January 2010
IAS 39 "Financial Instruments: recognition and measurement" – amendment	1 January 2010
IFRS 2 "Share-based payment" – amendment	1 January 2010
IFRS 5 "Non-current assets held for sale and discontinued operations" – amendment	1 January 2010
IFRS 8 "Operating segments" - amendment	1 January 2010
IFRS 9 " Financial instruments"	1 January 2013
IFRIC 14 "IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction"	1 January 2011
IFRIC 16 "Hedges of a net investment in a foreign operation"	1 July 2009
IFRIC 17 "Distributions of non-cash assets to owners"	1 July 2009
IFRIC 19 "Extinguishing financial liabilities with equity"	1 July 2010

The impact of the adoption of these Standards and Interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by Group management, however no material effect on the Group's financial position or results of its operations is anticipated.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

International Financial Reporting Standards ("IFRS") include Standards and Interpretations issued by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") who replaced the Standing Interpretations Committee.

The accounting policies set out below have been applied in preparing the consolidated financial statements for year ended 31 December 2009, and the comparative information presented in these financial statements, except for the impact of the adoption of new standards, amendments to standards or interpretations described in Note 2.

Basis of preparation

The consolidated financial statements of the Group are prepared on the historical cost basis except for the revaluation of property, plant and equipment in accordance with IAS 16 "Property, plant and equipment" and mark-to-market valuation of certain financial instruments which are reported in accordance with IAS 39 "Financial instruments: recognition and measurement".

The principal accounting policies are set out below.

Basis of consolidation

Subsidiaries

These consolidated financial statements incorporate the financial statements of the Parent Company and entities controlled by the Parent Company (its subsidiaries). Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Group.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: recognition and measurement" or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations". Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Special purpose entities

Special purpose entities ("SPE") are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of the SPE, or is exposed to risks associated with activities of the SPE. SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the Group.

Net assets attributable to minority participants

The Group controls certain Limited Liability Companies (“LLC”). Non-controlling participants (“minority participants”) in such LLC’s have a right to request (at any time) redemption of their interest in the respective LLC in cash. The obligations of respective LLC to redeem those non-controlling interests give rise to financial liabilities, payment of which is conditional upon the minority participants exercising their right to redemption. Management of the Group regularly assesses these potential liabilities by reference to the carrying value of net assets attributable to minority participants in the relevant LLC. The Group’s liability is determined as the greatest of the amount due calculated in accordance with IFRS and Russian Accounting Standards and is presented in these consolidated financial statements as net assets attributable to minority participants. Any change in net assets attributable to participants during the year is recognised in the consolidated statement of comprehensive income as a change in net assets attributable to minority participants.

Functional and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency).

The functional currency of the Group’s entities except for MMK Atakas Metalurji is the Russian Rouble (“RUB“). The functional currency of MMK Atakas Metalurji is the New Turkish Lira (“TRY”).

These consolidated financial statements are presented in millions of USD. Using USD as a reporting currency is considered by management to be more relevant for users of the consolidated financial statements of the Group.

The translation into presentation currency is made as follows:

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated statement of financial position presented;
- All items included in the consolidated shareholders’ equity, other than net income, are translated at historical exchange rates;
- All income and expenses in each consolidated statement of comprehensive income are translated at exchange rates in effect when the transactions occur. For those transactions that occur evenly over the year an average exchange rate for the year is applied;
- Resulting exchange differences are included in other comprehensive income as “Effect of translation to presentation currency”; and
- In the consolidated statement of cash flows, cash balances at the beginning and end of each year presented are translated at exchange rates at the respective dates of the beginning and end of each year. All cash flows are translated at exchange rates in effect when the cash flows occur. For those cash flows that occur evenly over the year an average exchange rate for the year is applied. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as “Effect of translation to presentation currency”.

(In millions of U.S. Dollars, unless otherwise stated)

Exchange rates used in preparation of the consolidated financial statements were as follows:

	31 December	
	2009	2008
Russian Rouble/US Dollar		
Year-end rates	30.24	29.38
Average for the period	31.58	24.37
New Turkish Lira/US Dollar		
Year-end rates	1.51	1.52
Average for the period	1.56	1.28

The RUB is not a freely convertible currency outside the Russian Federation and, accordingly, any translation of RUB denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not imply that the Group could or will in the future realise or settle in USD the translated values of these assets and liabilities.

Foreign currency transactions

Transactions in currencies other than the functional currencies of the Group's entities (foreign currencies) are recorded at the exchange rates prevailing at the dates of the transactions. At each statement of financial position date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the date of statement of financial position. Non-monetary items carried at historical cost are translated at the exchange rate prevailing on the date of transaction. Non-monetary items carried at fair value are translated at the exchange rate prevailing on the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated statement of comprehensive income.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values, other than equity-related contingent consideration, are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3(R) are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income taxes" and IAS 19 "Employee benefits" respectively;
- Liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 "Share-based payment"; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described at above.

Revenue recognition

Revenue is recognised when earned and realisable, which generally occurs when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, pervasive evidence of an arrangement exists and the sales price is fixed or determinable.

Revenue is recognised net of applicable provisions for discounts, allowances, associated value-added taxes and export duties.

Finance costs

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other finance costs are recognised as an expense in the year in which they are incurred.

Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit for the year as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of statement of financial position.

Deferred income tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realised, based on tax rates and tax laws that have been enacted or substantively enacted by the date of statement of financial position. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Manufacturing assets

The Group has adopted a revaluation model for the subsequent measurement of its property, plant and equipment. Property, plant and equipment are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the date of statement of financial position.

Any revaluation increase arising on the revaluation of property, plant and equipment is credited in equity to a separate revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in the carrying amount arising on the revaluation of such property, plant and equipment is charged to profit or loss to the extent that it exceeds the balance, if any, held in the revaluation reserve relating to a previous revaluation of that asset.

No revaluations have been performed subsequent to 1 January 2007.

The cost of replacing 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. Repair and maintenance expenses are charged to the consolidated statement of comprehensive income as incurred.

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction. Depreciation of these assets is recorded on the same basis as for other property assets, and commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether appropriate provision for impairment should be made.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

Mining assets

The Group's property, plant and equipment include mining assets, which consist of mineral reserves, mine development expenditures, capitalised exploration and evaluation expenditures and mineral licences.

Mineral reserves

Mineral reserves represent tangible assets acquired in business combinations and mineral licenses, to the extent such licenses were acquired with and are inseparable from the mineral reserves. Mineral reserves are estimates of the amount of product that can be economically and legally extracted. In order to estimate reserves, assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transport costs and others.

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

Mine development expenditures

Mine development costs are capitalised in construction-in-progress and transferred to mining assets when a new mine reaches commercial production quantities.

Capitalised mine development costs comprise expenditures directly related to:

- Acquiring mining and exploration licences;
- Developing new mining operations;
- Defining further mineralization in existing mineral bodies; and
- Expanding capacity of a mine.

Mine development costs include interest capitalised during the construction period when financed by borrowing.

Exploration and evaluation expenditures

Exploration and evaluation expenditures are recognised as an asset if the probability of success is high. Exploration and evaluation assets include acquisition of rights to explore, topographical, geographical, geochemical and geopeophysical studies; exploratory drilling; activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource. Purchased exploration and evaluation assets are recognised as assets at their cost of acquisition or at fair value if purchased as part of a business combination.

An impairment review is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs, the excess is immediately recognised as impairment loss in the consolidated statement of comprehensive income.

Capitalisation ceases when exploration and evaluation activity ceases in the related area and capitalised costs are reclassified to mining assets assets.

Mineral licences separately acquired

Mineral licences acquired separately from mineral reserves to develop mineral reserves and resources are stated at historical cost less accumulated amortisation.

Depreciation

Depreciation of manufacturing assets is computed under the straight-line method utilizing useful lives of the assets which are:

Buildings	12-50 years
Machinery and equipment	3-30 years
Transportation equipment	5-20 years
Fixtures and fittings	3-16 years

Mineral licences are amortised using the straight-line basis over the lesser of their economic useful lives or the life of respective mine.

Depreciation of other mining assets is determined using the unit of production method based on the extracted volumes of mineral reserves and estimated production capacity of the individual assets.

The estimated useful lives, residual values, and depreciation method are reviewed at each reporting date, with the effect of any changes in estimate accounted for on a prospective basis.

Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition, with the related lease obligation recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the finance cost and the capital repayment, which reduces the related lease obligation to the lessor.

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

Intangible assets, excluding goodwill

Intangible assets are recorded at cost less accumulated amortisation and impairment losses. Intangible assets primarily represent production licences and various purchased software costs. Amortisation is charged on a straight-line basis over their estimated useful lives which are:

Licences	3-25 years
Purchased software	1-10 years
Other intangibles	1-10 years

Impairment of tangible and intangible assets, excluding goodwill

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average basis and includes all costs in bringing the inventory to its present location and condition.

Cost includes direct material, labour and allocable material and manufacturing overheads. Costs of production in process and finished goods include the purchase costs of raw materials and conversion costs such as direct labour and an allocation of fixed and variable production overheads. Raw materials are valued at purchase cost inclusive of freight and other shipping costs.

Net realisable value represents the estimated selling price for inventories less estimated costs to completion and selling costs. Where appropriate, an allowance for obsolete and slow-moving inventory is recognised. The impairment charged to reduce the carrying amount of inventories to their net realisable value and an allowance for obsolete and slow-moving inventory are included in consolidated statement of comprehensive income as cost of sales.

Value-added taxes

Value-added taxes ("VAT") related to sales are payable to the tax authorities upon issuance of invoices to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. Unclaimed VAT related to purchase transactions that is validly reclaimable as of the date of statement of financial position is recorded as value added tax recoverable in the consolidated financial statements.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of financial asset or liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability.

Financial assets

Financial assets recognised on the Group's consolidated statement of financial position include available-for-sale, held-to-maturity, and trading investments, loans receivable, trade and other receivables, and cash and cash equivalents. Financial assets are initially measured at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset, except for financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Investments

Investments, other than investments in subsidiaries and associates, are initially measured at fair value on a trade date basis, including directly attributable transaction costs.

Investments are classified into the following categories:

- Held-to-maturity;
- At fair value through profit or loss; and
- Available-for-sale.

The classification depends on the nature and purpose of the investments and is determined at the time of initial recognition.

Investments with fixed or determinable payments and fixed maturity, which the Group has the positive intention and ability to hold to maturity, other than loans and receivables, are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortised cost using the effective interest rate method less any allowance for impairment.

Amortisation of discount or premium on the acquisition of a held-to-maturity investment is recognised in finance income over the term of the investment. Held-to-maturity investments are included in non-current assets, unless they mature within twelve months of the date of statement of financial position.

Investments at fair value through profit or loss include investments held for trading and investments that are part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

All other investments, other than loans and receivables, are classified as available-for-sale.

Investments at fair value through profit or loss and investments available-for-sale are subsequently measured at fair value by reference to their quoted market price at the date of statement of financial position, without any deduction for transaction costs that may be incurred on sale or other disposal. Gain or loss arising from a change in the fair value of investments at fair value through profit and loss is recognised in the consolidated statement of comprehensive income. Gain or loss arising from a change in fair value of investments available-for-sale is recognised directly in equity through the statement of changes in equity, until such investments are derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in consolidated statement of comprehensive income.

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in consolidated statement of comprehensive income even though the investment has not been derecognised.

Investments in equity instruments that do not have a quoted market price in an active market are recorded at management's best estimate of fair value. Those securities, for which the fair value cannot be reliably measured, are recorded at cost.

Loans receivable

Loans receivable are measured at amortised cost using the effective interest rate method. Interest income is recognised by applying the effective interest rate.

Trade and other receivables

Trade and other receivables are initially recorded at fair value and subsequently reduced by appropriate allowances for estimated irrecoverable amounts. Receivables with fixed maturities due in more than a year are measured at amortised cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance for impairment. When a trade receivable is considered uncollectible, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against the allowance. Changes in the carrying amount of the allowance are recognised in the consolidated statement of comprehensive income.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated statement of comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the consolidated statement of comprehensive income even though the investment has not been derecognised. Impairment losses previously recognised through consolidated statement of comprehensive income are not reversed. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The Group recognises financial liabilities on its consolidated statement of financial position when it becomes a party to a contractual obligation. Financial liabilities are initially measured at its fair value plus transaction costs that are directly attributable to the financial liability, except for financial liabilities classified as at fair value through profit or loss, which are initially measured at fair value.

After initial recognition financial liabilities are carried at amortised cost. The amortised cost of a financial liability is the amount at which the financial liability was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method.

Bank loans and other non-bank borrowings

All loans and borrowings are initially recorded at fair value, net of direct transaction costs. Subsequently loans and borrowing are measured at amortised cost using the effective interest method. Finance charges, including premiums payable on settlement, are accounted for on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Financial guarantee contracts

Financial guarantee contracts are measured initially as a liability at their fair values and are subsequently measured at the higher of the amount of the current obligation under the contract and the amount initially recognised less cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Derivative financial instruments

Derivative instruments, consisting primarily of foreign currency forward and option contracts, are utilized by the Group to manage its exposure to fluctuations in foreign exchange rates. The Group does not enter into foreign currency hedging contracts related to its investment in foreign operations.

All derivatives are recorded as either assets or liabilities at their fair values in the consolidated statement of financial positions and subsequently remeasured at their respective fair values at each statement of financial position date.

The accounting for changes in the fair value of derivative financial instruments depends on whether it has been designated and qualifies as an accounting hedge and further, on the type of hedging relationship. If a derivative is designated as a fair value hedge, the changes in the fair value of the derivative and the hedged item are recognised in earnings in the line of the consolidated statement of comprehensive income relating to the hedged item. If a derivative is designated as a cash flow hedge, the effective portion of changes in the fair value of derivative financial instruments is recognised directly in equity. The ineffective portion of cash flow hedges is recognised in other operating income or expenses in the consolidated statement of comprehensive income. Amounts deferred in equity are recycled in the consolidated statement of comprehensive income in the periods when the hedged item is recognised in the consolidated statement of comprehensive income. For a derivative not designated as a hedging instrument, the gain or loss is recognised in consolidated statement of comprehensive income in the period of change.

Employee benefit obligations

Remuneration to employees in respect of services rendered during the period is recognised as an expense in the consolidated statement of comprehensive income.

Defined contribution plans

The Group's Russian subsidiaries are legally obliged to make defined contributions to the Russian Federation State Pension Fund (a defined contribution plan financed on a pay-as-you-go basis). The Group's contributions to the Russian Federation State Pension Fund relating to defined contribution plans are charged to consolidated statement of comprehensive income in the period to which they relate.

In the Russian Federation all state social contributions, including contributions to the Russian Federation State Pension Fund, are collected through a unified social tax ("UST") calculated by the application of a regressive rate from 26% to 2% of the annual gross remuneration of each employee. UST is allocated to three state social funds, including the Russian Federation State Pension Fund, where the rate of contributions to that fund vary from 20% to 2%, depending on the annual gross remuneration of each employee.

The Group's obligations for contributions to other defined contribution plans are recognised as expense as incurred.

Defined benefit plans

The Group accounts for the cost of defined benefit plans using the projected unit credit method. Under this method, the cost of providing pensions is charged to the consolidated statement of comprehensive income, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. The Group's obligation in respect of defined retirement benefit plans is calculated separately for each defined benefit plan by discounting the amounts of future benefits that employees have already earned through their service in the current and prior periods. The discount rate applied represents the yield on government bonds that have maturity dates approximating the terms of the Group's obligations. Actuarial gains and losses are fully recognised in the consolidated statement of comprehensive income in the period they occur.

Restricted cash

Restricted cash represents legally restricted collateral deposited with various banks as margin for irrevocable letters of credit and is included in other long-term assets of the consolidated statement of financial position.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the date of statement of financial position, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Dividends

Dividends and related taxation thereon are recognised as a liability in the period in which they have been declared and become legally payable.

Accumulated profits legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

Segment information

Segment reporting is presented on the basis of management’s perspective and relates to the parts of the Group that are defined as operating segments. Operating segments are identified on the basis of internal reports to the Group’s chief operating decision maker (“CODM”). The Group has identified the Chairman of the Board of Directors as its CODM and the internal reports used by the top management team to oversee operations and make decisions on allocating the resources serve as the basis of information presented. These internal reports are prepared on the same basis as these consolidated financial statements.

Based on the current management structure, the Group has identified two reportable segments: steel and coal mining.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group’s accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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.

The development of certain estimates involves the use of assumptions and is dependent on projected cash flows. Since the second half of 2008, a number of major economies around the world have experienced volatile capital and credit markets. As a consequence, the Group’s customers and suppliers may be impacted by reduced liquidity and higher costs of funding, which may in turn require adjustments to management’s estimates of projected cash flows and assumptions applied.

Critical judgements in applying accounting policies

The following are the critical judgments, apart from those involving estimations (see below), that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

Revaluation of property, plant and equipment

As described in Note 3, the Group applies revaluation model to measurement of property, plant and equipment. At each reporting date, the Group carries out a review of the carrying amount of these assets to determine whether carrying amount differs materially from fair value. The Group carries out such review by preparing a discounting cash flow analysis including assumptions such as projected revenues and a discount rate. Additionally, the Group considers economic stability and availability of transactions with similar assets in the market when determining whether to perform a fair value analysis in any given period.

Based on the results of this review, the Group concluded property, plant and equipment did not have to be revalued as at 31 December 2009 and 2008.

Key sources of estimation uncertainty

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

The most significant areas requiring the use of management estimates and assumptions relate to:

- Trade and other receivables;
- Inventory valuation;
- Useful economic lives and residual values of property, plant and equipment;
- Impairment of assets; and
- Taxation.

Trade and other receivables

Accounts receivable are stated at their net realisable value after deducting an allowance for doubtful accounts. The allowance for doubtful accounts is the Group's best estimate of probable credit losses in the Group's existing accounts receivable balances. In estimating the allowance, management considers a number of factors including current overall economic conditions, industry-specific economic conditions and historical and anticipated customer performance.

Uncertainties regarding changes in the financial condition of customers, either adverse or positive, could impact the amount and timing of any additional allowances for doubtful accounts that may be required.

Inventory valuation

Inventory consists of finished goods, work-in-progress and raw materials which are stated at lower of cost or net realisable value. As a result of the turmoil in financial markets, the global demand for steel in 2008 has decreased and the Group assessed the net realisable value of its inventory. As part of the assessment, management estimates the net realisable value of finished goods and work-in-progress based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the date of statement of financial position to the extent that such events confirm conditions existing at the end of the period. Estimates of net realisable value of raw materials are based on replacement cost of respective items at the date of statement of financial position.

If future demand or market conditions are less favorable than management's projections, additional write-offs could be required and would be reflected in cost of sales in the period in which they occur.

In addition, at each statement of financial position date, the Group evaluates its inventory balance for excess quantities and obsolescence and determines an estimate for an allowance to reduce inventory for obsolete and slow-moving raw materials and spare parts. Any changes in the estimates may impact the amount of the allowances for inventory that may be required.

Useful economic life and residual value of property, plant and equipment

The Group's property, plant and equipment, other than mining assets, are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates, related to those assets.

The factors that could affect the estimation of useful lives and residual values include the following:

- Changes in asset utilization rates;
- Changes in maintenance technology;
- Changes in regulations and legislation; and
- Unforeseen operational issues.

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Depreciation of mining assets

The cost of mining structures is depreciated using the units of production method based on the estimated production volume for which the structure was designed. The management exercises their judgment in estimating the useful lives of the depreciable assets and the production volume of the mine. The estimated production volumes are updated at regular basis and have taken into account recent production and technical information about each mine. These changes are considered a change in estimate for accounting purposes and are reflected on a prospective basis in related depreciation rates. Estimates of the production volume are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information.

Impairment of assets

The Group periodically evaluates the recoverability of the carrying amount of its assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group estimates the recoverable amount of the asset. This requires the Group to make judgments regarding long-term forecasts of future revenues and costs related to the assets subject to review. In turn, these forecasts are uncertain in that they require assumptions about demand for products and future market conditions. Significant and unanticipated changes to these assumptions and estimates included within the impairment reviews could result in significantly different results than those recorded in the consolidated financial statements.

Taxation

The Group is subject to income tax and other taxes in numerous jurisdictions. Significant judgement is required in determining the provision for income tax and other taxes due to the complexity of the tax legislation of the Russian Federation and of other countries, where the Group's entities operate. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax inspection issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the amount of tax and tax provisions in the period in which such determination is made.

In addition, the Group records deferred tax assets at each statement of financial position date based on the amount that management believes will be utilized in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in the write off of deferred tax assets in future periods for assets that are currently recorded on the consolidated statement of financial position. In estimating levels of future profitability, the Group has considered historical results of operations in recent years and would, if necessary, consider the implementation of prudent and feasible tax planning strategies to generate future profitability. If future profitability is less than the amount that has been assumed in determining the deferred tax asset, then an increase in valuation reserve will be required, with a corresponding charge against income. On the other hand, if future profitability exceeds the level that has been assumed in calculating the deferred tax asset, the valuation reserve could be reduced, with a corresponding credit to income.

5. ACQUISITION OF SUBSIDIARIES

During years ended 31 December 2009 and 2008, a Group's subsidiary MMK Atakas Metalurji issued additional ordinary shares for a total nominal value of USD 94 million and USD 162 million, respectively. These additional shares issued were purchased by the Group and minority shareholders in proportion to their existing ownership.

2009 Acquisitions

Onarbay Enterprises Ltd

In March 2008, the Group acquired a 50% share in Onarbay Enterprises Ltd, Cyprus, which holds an 82.6% ownership interest in OJSC Belon, a coal-producer, located in the Russian Federation, for a total cash consideration of USD 234 million.

(In millions of U.S. Dollars, unless otherwise stated)

In October 2009, the Group acquired an additional 50% share in Onarbay Enterprises Ltd, Cyprus, an associate of the Group, for a total cash consideration of USD 309 million. Following this acquisition, the Group obtained control over Onarbay Enterprises Ltd. Onarbay Enterprises Ltd is a holding company owning an 82.6% ownership interest in OJSC Belon, a coal-producer, located in the Russian Federation. The Group acquired Onarbay Enterprises Ltd in order to obtain access to OJSC Belon's coal supply for its ongoing operations.

This acquisition was accounted for using the acquisition method. Non-controlling interest was measured at fair value with reference to the market quotations of OJSC Belon ordinary shares at the date of acquisition. The same basis was applied to remeasurement at fair value of previously held interest in Onarbay Enterprises Ltd.

The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition on a provisional basis. At the date of finalisation of these consolidated financial statements, the necessary fair value assessements of property, plant an equipment and other calculations had not been finalised and they have therefore been provisionally determined based on the Group management's best estimate of those fair values. The provisional purchase price allocation for the acquisition is as follows:

	Provisional value at the date of acquisition
ASSETS	
Property, plant and equipment	1,052
Other intangible assets	2
Investments in securities and other financial assets	3
Inventories	30
Trade and other receivables	147
Deferred tax assets	16
Cash and cash equivalents	38
Other assets	7
	1,295
LIABILITIES	
Borrowings	532
Obligations under finance lease	18
Trade and other payables	100
Deferred tax liabilities	118
	768
Net assets at the date of acquisition	527
Fair value of consideration given for controlling interest	309
Non-controlling interest (fair value)	145
Fair value of previously held interest	344
	798
Less: fair value of net assets of acquiree	(527)
Goodwill	**271**

(In millions of U.S. Dollars, unless otherwise stated)

The goodwill arising on this acquisition primarily relates to increased security of a key material input of the production process. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

As part of the step acquisition accounting under IFRS 3(R), the Group recognised a revaluation gain resulting from remeasurement of previously held interest. The gain of USD 175 million has been recorded in the consolidated statement of comprehensive income in “Gain on revaluation of investment in associate upon acquisition of majority ownership”.

At the date of acquisition, OJSC Belon did not prepare consolidated financial statements in accordance with IFRS. Thus, it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and this information is not presented in these consolidated financial statements.

If the combination had taken place at the beginning of the year the Group’s revenue would have been USD 5,377 million, profit before income tax and profit for the year would have been USD 182 million and USD 166 million respectively.

OJSC Belon and its subsidiaries contributed USD 52 million of revenue and USD 57 million of loss before tax from the date of acquisition to 31 December 2009.

CJSC Profit

In June 2009, the Group acquired a 100% share in CJSC Profit, a holding company of Profit Group engaged in scrap collection and processing, for a total cash consideration of USD 15 million. Entities of the acquired group are incorporated in the Russian Federation, are located throughout the Russian Federation, with a holding company located in Magnitogorsk. The scrap, collected by the Profit Group, is primarily sold to the Group. The acquisition of this strategic raw material supplier will significantly strengthen the Group’s security in terms of raw materials supplies.

This acquisition was accounted for using the acquisition method. Non-controlling interest was measured at the non-controlling’s proportionate share of the acquiree’s identifiable net assets.

At the time of acquisition, the Group estimated the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company on a provisional basis and reported the provisional results of acquisition in the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2009. The purchase price allocation was finalised during the three months ended 30 September 2009 and as such the final purchase price allocation has been accounted for retroactively from the date of acquisition. The final purchase price allocation for the acquisition is as follows:

	Provisional value at the date of acquisition	Final value at the date of acquisition
ASSETS		
Property, plant and equipment	64	55
Investments in securities and other financial assets	20	19
Inventories	15	14
Trade and other receivables	38	38
Deferred tax assets	-	15
Cash and cash equivalents	8	8
	145	149

(In millions of U.S. Dollars, unless otherwise stated)

	Provisional value at the date of acquisition	Final value at the date of acquisition
LIABILITIES		
Borrowings	19	6
Obligations under finance lease	9	11
Trade and other payables	36	71
Deferred tax liabilities	-	4
Net assets attributable to minority participants	5	4
	69	96
Net assets at the date of acquisition	76	53
Fair value of consideration given	15	15
Non-controlling interest	6	8
	21	23
Less: fair value of net assets of acquiree	(76)	(53)
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	**(55)**	**(30)**

The excess of the Group's share in the fair value of net assets acquired over the cost of acquisition in amount of USD 30 million has been recorded in the consolidated statement of comprehensive income. This excess relates in part to the relatively low activity in the scrap metal market as a result of the global economic crisis and also to the Group's dominant position as a main customer of Profit Group.

At the date of acquisition, CJSC Profit did not prepare consolidated financial statements in accordance with IFRS. Thus, it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and they are not presented in these consolidated financial statements.

If the combination had taken place at the beginning of the year the Group's revenue would have been USD 5,113 million, profit before income tax and profit for the year would not change significantly.

CJSC Profit and its subsidiaries contributed USD 36 million of revenue and USD 7 million of loss before tax from the date of acquisition to 31 December 2009.

2008 Acquisitions

LLC MAGMA trade (subsequently renamed to LLC TD MMK-Moskva)

At 1 October 2008, the Group acquired a 99% share in LLC MAGMA trade, a trading company located in the Russian Federation, for a nominal cash consideration.

This acquisition was accounted for using the purchase method. The Group has determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition. The purchase price allocation for the acquisition is as follows:

(In millions of U.S. Dollars, unless otherwise stated)

	Fair value
ASSETS	
Inventories	59
Trade and other receivables	69
Cash and cash equivalents	2
	130
LIABILITIES	
Borrowings	56
Trade and other payables	89
	145
Net liabilities at the date of acquisition	(15)
Less: share of net assets attributable to minority participants	-
Group's share of net liabilities acquired	(15)
Add: Goodwill arising on acquisition	15
Cost of acquisition	**-**

The goodwill arising on this acquisition primarily relates to strong relationships of the acquired entity with its customers.

In December 2008, the Group acquired an additional 1% share in LLC MAGMA trade for a nominal cash consideration. Following the acquisition the Group's shareholding in this company is 100%.

At the date of acquisition, LLC MAGMA trade did not prepare consolidated financial statements in accordance with IFRS. Thus, it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and this information is not presented in these consolidated financial statements.

As LLC MAGMA trade was a distributor of the Group's products prior to the acquisition, Group revenue and profit before tax did not change significantly following the acquisition of this company.

During the year ended 31 December 2009, LLC MAGMA trade was renamed LLC TD MMK-Moskva.

LLC Uralsibtrade (subsequently renamed to LLC TD MMK-Ural)

At 24 June 2008, the Group acquired an 80% share in LLC Uralsibtrade, a trading company located in the Russian Federation, for a nominal cash consideration. The excess of the Group's share in the fair value of net assets acquired over the cost of acquisition in amount of USD 4 million has been included in the consolidated statement of comprehensive income.

In December 2008, the Group acquired an additional 20% share in LLC Uralsibtrade for a nominal cash consideration. Following the acquisition the Group's shareholding in this company is 100%.

Since LLC Uralsibtrade was a distributor of the Group's products prior to the acquisition, Group revenue and profit before tax did not change significantly following the acquisition of this company.

During the year ended 31 December 2009, LLC Uralsibtrade was renamed LLC TD MMK-Ural.

(In millions of U.S. Dollars, unless otherwise stated)

6. REVENUE

By product	2009	2008
Rolled steel	3,085	5,847
Assorted rolled products	413	944
Galvanized steel	331	433
Tin plated steel	226	203
Galvanized steel with polymeric coating	177	251
Wire, sling, bracing	125	454
Hardware products	92	223
Band	74	327
Formed section	52	205
Coking production	47	141
Tubes	39	62
Coal	36	-
Scrap	33	198
Slabs	12	726
Others	339	536
Total	**5,081**	**10,550**

Scrap sales in 2008 and in 2009, prior to the Group's acquisition of Profit Group, relate to transactions with Profit Group (Note 5).

By customer destination	2009	2008
Russian Federation and the CIS	63%	69%
Iran	9%	3%
China	5%	-
Turkey	3%	7%
Italy	3%	6%
India	3%	1%
Vietnam	3%	-
Others (countries each representing less than 2% of total net revenue)	11%	14%
Total	**100%**	**100%**

7. SEGMENT INFORMATION

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance, and for which discrete financial information is available.

The reports used by the chief operating decision maker contain the following segments:

- *Steel segment,* which includes Parent Company and its subsidiaries involved in production of steel, wire and hardware products. All significant assets, production and management and administrative facilities of this segment are located in the city of Magnitogorsk, the Russian Federation;
- *Coal mining segment*, which includes OJSC Belon and its subsidiaries involved in mining and refining of coal. All significant assets, production and management and administrative facilities of this segment are located in the city of Belovo, the Russian Federation.

(In millions of U.S. Dollars, unless otherwise stated)

Prior to acquisition of controlling interest in Onarbay Enterprises Ltd in October 2009 (Note 5) the Group operated in a single business segment, which was composed of the manufacturing of semi-finished and finished steel products.

The profitability of the two operating segments is primarily measured based on Segment EBITDA. Segment EBITDA is determined as segment's operating profit adjusted to exclude depreciation and amortisation expense and loss on disposal of property, plant and equipment, and to include the share of result of associates, including the impairment of investments in associates, and gain on revaluation of investment in associate upon acquisition of majority ownership. Since this term is not a standard measure in IFRS the Group's definition of EBITDA may differ from that of other companies.

The following table presents measures of segment results for the year ended 31 December 2009:

	2009			
	Steel	**Coal mining**	**Eliminations**	**Total**
Revenue				
Sales to external customers	5,029	52	-	5,081
Inter-segment sales	-	42	(42)	-
Total revenue	**5,029**	**94**	**(42)**	**5,081**
Segment EBITDA	**1,277**	**8**	**-**	**1,285**
Depreciation and amortisation	(715)	(20)	-	(735)
Loss on disposal of property, plant and equipment	(105)	(13)	-	(118)
Share of results of associates	31	-	-	31
Gain on revaluation of investment in associate upon acquisition of majority ownership	(175)	-	-	(175)
Operating profit/(loss) per IFRS financial statements	**313**	**(25)**	**-**	**288**

At 31 December 2009 and 2008, the segments' total assets and liabilities were reconciled to total assets and liabilities as follows:

	31 December 2009			
	Steel	**Coal mining**	**Eliminations**	**Total**
Total assets	14,381	1,204	(752)	14,833
Total liabilities	4,145	745	(382)	4,508

(In millions of U.S. Dollars, unless otherwise stated)

8. COST OF SALES

	2009	2008
Cost of production		
Raw materials used	2,556	5,955
Depreciation of property, plant and equipment	708	903
Payroll and unified social tax	464	640
Other expenses	184	286
	3,912	7,784
Decrease in work in progress and finished goods	28	51
Total	**3,940**	**7,835**

9. GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
Labour	165	231
Taxes other than income tax	79	101
Professional services	44	48
Depreciation and amortisation	27	42
Insurance	21	29
Materials	8	15
Payments to non-governmental pension fund (Note 25)	-	7
Actuarial (gains)/losses	(12)	6
Other	17	34
Total	**349**	**513**

10. SELLING AND DISTRIBUTION EXPENSES

	2009	2008
Transportation expenses	371	552
Advertising expenses	25	12
Labour	9	15
Other	48	71
Total	**453**	**650**

11. OTHER OPERATING EXPENSES, NET

	2009	2008
Loss on disposal of property, plan and equipment, net	(118)	(109)
Bad debt expense	(71)	(40)
Net gain/(loss) on revaluation and sale of trading securities	113	(238)
Net gains on sale of other assets	6	19
Other operating gains /(losses), net	19	(10)
Total	**(51)**	**(378)**

(In millions of U.S. Dollars, unless otherwise stated)

12. OTHER EXPENSES

For the years ended 31 December 2009 and 2008, other expenses included USD 45 million and USD 66 million, respectively, related to mandatory and voluntary social programs and maintenance of social assets.

13. 1INCOME TAX

The Group's provision for income taxes attributable to different tax jurisdictions for the years ended 31 December 2009 and 2008 was:

	2009	2008
Current provision for income tax:		
Russian Federation	20	456
Switzerland	1	-
Adjustments recognised in current year relating to prior year current tax		
Russian Federation	(42)	(93)
Deferred income tax expense/(benefit), net:		
Russian Federation	77	(359)
Switzerland	(18)	21
Total income tax expense	**38**	**25**

Adjustments recognised in current year relating to prior year's tax relate to estimates for bad debt allowances and capitalised expenses in 2009 and accelerated tax depreciation in 2008 which subsequently changed on submission of the company's income tax returns for those years. An offsetting deferred tax charge was also recorded as a result of these adjustments.

In November 2008, an amendment to the Tax Code of the Russian Federation was enacted to reduce the corporate income tax rate from 24% to 20% effective from 1 January 2009. For the years ended 31 December 2009 and 2008 annual income tax is measured at 20% and 24%, respectively of the estimated assessable profit for the year. At 31 December 2009 and 2008, deferred taxes are measured at 20%.

The corporate income tax rates in other countries where the Group has a taxable presence vary from 15% to 24%.

The provision for income taxes is different from that which would be obtained by applying the Russian Federation statutory income tax rate to profit before income tax. The items causing this difference are as follows:

(In millions of U.S. Dollars, unless otherwise stated)

	2009	2008
Profit before income tax	257	1,106
Income tax provision computed at Company's statutory rate	51	265
Adjustments due to:		
Adjustments of prior years' income taxes	(7)	1
Effect of different tax rates of subsidiaries operating in other jurisdictions	6	(7)
Expenses not deductible and income not taxable for tax purposes:		
- Gain on revaluation of investment in associate upon acquisition of majority ownership	(35)	-
- Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	(6)	(3)
- Other permanent differences	29	34
Effect on deferred tax balances due to the change in income tax rate from 24% to 20% (effective 1 January 2009)	-	(265)
Income tax expense	**38**	**25**

The movement in the Group's deferred taxation position during the current and prior reporting period was as follows:

	31 December	
	2009	2008
Net deferred tax liability at the beginning of the year	**1,106**	**1,846**
Acquisition of subsidiaries	91	-
Revaluation of available-for-sale investments	79	(156)
Deferred tax expense/(benefit)	59	(61)
Effect of income tax rate change recognised in consolidated statement of comprehensive income	-	(277)
Effect of income tax rate change recognised in equity	-	(32)
Effect of translation to presentation currency	(28)	(214)
Net deferred tax liability at the end of the year	**1,307**	**1,106**

Deferred income tax assets and liabilities were comprised of differences arising between the tax and accounting bases of the following assets and liabilities:

	31 December	
	2009	2008
Property, plant and equipment	39	22
Investments	12	34
Accounts payable	10	29
Loans	9	7
Inventories	8	37
Accounts receivable	27	8
Unused tax losses	10	-
Gross deferred income tax assets	115	137

(In millions of U.S. Dollars, unless otherwise stated)

	31 December 2009	31 December 2008
Investments	(92)	(3)
Property, plant and equipment	(1,271)	(1,223)
Inventories	(24)	(11)
Accounts receivable	(13)	(2)
Loans	(13)	(4)
Accounts payable	(9)	-
Gross deferred income tax liabilities	(1,422)	(1,243)
Net deferred income tax liabilities	**(1,307)**	**(1,106)**

At 31 December 2009 and 2008, deferred income tax liabilities arising on differences in valuation of investments included USD 85 million and USD 6 million, respectively, related to unrealised holding gains on long-term equity securities classified as available for sale (Note 20).

At 31 December 2009 and 2008, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was USD 555 million and USD 295 million, respectively. No liabilities have been recognised in these consolidated financial statements in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

Based upon historical taxable income and projections for future taxable income over the periods in which deferred income tax assets are deductible, management of the Group believes it is more likely than not that Group will realise the benefits of the deductible differences.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Machinery and equipment	Transpor-tation equipment	Fixtures and fittings	Mining assets	Construction -in-progress	Total
Cost							
At 1 January 2008	**2,650**	**7,030**	**240**	**131**	**30**	**1,160**	**11,241**
Additions	66	360	32	16	-	1,892	2,366
Transfers	252	511	3	47	-	(813)	-
Disposals	(16)	(167)	(14)	(5)	-	(27)	(229)
Effect of translation to presentation currency	(486)	(1,276)	(46)	(31)	(5)	(371)	(2,215)
At 31 December 2008	**2,466**	**6,458**	**215**	**158**	**25**	**1,841**	**11,163**
Additions	13	151	14	5	4	1,355	1,542
Acquisition through business combinations	344	330	28	6	222	177	1,107
Transfers	578	801	8	10	-	(1,397)	-
Disposals	(18)	(176)	(11)	(2)	-	(16)	(223)
Effect of translation to presentation currency	(50)	(158)	(6)	(4)	(7)	(61)	(286)
At 31 December 2009	**3,333**	**7,406**	**248**	**173**	**244**	**1,899**	**13,303**

(In millions of U.S. Dollars, unless otherwise stated)

	Land and buildings	Machinery and equipment	Transportation equipment	Fixtures and fittings	Mining assets	Construction -in-progress	Total
Depreciation							
At 1 January 2008	**(196)**	**(586)**	**(34)**	**(15)**	**(1)**	**-**	**(832)**
Charge for the year	(214)	(654)	(35)	(17)	(1)	-	(921)
Disposals	4	42	4	2	-	-	52
Effect of translation to presentation currency	69	203	11	5	1	-	289
At 31 December 2008	**(337)**	**(995)**	**(54)**	**(25)**	**(1)**	**-**	**(1,412)**
Charge for the year	(188)	(492)	(28)	(15)	(2)	-	(725)
Disposals	3	88	5	1	-	-	97
Effect of translation to presentation currency	1	11	1	-	-	-	13
At 31 December 2009	**(521)**	**(1,388)**	**(76)**	**(39)**	**(3)**	**-**	**(2,027)**
Carrying amount							
At 31 December 2008	**2,129**	**5,463**	**161**	**133**	**24**	**1,841**	**9,751**
At 31 December 2009	**2,812**	**6,018**	**172**	**134**	**241**	**1,899**	**11,276**

At 31 December 2009, construction-in-progress includes capitalised expenses, related to the implementation of large investment projects by the Group, such as construction of continuous-casting plant, new metal plant in Turkey and a cold rolling mill, intended for production of cold rolled metal products of the highest quality.

For the year ended 31 December 2009, transfers from construction-in-progress to machinery and equipment of USD 640 million and to land and buildings of USD 400 million relate to a high-productivity hot rolling plate Mill-5000.

At 31 December 2009 and 2008, property, plant and equipment with carrying amount of USD 1,086 million and USD 637 million, respectively, were pledged as security for certain long-term and short-term borrowings (Notes 23 and 27).

Capital commitments are disclosed in Note 31.

No impairment of property, plant and equipment was recognised in the years ended 31 December 2009 and 2008.

In performing the impairment test, the following specific assumptions were used:

- Cash flow projections are based on financial forecasts approved by management covering a five year period;
- The forecast sales volumes increase by 28% in 2010, increase by 16% in 2011, and remain constant at 2011 level thereafter;
- The forecast sales prices increase by 28% in 2010 and increase on average by 5% per annum thereafter;
- Operating costs are forecast to increase by 59% in 2010, increase by 29% in 2011and increase on average by 5% thereafter;
- A post-tax discount rate of 12.1% (USD terms).

(In millions of U.S. Dollars, unless otherwise stated)

The estimate of future discounted cash flows and the result of impairment test are particularly sensitive in the following areas:

- A 1% increase in discount rate leads to impairment loss of USD 402 million;
- A 10% decrease in future planned revenues leads to impairment loss of USD 486 million.

15. GOODWILL

The change in the carrying value of goodwill for the year ended 31 December 2009 was as follows:

	2009	2008
Balance at the beginning of the year	**45**	**35**
Goodwill arising on acquisitions (Note 5)	271	17
Effect of translation to presentation currency	(7)	(7)
Balance at the end of the year	**309**	**45**

No impairment of goodwill was recognised in the years ended 31 December 2009 and 2008.

16. OTHER INTANGIBLE ASSETS

	Licenses	Purchased software	Other intangibles	Total
Cost				
At 1 January 2008	**31**	**33**	**8**	**72**
Additions	9	7	6	22
Disposals	(2)	(20)	-	(22)
Effect of translation to presentation currency	(6)	(4)	(2)	(12)
At 31 December 2008	**32**	**16**	**12**	**60**
Additions	5	4	2	11
Acquisition through business combinations	-	1	1	2
Disposals	-	(3)	-	(3)
Effect of translation to presentation currency	(1)	-	(1)	(2)
At 31 December 2009	**36**	**18**	**14**	**68**
Amortisation				
At 1 January 2008	**(6)**	**(17)**	**(3)**	**(26)**
Charge for the year	(5)	(15)	(4)	(24)
Disposals	2	20	-	22
Effect of translation to presentation currency	-	3	1	4
At 31 December 2008	**(9)**	**(9)**	**(6)**	**(24)**
Charge for the year	(3)	(5)	(3)	(11)
Disposals	-	3	-	3
Effect of translation to presentation currency	1	-	-	1
At 31 December 2009	**(11)**	**(11)**	**(9)**	**(31)**
Carrying amount				
At 31 December 2008	**23**	**7**	**6**	**36**
At 31 December 2009	**25**	**7**	**5**	**37**

(In millions of U.S. Dollars, unless otherwise stated)

The estimated amortisation expense for each of the next five years and thereafter is as follows:

Year ended 31 December	
2010	10
2011	6
2012	3
2013	3
Thereafter	15
Total	**37**

Actual amortisation expense to be reported in future periods could differ from these estimates as a result of new acquisitions, changes in useful lives, changes in technology and other relevant factors.

No impairment of other intangible assets was recognised in the years ended 31 December 2009 and 2008.

17. INVESTMENTS IN ASSOCIATES

At 31 December 2009 and 2008, the Group's investments in associates comprised the following:

		Investment carrying amount		**Ownership and voting interest, %**	
		31 December		**31 December**	
Associate	**Registered in**	**2009**	**2008**	**2009**	**2008**
Onarbay Enterprises Ltd	Cyprus	-	210	100%	50%
LLC MMK Trans	Russia	20	18	50%	50%
CJSC Kazankovskaya Mine	Russia	-	-	50%	50%
Other	Russia	2	-	-	-
Total		**22**	**228**		

In March 2008, the Group acquired a 50% share in Onarbay Enterprises Ltd, Cyprus, which holds an 82.6% ownership interest in OJSC Belon, a coal-producer, located in the Russian Federation, for a total cash consideration of USD 234 million.

In October 2009, the Group acquired an additional 50% share in Onarbay Enterprises Ltd for a total cash consideration of USD 309 million. Following this acquisition, the Group obtained control over Onarbay Enterprises Ltd. This acquisition was accounted for using the acquisition method (Note 5). At the date of this additional acquisition the carrying value of previously held interest was USD 169 million.

At 31 December 2009 and 2008, the Group also owned 50% share in CJSC Kazankovskaya Mine, an associate of the Group. Based on information received by the Group and its knowledge of the industry, management of the Group believes that no future economic benefits will be obtained from its investment in CJSC Kazankovskaya Mine. As a result, at 31 December 2008, the Group wrote off its entire investment in this entity, comprising equity investment of USD 15 million and loan provided of USD 41 million.

(In millions of U.S. Dollars, unless otherwise stated)

Summarised financial information in respect of the Group's associates is set out below:

	31 December	
	2009	**2008**
Total assets	135	1,294
Total liabilities	(87)	(849)
Net assets	48	445
Group's share of net assets of associates	**24**	**184**

	2009	**2008**
Total revenue	666	1,166
Total (loss)/profit for the year	(77)	75
Group's share of (loss)/profit of associates	**(31)**	**32**

18. INVENTORIES

	31 December	
	2009	**2008**
Raw materials	505	533
Work-in-progress	107	134
Finished goods and goods for resale	266	339
Total	**878**	**1,006**
Less: Allowance for obsolete and slow-moving items	(22)	(10)
Total inventories, net	**856**	**996**

At 31 December 2008, the Group recognised an impairment amounting to USD 336 million to reduce the carrying amount of inventories to net realisable value. Of this total, USD 230 million related to raw materials, including scrap, coal and iron ore.

Movement in the allowance for obsolete and slow-moving items was as follows:

	2009	**2008**
Balance at the beginning of the year	**10**	**8**
Reversal of allowance	-	(1)
Additional allowance increase	11	4
Effect of translation to presentation currency	1	(1)
Balance at the end of the year	**22**	**10**

At 31 December 2009 and 2008, inventory with carrying amount of USD 1 million and USD 21 million, respectively, were pledged as security for certain short-term borrowings (Note 27).

(In millions of U.S. Dollars, unless otherwise stated)

19. TRADE AND OTHER RECEIVABLES

	31 December	
	2009	2008
Trade accounts receivable	766	864
Prepaid expenses	119	11
Advances paid	88	87
Interest receivable	-	4
Other receivables	77	62
	1,050	1,028
Allowance for doubtful accounts	(109)	(37)
Total trade and other receivables, net	**941**	**991**

The Group does not hold any collateral for accounts receivable balances.

Ageing of receivables past due but not impaired was as follows:

	31 December	
	2009	2008
Less than 30 days	44	57
30-60 days	19	122
60-90 days	10	95
90-120 days	2	93
Over 120 days	40	77
Total	**115**	**444**

Management of the Group believe that receivables past due will be recovered in full.

Movement in the allowance for doubtful accounts receivable was as follows:

	31 December	
	2009	2008
Balance at the beginning of the year	**37**	**8**
Increase in allowance	71	40
Accounts receivable written-off	-	(1)
Effect of translation to presentation currency	1	(10)
Balance at the end of the year	**109**	**37**

(In millions of U.S. Dollars, unless otherwise stated)

20. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December	
	2009	**2008**
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	616	208
Unlisted securities	5	4
Loans and receivables, at amortised cost		
Long-term loans	6	4
Long-term deposits	-	142
Total non-current	**627**	**358**
Current		
Held-to-maturity investments, at amortised cost		
Promissory notes receivable	3	7
Loans and receivables, at amortised cost		
Short-term loans	10	6
Short-term deposits	-	17
Financial assets, at fair value through profit or loss		
Trading equity securities	186	83
Trading debt securities	16	21
Share in mutual investment fund	6	4
Total current	**221**	**138**

Non-current listed equity securities classified as available for sale represent investments in equity securities of a foreign entity, where the Group has less than a 20% equity interest and no significant influence. At 31 December 2009 and 2008, investments revaluation reserve resulting from unrealised holding gains and losses on these securities was USD 341 million and USD 23 million, respectively, net of related income tax effect of USD 85 million and USD 6 million, respectively.

Long-term bank deposits of USD 142 million as at 31 December 2008, which are RUB-denominated, with original maturity in 2010 were redeemed in July 2009. The Group received only nominal interest income related to these deposits.

At 31 December 2008, the weighted average interest rate on short-term bank deposits with maturities at the reporting date exceeding ninety days was 10.19%.

Trading equity securities are liquid publicly traded shares of Russian companies. They are reflected at period-end market value based on trade prices obtained from investment brokers.

Trading debt securities and trading promissory notes are liquid publicly traded bonds and notes of Russian companies and banks. They are reflected at period-end market value based on trade prices obtained from investment brokers.

Net gain/loss on revaluation and sale of trading securities for the years ended 31 December 2009 and 2008 were USD 113 million (gain) and USD 238 million (loss), respectively. These results are included in other operating income/expenses in the consolidated statement of comprehensive income.

21. CASH AND CASH EQUIVALENTS

	31 December	
	2009	**2008**
Cash in banks, RUB	80	62
Cash in banks, USD	32	561
Cash in banks, EURO	30	94
Cash in banks, TRY	-	83
Bank deposits, RUB	4	-
Bank deposits, USD	1	-
Bank deposits, EURO	1	-
Bank promissory notes, RUB	17	306
Total	**165**	**1,106**

At 31 December 2009, the weighted average interest rates on bank deposits with original maturities less than ninety days were 5.36% for RUB-denominated deposits, 6.22% for USD-denominated deposits and 1.78% for EUR-denominated deposits.

At 31 December 2009 and 2008, the weighted average interest rates on bank promissory notes were nil and 12.0%, respectively.

22. SHARE CAPITAL

Common stock

	31 December	
	2009	**2008**
Issued and fully paid common shares with a par value of RUB 1 each (in thousands)	11,174,330	11,174,330

Treasury stock

At 31 December 2009 and 2008, the Group held 72,003 thousand and 78,997 thousand, respectively, issued common shares of the Parent Company as treasury stock.

All treasury stock is recorded at cost.

Shareholders' voting rights

The shareholders of fully paid common stock are entitled to one vote per share at the annual general shareholders' meeting of the Parent Company.

(In millions of U.S. Dollars, unless otherwise stated)

Dividends

For the year ended 31 December 2009, the Group paid dividends relating to prior years of USD 16 million.

At 25 April 2008, the Parent Company declared a final dividend of RUB 0.502 (USD 0.021) per common share in respect of the year ended 31 December 2007 representing a total dividend of USD 239 million. Of this total, USD 0.1 million was attributable to Group entities.

At 29 August 2008, the Parent Company declared an dividend of RUB 0.382 (USD 0.016) per common share in respect of the six months ended 30 June 2008 representing a total dividend of USD 174 million. Of this total, USD 0.1 million was attributable to Group entities.

23. LONG-TERM BORROWINGS

	Type of interest rate	Annual interest rate, actual at 31 December 2009	Annual interest rate, actual at 31 December 2008	31 December 2009	31 December 2008
Unsecured listed bonds, RUB	Fixed	10%	-	354	-
Secured loans, RUB	Fixed	-	17%	-	89
Secured loans, USD	Floating	7%	-	262	-
Secured loans, EUR	Floating	4%	-	73	-
Unsecured loans, USD	Floating	1%	3%	446	240
Unsecured loans, USD	Fixed	4%	6%	79	34
Unsecured loans, RUB	Fixed	14%	13%	27	39
Unsecured loans, EUR	Fixed	9%	7%	1	3
Secured letter of credit, USD	Floating	1%	-	1	-
Secured letter of credit, EUR	Floating	2%	-	23	-
				1,266	**405**

Bonds

In December 2009, Parent Company of the Group issued RUB 10,000 million of bonds on Moscow Interbank Stock Exchange, (USD 331 million at the date of issuance), bearing semi-annual coupon at 9.7% per annum, repayable in December 2012. The holders of the bonds have an option to redeem these bonds two years from the date of issuance in December 2011.

Loans

The company has various borrowing arrangements in RUB, USD and EUR denominations with various lenders. Those borrowings consist of unsecured and secured loans and credit facilities.
At 31 December 2009 and 2008, the total unused element of all credit facilities was USD 1,840 million and USD 929 million, respectively.

The bank loans are subject to certain restrictive covenants, including, but not limited to:

- The ratio of consolidated debt to consolidated EBITDA should not exceed 3.5:1;
- The ratio of consolidated EBITDA to consolidated debt service should not be less than 0.6:1;

(In millions of U.S. Dollars, unless otherwise stated)

- The ratio of consolidated EBITDA to consolidated interest expense should not be less than 3:1; and
- The ratio of consolidated debt to consolidated equity should not exceed 1:1.

At 31 December 2009 and 2008, the Group was in compliance with its debt covenants.

At 31 December 2009 and 2008, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 1,083 million and USD 291 million, respectively, and shares in a subsidiary of USD 201 million and nil, respectively.

Debt repayment schedule

Year ended 31 December,	
2010 (presented as current portion of long-term borrowings, Note 27)	490
2011	535
2012	219
2013	138
2014 and thereafter	374
Total	**1,756**

24. OBLIGATIONS UNDER FINANCE LEASES

The following table presents future minimum lease payments under finance leases together with the present value of the net minimum lease payments at 31 December 2009 and 2008:

	Minimum lease payments 31 December		Present value of minimum lease payments 31 December	
	2009	**2008**	**2009**	**2008**
Due within one year	24	23	20	19
Due in the second year	18	22	15	18
Due in the third year	10	7	8	5
Due in the fourth year	1	2	1	2
Due in the fifth year and further	-	1	-	1
Total	53	55	44	45
Less: future finance charges	(9)	(10)	-	-
Present value of minimum lease payments	**44**	**45**	**44**	**45**
Included in the consolidated statement of financial position as:				
Current portion of long-term obligations under finance lease			20	19
Long-term obligations under finance lease			24	26
Total			**44**	**45**

At 31 December 2009 and 2008, the weighted average discount rate for capital lease obligations was 19% and 18%, respectively.

(In millions of U.S. Dollars, unless otherwise stated)

At 31 December 2009 and 2008, leased assets with a net carrying amount of USD 74 million and USD 81 million, respectively, were included in property, plant and equipment as follows:

	Gross carrying value	Accumulated depreciation	Net carrying value
Machinery and equipment	82	(8)	74
Balance at 31 December 2009	**82**	**(8)**	**74**
Machinery and equipment	87	(8)	79
Construction-in-progress	2	-	2
Balance at 31 December 2008	**89**	**(8)**	**81**

25. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to USD 77 million and USD 102 million for the years ended 31 December 2009 and 2008, respectively.

Additionally, in 2008 the Group made monthly contributions to a non-government pension fund, Sotsialnaya Zashchita Starosti, where its employees have individual accumulation agreements with the fund.

The Group had the ability to exercise significant influence over the financial and operating policy decisions of the fund through representation on its Board of Directors. The monthly contributions made by the Group equalled to the employee's contribution, unless the employee was a male aged between 55 and 60, or a female aged between 50 and 55, in which case the contribution is 1.5 times the employee's contribution. For the year ended 31 December 2008, the maximum monthly contribution by the Group for each employee was RUB 40,000 (USD 1,361), respectively. The Group's total contributions to the fund amounted to nil and USD 7 million for the years ended 31 December 2009 and 2008, respectively.

Defined benefit plan

The Group has a defined benefit plan in favour of employees who retired prior to 1 April 2001. Effective 1 April 2001, employees retiring after that date are not allowed to participate in the plan. Pensions from this defined benefit plan are administered by the independent charity fund BOF Metallurg.

The fund does not hold any assets set aside for the benefit of retirees under this plan.

Entitled employees receive lifetime pension payments, which vary from RUB 250 (USD 7.92) to RUB 480 (USD 15.20) per month depending on the employee's actual years of service and qualifications.

For the years ended 31 December 2009 and 2008, the Group made monthly payments to the fund of RUB 410 (USD 12.99) and RUB 559 (USD 22.49), respectively, per fund member, which were then distributed to the individual members.

(In millions of U.S. Dollars, unless otherwise stated)

At 31 December 2009 and 2008, the principal actuarial assumptions used in determining the present value of benefit obligations and net periodic pension expenses were as follows:

	31 December	
	2009	**2008**
Discount rate	9.1%	8.6%
Future pension benefit increases	8.3%	9.1%
Average life expectancy of members from date of retirement	9.4	9.4

The components of the net periodic benefit costs for the years ended 31 December 2009 and 2008 were as follows:

	2009	**2008**
Interest cost	3	3
Actuarial (gains)/losses	(12)	6
Foreign exchange losses	-	-
Total	**(9)**	**9**

Net periodic benefit costs were recognised as part of administrative expenses in the consolidated statement of comprehensive income.

Movements in the present value of benefit obligations are presented in the following table:

	2009	**2008**
Present value of benefit obligations at beginning of the year	**34**	**37**
Interest cost	3	3
Actuarial (gains)/losses	(12)	6
Benefit payments during the year	(3)	(5)
Foreign exchange losses	-	-
Currency translation adjustment	(1)	(7)
Defined benefit obligations at end of the year	**21**	**34**
Included in the consolidated statement of financial position as:		
Current portion of retirement benefit obligations	2	3
Long-term portion of retirement benefit obligations	19	31
Total	**21**	**34**

The future benefit payments to retirees under the defined benefit plan are expected to be as follows:

Year ended 31 December	
2010	2
2011	2
2012	2
2013	2
2014-2018	8
Thereafter	5
Total	**21**

(In millions of U.S. Dollars, unless otherwise stated)

26. TRADE AND OTHER PAYABLES

	31 December 2009	31 December 2008
Trade accounts payable	581	987
Advances from customers	132	139
Dividends payable	73	81
Other taxes payable	58	43
Salary payable	50	43
Other current liabilities	34	28
Total	**928**	**1,321**

The maturity profile of the Group's trade and other payables was as follows:

	31 December 2009	31 December 2008
Due in:		
1 month	668	899
1-3 months	28	200
3 months to 1 year	100	83
Total	**796**	**1,182**

At 31 December 2009 and 2008, overdue accounts payable amounted to USD 201 million and USD 510 million respectively.

27. SHORT-TERM BORROWINGS AND CURRENT PORTION OF LONG-TERM BORROWINGS

	Type of interest rate	Annual interest rate, actual at 31 December 2009	Annual interest rate, actual at 31 December 2008	31 December 2009	31 December 2008
Short-term borrowings:					
Secured loans, USD	Floating	2%	3%	201	224
Secured loans, EUR	Floating	2%	4%	84	52
Secured loans, RUB	Fixed	18%	16%	2	154
Unsecured loans, RUB	Fixed	12%	15%	28	298
Unsecured bank overdrafts, RUB	Fixed	-	16%	-	1
Secured letter of credit, USD	Floating	2%	-	1	-
Secured letter of credit, EUR	Floating	2%	-	2	-
				318	729

(In millions of U.S. Dollars, unless otherwise stated)

	Type of interest rate	Annual interest rate, actual at 31 December		31 December	
		2009	2008	2009	2008
Current portion of long-term borrowings:					
Unsecured listed bonds, RUB	Fixed	10%	-	202	-
Secured loans, RUB	Fixed	16%	17%	74	15
Secured loans, USD	Floating	6%	3%	47	260
Secured loans, EUR	Floating	2%	-	2	-
Unsecured loans, USD	Floating	2%	2%	108	90
Unsecured loans, RUB	Fixed	11%	10%	19	31
Unsecured loans, USD	Fixed	5%	6%	30	148
Unsecured loans, EUR	Fixed	8%	7%	2	3
Secured letter of credit, EUR	Floating	2%	-	6	-
				490	547
Total				**808**	**1,276**

In November 2009, Parent Company of the Group issued RUB 5,000 million of bonds on Moscow Interbank Stock Exchange (USD 173 million at the date of issuance), bearing semi-annual coupon at 9.45% per annum, repayable in November 2012. The holders of these bonds have the option to redeem these bonds one year from the date of issuance in November 2010. Accordingly, they are presented in short-term borrowings at 31 December 2009.

The weighted average interest rates of short-term borrowings At 31 December 2009 and 2008 were as follows:

	31 December	
	2009	2008
RUB-denominated	12%	15%
USD-denominated	3%	4%
EUR-denominated	2%	4%

At 31 December 2009 and 2008, short-term borrowings were secured by property, plant and equipment with a net carrying amount of USD 3 million and USD 346 million, respectively, inventory of USD 1 million and USD 21 million, respectively, and shares in a subsidiary of nil and USD 157 million, respectively.

Short-term borrowings and current portion of long-term borrowings are repayable as follows:

	31 December	
	2009	2008
Due in:		
1 month	73	172
1-3 months	248	299
3 months to 1 year	487	805
Total	**808**	**1,276**

28. RELATED PARTIES

Transactions and balances outstanding with related parties

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

The Group enters into transactions with related parties in the ordinary course of business for the purchase and sale of goods and services and in relation to the provision of financing agreements to and from Group entities. Transactions with related parties are performed on terms that would not necessarily be available to unrelated parties.

Issuance of guarantees in favor of related parties is disclosed in Note 29.

The following companies are considered to be related parties to the Group:

CJSC Profit

CJSC Profit, a company which was affiliated with the Group's controlling shareholders, purchases scrap metal from third parties and Group entities and sells it to the Group. In 2008, CJSC Profit also reprocessed scrap metal prior to selling it to the Group. CJSC Profit was acquired by the Group in June 2009 (Note 5).

The Group also provided loans to the company. At the date of acquisition, there were no outstanding loans.

LLC MEK

LLC MEK, a company affiliated with the Group's controlling shareholders, sells electric power to the Group.

OJSC CUB

The Group holds certain deposits and current accounts in OJSC CUB, a commercial bank affiliated with the Group's management. The Group receives financing from OJSC CUB in the form of loans for the Group's operating activities on arm's length basis.

LLC MMK Trans

LLC MMK Trans, the Group's associate, provides transportation and forwarding services to the Group.

CJSC Kazankovskaya Mine

CJSC Kazankovskaya Mine, the Group's associate, holds a license to explore and mine coal deposits located in Kemerovo region, Russian Federation.

OJSC SKM

OJSC SKM, an insurance company, which was affiliated with the Group's controlling shareholders and the Group's management, provides insurance services to the Group. OJSC SKM is not considered to be a related party of the Group effective 16 May 2008, due to changes in the management structure of the company.

(In millions of U.S. Dollars, unless otherwise stated)

CJSC SKM-Invest

CJSC SKM-Invest, a leasing company, which was affiliated with the Group's management, provides assets under capital lease to the Group. CJSC SKM-Invest is not considered to be a related party of the Group effective 16 May 2008, due to changes in the management structure of the company.

OJSC Belon

OJSC Belon, the Group's former associate, a coal-producer, located in the Russian Federation, supplies coal to the Group at market terms. The Group acquired an additional 50% of Onarbay Enterprises Ltd, the parent of OJSC Belon, in October 2009 (Note 5). Following this acquisition, the Group obtained control over Onarbay Enterprises Ltd.

For the years ended 31 December 2008 and 2009, prior to the Group's acquisition of Onarbay Enterprises Ltd, share of results of associates included loss of USD 37 million and gain of USD 24 million, respectively, related to the Group's associate Onarbay Enterprises Ltd, a parent of OJSC Belon.

Details of transactions with and balances between the Group and related parties at 31 December 2009 and 2008 and for the years ended 31 December 2009 and 2008 are disclosed below.

Transactions	**2009**	**2008**
Revenue		
OJSC Belon	3	-
LLC MEK	2	2
CJSC Profit	-	382
Total	5	384
Purchases		
LLC MEK	83	147
OJSC Belon	72	277
LLC MMK Trans	60	25
CJSC Profit (scrap)	19	1,894
CJSC Profit (property, plant and equipment)	-	37
Total	234	2,380
Loans provided		
CJSC Profit	-	206
Loans repaid		
CJSC Profit	-	284
Bank charges		
OJSC CUB	5	9
Bank loans and overdrafts obtained		
OJSC CUB	25	81
Bank loans and overdrafts repaid		
OJSC CUB	22	71
Insurance payments		
OJSC SKM	-	7
Lease payments		
CJSC SKM-Invest	-	6

(In millions of U.S. Dollars, unless otherwise stated)

	31 December	
Balances	**2009**	**2008**
Cash and cash equivalents		
OJSC CUB	28	155
Loans and overdraft facilities		
OJSC CUB	18	16
Accounts receivable		
LLC MMK Trans	11	3
CJSC Profit	-	8
Total	11	11
Accounts payable		
LLC MEK	2	2
CJSC Profit	-	259
OJSC Belon	-	7
LLC MMK Trans	-	4
Total	2	272

The amounts outstanding are unsecured and will be settled in cash.

Remuneration of the Group's key management personnel

Key management personnel of the Group receive only short-term employment benefits. For the years ended 31 December 2009 and 2008, key management personnel received as compensation USD 17 million and USD 34 million, respectively.

29. RISK MANAGEMENT ACTIVITIES

The main risks inherent to the Group's operations are those related to liquidity risk, credit risk exposures, market movements in interest rates, equity investment prices and fluctuations in foreign exchange rates. A description of the Group's risks and management policies in relation to these risks follows.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

Presented below is the maturity profile of the Group's borrowings (maturity profiles for other liabilities presented in notes 24, 25 and 26) based on contractual undiscounted payments, including interest:

(In millions of U.S. Dollars, unless otherwise stated)

2009	Weighted average effective interest rate %	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in the second to fifth years	Due thereafter
Fixed rate bank loans and borrowings							
Principal	10%	**863**	8	7	344	489	15
Interest		**92**	3	7	36	45	1
		955	**11**	**14**	**380**	**534**	**16**
Floating rate borrowings							
Principal	3%	**1,316**	63	236	146	522	349
Interest		**125**	3	3	16	72	31
		1,441	**66**	**239**	**162**	**594**	**380**
Total		**2,396**	**77**	**253**	**542**	**1,128**	**396**
2008							
Fixed rate borrowings							
Principal	13%	**736**	54	98	490	94	-
Interest		**184**	8	13	151	12	-
		920	**62**	**111**	**641**	**106**	**-**
Floating rate borrowings							
Principal	3%	**861**	106	189	322	179	65
Interest		**67**	9	7	22	25	4
		928	**115**	**196**	**344**	**204**	**69**
Total		**1,848**	**177**	**307**	**985**	**310**	**69**

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, deposits with banks as well as credit exposures to customers, including outstanding uncollateralised trade and other receivables.

Prior to acceptance of a new customer, the Group assesses the customer's credit quality and defines credit limits. Credit limits attributable to customers are regularly reviewed, and at a minimum annually.

The Group's maximum exposure to credit risk is represented by the carrying amount of financial assets recorded in the financial statements, which is net of any amounts offset and any impairment losses, and the amount of financial guarantees for loans obtained by certain related and third parties of the Group.

(In millions of U.S. Dollars, unless otherwise stated)

At 31 December 2009 and 2008, the Group's maximum exposure to credit risk for trade receivables including trade receivables from related parties by type of customers was as follows:

	31 December	
	2009	**2008**
Automobile producers	275	105
Traders	152	230
Tube plants	51	211
Other industries	288	318
Total	**766**	**864**

At 31 December 2009 and 2008, amounts related to financial guarantees given by the Group to third parties were as follows:

	31 December	
	2009	**2008**
Non-current	16	61
Current	17	10
Total	**33**	**71**

The Group's management believes that the likelihood of material payments being required under these agreements is remote.

Foreign currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. Currently, the Group does not use hedging instruments to manage exchange rate exposures.

At 31 December 2009 and 2008, the carrying amounts of the Group's monetary assets and liabilities denominated in foreign currencies other than its functional currency, the Russian Rouble, were as follows:

	31 December 2009		31 December 2008	
	EUR	**USD**	**EUR**	**USD**
Assets				
Cash and cash equivalents	31	33	94	561
Trade receivables	68	86	61	137
Total assets	**99**	**119**	**155**	**698**
Liabilities				
Trade payables	(156)	(104)	(114)	(52)
Borrowings	(193)	(1,175)	(58)	(996)
Total liabilities	**(349)**	**(1,279)**	**(172)**	**(1,048)**
Total net position	**(250)**	**(1,160)**	**(17)**	**(350)**

(In millions of U.S. Dollars, unless otherwise stated)

The table below details the Group's sensitivity to a depreciation of the RUB against USD and EUR by 10%, which management believes is an appropriate measure in the current market conditions and which would impact its operations.

	EUR impact		USD impact	
	2009	**2008**	**2009**	**2008**
Profit or (loss)	(25)	(2)	(116)	(35)

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments.

The table below details the Group's annualised sensitivity to change of floating rates (LIBOR, EURIBOR, Mosprime) by 1%, which management believes is an appropriate measure in the current market conditions and which would impact its operations. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the date of statement of financial position was outstanding for the whole annual period.

	31 December	
	2009	**2008**
Profit or loss	13	9

Equity and debt investment price risk

The Group is also exposed to investment price risk arising from holding equity and debt investments. Certain portion of the Group's investments is held for strategic rather than trading purposes. The sensitivity analysis below has been determined based on the exposure to equity and debt price risks at the reporting date.

If equity and debt prices had been 5% higher/lower:

- Investment revaluation reserve within equity balance would increase/decrease by USD 31 million (2008: increase/decrease by USD 10 million), as a result of changes in fair value of listed securities available-for-sale; and
- Profit for the year would increase/decrease by USD 10 million (2008: increase/decrease by USD 5 million), as a result of changes in fair value of listed debt and equity securities classified as at fair value through profit or loss.

(In millions of U.S. Dollars, unless otherwise stated)

30. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of debt and equity.

The capital structure of the Group consists of debt (Notes 23 and 27), share capital (Note 22) and retained earnings.

Management of the Group reviews the Group's capital structure on an annual basis. As a part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on their recommendations, the Group balances its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

There were no significant changes in the Group's approach to capital management during the year ended 31 December 2009.

31. COMMITMENTS AND CONTINGENCIES

Commitments for expenditure

In the course of carrying out its operations and other activities the Group enters into various agreements which requires the Group to invest in or provide financing to specific projects or undertakings.
In the opinion of the Group's management, these commitments are entered into under standard terms, which are representative of each project's feasibility and should not result in unreasonable losses for the Group.

At 31 December 2009, the Group executed non-binding purchase agreements of approximately USD 11,226 million to acquire in future periods through 2009 – 2017 property, plant and equipment, coking coal, zinc, aluminium, iron ore and natural gas (at 31 December 2008 – USD 10,706 million). Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

In the past the Group has transferred social assets to local municipal authorities. The Group's management expects that the Group will continue to partly fund those social operations in the foreseeable future. These costs are recognised in the consolidated statement of comprehensive income as incurred.

Operating leases

The land in the Russian Federation on which the Group's production facilities are located is owned by the State. The Group pays land tax based on the total area and the location of the land occupied. The amounts of land tax for the years ended 31 December 2009 and 2008 were approximately USD 19 million and USD 25 million, respectively.

The Group leases land through operating lease agreements, which expire in various years through 2054. Future minimum lease payments due under non-cancellable operating lease agreements at 31 December 2009 were as follows:

Due in one year	2
Due in the second year	2
Due thereafter	26
	30

Contingencies

Taxation contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The government of the Russian Federation has commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax litigation. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with practical implication of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system that may be applied retrospectively by authorities could affect the Group's previously submitted and assessed tax declarations.

While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Russian Federation risk

The economy of the Russian Federation, while deemed to be of market status, continue to display certain traits consistent with that of an emerging market. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls. The continued success and stability of the Russian economy will be subject to their government's continued actions with regard to supervisory, legal and economic reforms.

32. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of certain financial instruments have been determined using available market information or other valuation methodologies that require considerable judgment in interpreting market data and developing estimates. Accordingly, the estimates applied are not necessarily indicative of the amounts that the Group could realise in a current market exchange. The use of different assumptions and estimation methodologies may have a material impact on the estimated fair values.

Where it was available, management of the Group determined fair value of unlisted shares using a valuation technique that was supported by publicly available market information. In the absence of such information available-for-sale investments were presented at cost, net of impairment.

At 31 December 2009 and 2008, the estimated fair values of financial assets, including cash and cash equivalents, investments in securities, trade and other receivables, loans given and promissory notes, short-term borrowings, trade and other payables approximated their carrying values due to the short-term nature of these instruments.

At 31 December 2009, USD 498 million of listed bonds, placed in November-December, 2009, had a fair value of 99.7% or USD 495 million. This fair value was determined based on Moscow Interbank Stock Exchange quotations.

At 31 December 2009 and 2008, fair value of unsecured long-term debt, denominated in USD, was USD 525 million and USD 256 million, respectively. This fair value was determined based on market rates available to the Group at respective date.

For the years ended 31 December 2009 and 2008, no derivatives were designated as hedges. A net gain of nil and USD 5 million, respectively, relating to a change in the fair value of derivative instruments was included in other operating income in the consolidated statement of comprehensive income.

33. EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

There were no events after the date of statement of financial position that would require special disclosure or adjustment to these consolidated financial statements.

34. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2009 were approved by the Group's management and authorised for issue on 2 April 2010.