Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Consolidated Financial Statements
For the Year Ended 31 December 2008

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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 consolidated financial position of the Group at 31 December 2008 and the results of its operations, changes in equity and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

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

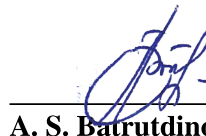
- Selecting suitable accounting principles and applying them consistently;
- Making judgments and estimates that are reasonable and prudent;
- Stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- Preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking steps to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2008 were approved on 10 April 2009 by:

O. V. Fedonin
Vice-President Finance



A. S. Batrutdinov
Deputy Chief Accountant

10 April 2009
Magnitogorsk, Russia

Deloitte.

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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 balance sheet at 31 December 2008 and the consolidated statements of 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 2008, 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

10 April 2009
Moscow, Russia

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008
(In millions of U.S. Dollars, unless otherwise stated)

	Notes	Years ended 31 December 2008	2007
REVENUE	6	10,550	8,197
COST OF SALES	7	(7,835)	(5,710)
GROSS PROFIT		**2,715**	**2,487**
General and administrative expenses	8	(513)	(452)
Selling and distribution expenses	9	(650)	(551)
Other operating expenses, net	10	(378)	(31)
OPERATING PROFIT		**1,174**	**1,453**
Share of results of associates	16	32	(7)
Impairment of investment in associate	16	(56)	-
Finance income		92	133
Finance costs		(110)	(87)
Foreign exchange gain, net		16	175
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition		13	20
Change in net assets attributable to minority participants		12	(6)
Other income		53	37
Other expenses	11	(120)	(92)
PROFIT BEFORE INCOME TAX		**1,106**	**1,626**
INCOME TAX	12	(25)	(320)
PROFIT FOR THE YEAR		**1,081**	**1,306**
Attributable to:			
Shareholders of the parent company		1,075	1,308
Minority interest		6	(2)
		1,081	**1,306**
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.097	0.121
Weighted average number of ordinary shares outstanding (in thousands)		11,160,335	10,830,276

The notes on pages 10 to 66 are an integral part of these consolidated financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2008
(In millions of U.S. Dollars)

	Notes	31 December 2008	31 December 2007
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	13	9,751	10,409
Goodwill	14	45	35
Other intangible assets	15	36	46
Investments in associates	16	228	30
Deferred tax assets	12	137	39
Investments in securities and other financial assets	19	358	1,051
Other assets		14	4
Total non-current assets		10,569	11,614
CURRENT ASSETS:			
Inventories	17	996	963
Trade and other receivables	18	991	945
Investments in securities and other financial assets	19	138	1,822
Income tax receivable		133	43
Value added tax recoverable		264	244
Cash and cash equivalents	20	1,106	256
Total current assets		3,628	4,273
TOTAL ASSETS		**14,197**	**15,887**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	21	386	386
Treasury shares	21	(72)	(1)
Share premium		1,104	1,105
Investments revaluation reserve	19	23	614
Translation reserve		(1,970)	-
Retained earnings		10,192	9,530
Equity attributable to shareholders of the parent company		9,663	11,634
Minority interest		189	152
Total equity		9,852	11,786
NON-CURRENT LIABILITIES:			
Long-term borrowings	22	405	200
Obligations under finance leases	23	26	31
Retirement benefit obligations	24	31	33
Deferred tax liabilities	12	1,243	1,885
Total non-current liabilities		1,705	2,149
CURRENT LIABILITIES:			
Trade and other payables	25	1,321	686
Short-term borrowings and current portion of long-term borrowings	26	1,276	1,198
Net assets attributable to minority participants		21	37
Current portion of obligations under finance leases	23	19	27
Current portion of retirement benefit obligations	24	3	4
Total current liabilities		2,640	1,952
TOTAL EQUITY AND LIABILITIES		**14,197**	**15,887**

The notes on pages 10 to 66 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 2008
(In millions of U.S. Dollars)

	Notes	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Translation reserve	Retained earnings	Equity attributable to share-holders of the parent company	Minority interest	Total equity
BALANCE AT 1 JANUARY 2008		**386**	**(1)**	**1,105**	**614**	**-**	**9,530**	**11,634**	**152**	**11,786**
Loss on available-for-sale investments		-	-	-	(779)	-	-	**(779)**	-	**(779)**
Related income tax	12	-	-	-	188	-	-	**188**	-	**188**
Translation of foreign operations		-	-	-	-	4	-	**4**	4	**8**
Effect of translation to presentation currency		-	-	-	-	(1,974)	-	**(1,974)**	(36)	**(2,010)**
Net income recognised directly in equity		-	-	-	(591)	(1,970)	-	**(2,561)**	(32)	**(2,593)**
Profit for the year		-	-	-	-	-	1,075	**1,075**	6	**1,081**
Total recognised income and expense		-	-	-	(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**
Net increase in minority interest due to additional share issue by subsidiary and acquisition of subsidiary		-	-	-	-	-	-	**-**	82	**82**
Net decrease in minority interest due to increase of Group's share in subsidiaries		-	-	-	-	-	-	**-**	(18)	**(18)**
Dividends	21	-	-	-	-	-	(413)	**(413)**	(1)	**(414)**
BALANCE AT 31 DECEMBER 2008		**386**	**(72)**	**1,104**	**23**	**(1,970)**	**10,192**	**9,663**	**189**	**9,852**

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)
(In millions of U.S. Dollars)

	Notes	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Retained earnings	Equity attributable to share-holders of the parent company	Minority interest	Total equity
BALANCE AT 1 JANUARY 2007		**363**	**(85)**	**254**	**18**	**8,751**	**9,301**	**48**	**9,349**
Gain on available-for-sale investments		-	-	-	784	-	**784**	-	**784**
Related income tax	12	-	-	-	(188)	-	**(188)**	-	**(188)**
Net income recognised directly in equity		-	-	-	596	-	**596**	-	**596**
Profit for the year		-	-	-	-	1,308	**1,308**	(2)	**1,306**
Total recognised income and expense		-	-	-	596	1,308	**1,904**	(2)	**1,902**
Share issue		40	-	937	-	-	**977**	-	**977**
Cancellation of treasury shares		(17)	125	(108)	-	-	**-**	-	**-**
Purchase of treasury shares		-	(58)	-	-	-	**(58)**	-	**(58)**
Issuance of ordinary shares from treasury shares		-	17	27	-	-	**44**	-	**44**
Related income tax		-	-	(5)	-	-	**(5)**	-	**(5)**
Net increase in minority interest due to acquisitions of subsidiaries		-	-	-	-	-	**-**	106	**106**
Dividends	21	-	-	-	-	(529)	**(529)**	-	**(529)**
BALANCE AT 31 DECEMBER 2007		**386**	**(1)**	**1,105**	**614**	**9,530**	**11,634**	**152**	**11,786**

The notes on pages 10 to 66 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008

(In millions of U.S. Dollars)

	Notes	Years ended 31 December 2008	2007
OPERATING ACTIVITIES:			
Profit for the year		1,081	1,306
Adjustments to profit for the period:			
Income tax		25	320
Depreciation and amortization	7,8	945	857
Finance costs		110	87
Loss on disposal of property, plant and equipment	10	109	104
Excess of the Group’s share in the fair value of net assets acquired over the cost of acquisition		(13)	(20)
Change in allowance for doubtful accounts receivable	18	40	(4)
Loss/(gain) on revaluation and sale of trading securities	10	238	(27)
Inventory allowance and impairment	17	339	2
Finance income		(92)	(133)
Foreign exchange gain, net		(16)	(175)
Share of results of associates	16	(32)	7
Gain on disposal of associate	10	-	(23)
Impairment of investment in associate	16	56	-
Change in net assets attributable to minority participants		(12)	6
		2,778	2,307
Movements in working capital			
Increase in trade and other receivables		(164)	(368)
Increase in inventories		(536)	(384)
Decrease/(increase) in investments classified as trading securities		27	(31)
Increase in trade and other payables		404	103
Cash generated from operations		2,509	1,627
Interest paid		(104)	(76)
Income tax paid		(480)	(505)
Net cash generated by operating activities		1,925	1,046
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(2,112)	(1,216)
Purchase of intangible assets		(24)	(17)
Proceeds from sale of property, plant and equipment		63	40
Acquisition of subsidiaries, net of cash acquired		(7)	(60)
Acquisition of associate	16	(234)	-
Proceeds from disposal of associate		-	70
Interest received		211	86
Loans provided to related parties	27	(206)	(75)
Loans repaid by related parties	27	284	59
Purchase of securities and other financial assets		(77)	(93)
Proceeds from sale of securities and other financial assets		27	27
Net change in bank deposits		1,096	(942)
Net cash used in investing activities		(979)	(2,121)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008 (CONTINUED)

(In millions of U.S. Dollars)

	Notes	Years ended 31 December 2008	2007
FINANCING ACTIVITIES:			
Proceeds from borrowings		3,974	2,075
Repayments of borrowings		(3,562)	(1,647)
Net (decrease)/increase in bank overdrafts		(8)	7
Proceeds of share issue, net of issuance costs		-	977
Proceeds from capital transactions of subsidiaries		77	-
Purchase of treasury shares		(86)	(58)
Proceeds from issuance of ordinary shares from treasury shares		14	39
Principal repayments of obligations under finance leases		(33)	(34)
Dividends paid to:			
- equity holders of the parent		(313)	(547)
- minority interests		(1)	-
Net cash generated by financing activities		62	812
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		1,008	(263)
CASH AND CASH EQUIVALENTS, beginning of year		256	338
Effect of translation to presentation currency and exchange rate changes on the balance of cash held in foreign currencies		(158)	181
CASH AND CASH EQUIVALENTS, end of year		**1,106**	**256**

The notes on pages 10 to 66 are an integral part of these consolidated financial statements.

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.

The Group operates in a single business segment, which is composed of the manufacturing of semi-finished and finished steel products. The revenues from the sale of these products constitute more than 95 percent of total revenues. All significant assets, production and management and administrative facilities are located in the city of Magnitogorsk, the Russian Federation.

The ultimate beneficiary of the Parent Company is Mr. Viktor F. Rashnikov, the Chairman of its Board of Directors, who owned 86.6% and 87.3% of the Parent Company's shares at 31 December 2008 and 2007, respectively.

At 31 December 2008 and 2007, the Group's principal subsidiaries were as follows:

Subsidiary by country of incorporation	Nature of business	Effective % held at 31 December 2008	2007
Russian Federation			
OJSC Metizno-Kalibrovochny Zavod "MMK-Metiz"	Production of metal hardware products	90.21	85.88
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	99.50
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	98.89
LLC Bakalskoe Rudoupravlenie	Mining	51.00	51.00
LLC Uralsibtrade	Trading activities	100.00	-
LLC MAGMA trade	Trading activities	100.00	-
Switzerland			
MMK Steel Trade AG	Trading activities	100.00	100.00
MMK Trading AG	Trading activities	99.60	99.60
MMK Finance SA	Financing activities	96.77	96.77
Turkey			
MMK Atakas Metalurji	Construction of metal plant	50.00	50.00

The effective ownerships indicated in the table above are also the nominal holdings, except for CJSC Ogneupor where 54.72% is held directly by the Parent Company and 45.28% by OJSC MTSOZ at 31 December 2007.

2. 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 consolidated financial statements for the year ended 31 December 2008 are the first annual consolidated financial statements that comply with IFRS and have been prepared in accordance with IFRS 1 “First-time Adoption of International Financial Reporting Standards” (“IFRS 1”).

The accounting policies set out below have been applied in preparing the consolidated financial statements for year ended 31 December 2008, the comparative information presented in these financial statements, and in the preparation of the opening IFRS balance sheet at 1 January 2007 (as disclosed in Note 32), the Group’s date of transition.

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 assets and liabilities of acquired subsidiaries are measured at their fair values at the date of acquisition. The interest of minority shareholders is stated at the minority’s share of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interest of the Parent Company, except to the extent that the minority has binding obligations and is able to make an additional investment to cover the losses.

The financial statements of subsidiaries are prepared for the same reporting period as those of the Parent Company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group’s interest in the entity. Unrealised losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Associates

An associate is an entity over which the Group exercises significant influence, but not control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted for from the date significant influence commenced until the date that significant influence effectively ceased.

The results of associates are equity accounted for based on their most recent financial statements. Any losses of associates are recorded in the consolidated financial statements until the investment in such associates is written down to nil value. Thereafter losses are only accounted for to the extent that the Group is committed to providing financial support to such associates.

The carrying value of investments in associates represents the cost of each investment, including goodwill, the share of post-acquisition retained earnings and any other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified.

Profits and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in these associates.

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 minority interests gives 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 income statement 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).

Prior to 1 January 2008, it was determined that U.S. dollar ("USD") was the functional currency of all of the Group's entities except for MMK Atakas Metalurji, where the functional currency was the New Turkish Lira ("TRY").

Effective 1 January 2008, the functional currency of the Group's entities except for MMK Atakas Metalurji was changed by the Group's management from USD to the Russian Rouble ("RUB") because of significant changes in economic facts and circumstances of the Group's operations. This change in functional currency was applied on a prospective basis.

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 balance sheet 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 income statement 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 the statement of changes in equity 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".

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

	31 December	
	2008	**2007**
Russian Rouble/US Dollar		
Year-end rates	29.38	24.55
Average for the period	24.37	25.58
New Turkish Lira/US Dollar		
Year-end rates	1.52	1.17
Average for the period	1.28	1.31

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 balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at the balance sheet date. 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 income statement.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the 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, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition, are recognized at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale, which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

Where an acquisition is achieved in stages, goodwill is calculated separately for each exchange transaction, based on the cost of each exchange transaction, and the appropriate share of the acquirer's net assets based on net fair values at the time of each exchange transaction. When control is achieved, the acquired net assets are stated at net fair value at the date of acquisition and any adjustment to fair values related to previously held interests is a revaluation, which is accounted for as an adjustment directly in equity.

On acquisition of additional shares of subsidiaries from minority shareholders, any excess of consideration paid over the acquired interest in the carrying value of net assets at the date of increase in ownership is recognized as goodwill; and any excess of the Group's share in the carrying value of subsidiary net assets over cost of acquisition is recognised in the consolidated income statement.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, associate or jointly controlled entity at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually and if impairment has occurred, it is recognized in the consolidated income statement during the period in which the circumstances are identified and is not subsequently reversed.

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 the carrying amount of the unit, 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 recognized for goodwill is not reversed in a subsequent period.

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

Revenue recognition

Revenue is recognized when earned and realizable, 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 recognized 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 recognized 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.

Income tax is recognised as an expense or income in the consolidated income statement, except when it relates to items recognised directly in equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost of the business combination.

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 income statement 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 balance sheet date.

Deferred income tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated balance sheet 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 utilised. 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences.

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 balance sheet date. 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.

Property, plant and equipment

Owned 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 balance sheet 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 balance sheet date.

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 recognized 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 derecognized. Repair and maintenance expenses are charged to the consolidated income statement 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 income statement.

Depreciation

Depreciation 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

The estimated useful lives, residual values, and depreciation method are reviewed at each balance sheet 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 income statement on a straight-line basis over the lease term.

Mineral licenses

Mineral licenses to develop mineral reserves and resources are stated at historical cost less accumulated depreciation. Mineral licenses are presented as a separate component of property, plant and equipment in the consolidated balance sheet.
Mineral licenses are amortized using the straight-line basis over the lesser of their economic useful lives or the life of respective mine.

Intangible assets, excluding goodwill

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

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

Impairment of tangible and intangible assets, excluding goodwill

At each balance sheet 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 income statement.

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 income statement.

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 realizable 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 recognized. The impairment charged to reduce the carrying amount of inventories to their net realizable value and an allowance for obsolete and slow-moving inventory are included in consolidated income statement 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 balance sheet date 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 balance sheet 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 balance sheet 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 ("AFS").

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 balance sheet date.

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 balance sheet date, 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 income statement for the period. 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 income statement.

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 income statement 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 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 amortized cost using the effective interest rate method. Interest income is recognized 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 amortized 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 balance sheet 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 income statement.

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 income statement 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 income statement even though the investment has not been derecognised. Impairment losses previously recognised through consolidated income statement 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 recognizes financial liabilities on its consolidated balance sheet 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 amortized cost. The amortized 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 amortization 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 balance sheets and subsequently remeasured at their respective fair values at each balance sheet 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 recognized in earnings in the line of the consolidated income statement 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 income statement. Amounts deferred in equity are recycled in the consolidated income statement in the periods when the hedged item is recognised in the consolidated income statement. For a derivative not designated as a hedging instrument, the gain or loss is recognized in consolidated income statement 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 income statement.

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 income statement 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 recognized 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 income statement, 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 income statement 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 balance sheet.

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 balance sheet date, 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.

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In accordance with IFRS 1 the Group is required to develop and apply accounting policies in the preparation of its first IFRS financial statements based on IFRS effective at the reporting date of its first complete set of consolidated financial statements, prepared in accordance with IFRS. Accordingly, for the year ended 31 December 2008, the Group has adopted all IFRS and Interpretations issued by the IASB and IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007 and 2008.

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:

Standards and Interpretations	Effective for annual periods beginning on or after
IAS:	
IAS 1 "Presentation of Financial Statements" – amendment	1 January 2009
IAS 16 "Property, Plant and Equipment" – amendment	1 January 2009
IAS 19 "Employee Benefits" – amendment	1 January 2009
IAS 20 "Government Grants and Disclosure of Government Assistance" – amendment	1 January 2009
IAS 23 "Borrowing Costs" – amendment	1 January 2009
IAS 27 "Consolidated and Separate Financial Statements" – Consequential amendments arising from amendments to IAS 1	1 July 2009
IAS 28 "Investments in Associates" – Consequential amendments arising from amendments to IFRS 3	1 July 2009

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 31 "Interests in Joint Ventures" – Consequential amendments arising from amendments to IAS 27	1 July 2009
IAS 32 "Financial Instruments: Presentation" – amendment	1 July 2009
IAS 36 "Impairment of Assets" – amendment	1 January 2009
IAS 38 "Intangible Assets" – amendment	1 January 2009
IAS 39 "Financial Instruments: Recognition and Measurement" – amendment	1 January 2009
IAS 39 "Financial Instruments: Recognition and Measurement" – amendment	1 July 2009
IFRS:	
IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Amendment relating to cost of an investment on first-time adoption	1 January 2009
IFRS 2 "Share-based Payment" – amendment	1 January 2009
IFRS 3 "Business Combinations" – Comprehensive revision on applying the acquisition method	1 July 2009
IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" – amendment	1 July 2009
IFRS 8 "Operating Segments"	1 January 2009
IFRIC:	
IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"	1 October 2008
IFRIC 17 "Distributions of Non-cash Assets to Owners"	1 July 2009
IFRIC 18 "Transfers of Assets from Customers"	1 July 2009

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.

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. In recent months 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.

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 realizable 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 realizable 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 balance sheet date 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 balance sheet date. During 2008, the Group wrote-off USD 336 million of inventory to record inventory at net realizable value. Inventory write-offs are reflected within cost of sales. 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 balance sheet 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 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 on non-current assets' life and its residual value 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.

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 balance sheet date based on the amount that management believes will be utilised 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 balance sheet. 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

2008 Acquisitions

LLC MAGMA trade

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:

	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.

LLC Uralsibtrade

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 income statement.

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.

2007 Acquisitions

OJSC Bashmetalloptorg

In August 2007, the Group acquired a 25.67% share in OJSC Bashmetalloptorg, a wholesale trader of metal products, located in Bashkortostan Republic, Russian Federation, for a total cash consideration of USD 2 million. In October 2007, the Group acquired an additional 63.98% share in OJSC Bashmetalloptorg for a total cash consideration of USD 15 million. Prior to this transaction, investment in OJSC Bashmetalloptorg was classified as investment in associate.

This acquisition was accounted for using the purchase method. The Group provisionally determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition and finalized the purchase price allocation during 2008. The final purchase price allocation for the acquisition is as follows:

	Fair value
ASSETS	
Property, plant and equipment	4
Trade and other receivables	1
	5
LIABILITIES	
Borrowings	1
Trade and other payables	1
Deferred tax liabilities	1
	3
Net assets at the date of acquisition	2
Less: share of net assets attributable to minority shareholders	-
Group's share of net assets acquired	2
Add: Goodwill arising on acquisition	15
Cost of acquisition	**17**

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

In February and May 2008, the Group acquired an additional 10.35% share in OJSC Bashmetalloptorg for a cash consideration of USD 3 million. Goodwill arising on this acquisition was USD 2 million. Following the acquisition the Group's shareholding in this company is 100%.

At the date of acquisition, OJSC Bashmetalloptorg 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.

OJSC Bashmetalloptorg contributed USD 1 million of revenue and USD nil of profit before tax from the date of acquisition to 31 December 2007.

LLC UK RFTs-Kapital

At 9 January 2007, the Group acquired a 100% stake in LLC UK RFTs-Kapital, an investing company, for a cash consideration of USD 2 million. The excess of the Group's share in the fair value of net assets acquired over the cost of acquisition in amount of USD 1 million has been included in the consolidated income statement.

LLC Bakalskoe Rudoupravlenie

At 31 January 2007, the Group acquired a 51% stake in LLC Bakalskoe Rudoupravlenie, a mining company located in the Chelyabinsk region, Russian Federation, for a cash consideration of USD 15 million.

This acquisition was accounted for using the purchase method. The Group provisionally determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition and finalized the purchase price allocation during 2008. The final purchase price allocation for the acquisition is as follows:

	Fair value
ASSETS	
Property, plant and equipment	86
Inventories	2
Trade and other receivables	1
	89
LIABILITIES	
Borrowings	5
Trade and other payables	3
Deferred tax liabilities	20
Share of net assets attributable to minority participants	29
	57
Group's share of net assets acquired	32
Add: Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	(17)
Cost of acquisition	**15**

The excess of the Group's share in the fair value of net assets acquired over the cost of acquisition in amount of USD 17 million has been included in the consolidated income statement.

At the date of acquisition, LLC Bakalskoe Rudoupravlenie 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.

LLC Bakalskoe Rudoupravlenie contributed USD 31 million of revenue and USD nil of profit before tax from the date of acquisition to 31 December 2007.

MMK Atakas Metalurji

In July 2007, the Group acquired a 50% plus 1 share in a Turkish company Atakas Metalurji for a total cash consideration of USD 104 million. Atakas Metalurji was subsequently renamed MMK Atakas Metalurji. This acquisition was made with the objective of establishing a metal processing facility in Turkey.

This acquisition was accounted for using the purchase method. The Group provisionally determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition and finalized the purchase price allocation during 2008. The final purchase price allocation for the acquisition is as follows:

	Fair value
ASSETS	
Property, plant and equipment	123
Trade and other receivables	4
Cash and cash equivalents	101
	228
LIABILITIES	
Trade and other payables	1
Deferred tax liabilities	23
	24
Net assets at the date of acquisition	204
Less: share of net assets attributable to minority shareholders	(102)
Group's share of net assets acquired	102
Add: Goodwill arising on acquisition	2
Cost of acquisition	**104**

At the date of acquisition, MMK Atakas Metalurji 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.

MMK Atakas Metalurji had no revenue in 2007; it contributed USD 7 million of profit before tax from the date of acquisition to 31 December 2007.

CJSC Interkos-IV

In August 2007, the Group acquired a 75% share in CJSC Interkos-IV, a manufacturer of spare parts for the automotive industry, located in Saint-Petersburg, Russian Federation, for a total cash consideration of USD 20 million.

This acquisition was accounted for using the purchase method. The Group provisionally determined the fair values of identifiable assets, liabilities and contingent liabilities of the acquired company at the date of acquisition and finalized the purchase price allocation during 2008. The final purchase price allocation for the acquisition is as follows:

	Fair value
ASSETS	
Property, plant and equipment	8
Inventories	1
Trade and other receivables	3
	12
LIABILITIES	
Borrowings	3
Trade and other payables	2
Deferred tax liabilities	1
	6
Net assets at the date of acquisition	6
Less: share of net assets attributable to minority shareholders	(2)
Group's share of net assets acquired	4
Add: Goodwill arising on acquisition	16
Cost of acquisition	**20**

At the date of acquisition, CJSC Interkos-IV 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.

CJSC Interkos-IV contributed USD 4 million of revenue and USD nil of profit before tax from the date of acquisition to 31 December 2007.

The pro-forma results of entities acquired in 2007 are not presented in these consolidated financial statements as the revenue and net profit of those entities before respective dates of acquisition were not significant.

6. REVENUE

By product	2008	2007
Rolled steel	5,847	4,555
Assorted rolled products	944	833
Slabs	726	472
Wire, sling, bracing	454	299
Galvanized steel	433	373
Band	327	273
Galvanized steel with polymeric coating	251	191
Hardware products	223	213
Formed section	205	168
Tin plated steel	203	170
Scrap	198	108
Coking production	141	124
Tubes	62	54
Others	536	364
Total	**10,550**	**8,197**

By customer destination	2008	2007
Russian Federation and the CIS	69%	66%
Turkey	7%	7%
Italy	6%	5%
Iran	3%	7%
India	1%	2%
USA	-	1%
Others (countries each representing less than 2% of total net revenue)	14%	12%
Total	**100%**	**100%**

7. COST OF SALES

	2008	2007
Cost of production		
Raw materials used	5,955	4,100
Depreciation of property, plant and equipment	903	815
Payroll and unified social tax	640	563
Other expenses	286	290
	7,784	5,768
Decrease/(increase) in work in progress and finished goods	51	(58)
Total	**7,835**	**5,710**

8. GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
Labour	231	190
Taxes other than income tax	101	85
Professional services	48	43
Depreciation and amortization	42	42
Insurance	29	37
Materials	15	9
Payments to non-governmental pension fund (refer to Note 24)	7	6
Actuarial losses	6	5
Other	34	35
Total	**513**	**452**

9. SELLING AND DISTRIBUTION EXPENSES

	2008	2007
Transportation expenses	552	483
Labour	15	11
Advertising expenses	12	2
Other	71	55
Total	**650**	**551**

10. OTHER OPERATING EXPENSES, NET

	2008	2007
Net (loss)/gain on revaluation and sale of trading securities	(238)	27
Loss on disposal of property, plan and equipment, net	(109)	(104)
Change in allowance for doubtful accounts receivable	(40)	4
Net gains on sales of other assets	19	11
Gain on disposal of associate	-	23
Other operating (losses)/gains, net	(10)	8
Total	**(378)**	**(31)**

11. OTHER EXPENSES

For the years ended 31 December 2008 and 2007, other expenses included USD 66 million and USD 82 million, respectively, related to mandatory and voluntary social programs and maintenance of social assets.

12. INCOME TAX

The Group's provision for income taxes attributable to different tax jurisdictions for the years ended 31 December 2008 and 2007 was:

	2008	2007
Current provision for income tax:		
Russian Federation	456	487
Switzerland	-	1
Adjustments recognized in the current year in relation to the current tax of prior years		
Russian Federation	(93)	(12)
Deferred income tax benefit, net:		
Russian Federation	(359)	(156)
Switzerland	21	-
Total income tax expense	**25**	**320**

Adjustments recognized in 2008 in relation to the current tax of prior years is mainly caused by tax refunds claimed from the Russian Tax Authorities which resulted from acceleration of tax depreciation claimed in 2002-2007. An offsetting deferred tax charge was also recorded as a result of this adjustment.

The provision for income taxes is different from that which would be obtained by applying the Russian Federation statutory income tax rate of 24% to net income before income tax and minority interest. The items causing this difference are as follows:

	2008	2007
Profit before income tax	1,106	1,626
Income tax provision computed at Company's statutory rate of 24%	265	390
Adjustments due to:		
Effect on deferred tax balances due to the change in income tax rate from 24% to 20% (effective 1 January 2009)	(265)	-
Expenses not deductible and income not taxable for tax purposes, net	26	8
Adjustments of prior years' income taxes	1	(12)
Effect of dividends paid within the Group	-	2
Currency exchange and translation differences	-	(57)
Other permanent differences	(2)	(11)
Income tax expense	**25**	**320**

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 2008 and 2007 annual income tax is measured at 24% of the estimated assessable profit for the year. At 31 December 2008 and 2007, deferred taxes are measured at 20% and 24%, respectively.

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

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

	31 December	
	2008	**2007**
Net deferred tax liability at the beginning of the year	**1,846**	**1,771**
Effect of income tax rate change recognized in consolidated income statement	(277)	-
Effect of income tax rate change recognized in equity	(32)	-
Deferred tax benefit	(61)	(156)
Revaluation of available-for-sale investments	(156)	188
Acquisition of subsidiaries	-	43
Effect of translation to presentation currency	(214)	-
Net deferred tax liability at the end of the year	**1,106**	**1,846**

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	
	2008	**2007**
Property, plant and equipment	22	-
Investments	34	10
Accounts payable	29	20
Loans	7	9
Inventories	37	-
Accounts receivable	8	-
Gross deferred income tax assets	137	39
Investments	(3)	(207)
Property, plant and equipment	(1,223)	(1,667)
Inventories	(11)	(8)
Accounts receivable	(2)	(3)
Loans	(4)	-
Gross deferred income tax liabilities	(1,243)	(1,885)
Net deferred income tax liabilities	**(1,106)**	**(1,846)**

At 31 December 2008 and 2007, deferred income tax liabilities arising on differences in valuation of investments included USD 6 million and USD 193 million, respectively, related to unrealized holding gains on long-term equity securities classified as available for sale (refer to Note 19).

At 31 December 2008 and 2007, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognized was USD 295 million and USD 287 million, respectively. No liabilities has been recognized 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 realize the benefits of the deductible differences.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Mineral licenses	Machinery and equipment	Transportation equipment	Fixtures and fittings	Construction-in-progress	Total
Cost							
At 1 January 2007	**2,322**	**24**	**6,760**	**217**	**99**	**410**	**9,832**
Additions	85	-	65	24	17	1,146	1,337
Transfers	93	-	246	4	18	(361)	-
Acquisitions through business combinations (Note 5)	174	6	37	4	-	-	221
Disposals	(24)	-	(78)	(9)	(3)	(35)	(149)
At 31 December 2007	**2,650**	**30**	**7,030**	**240**	**131**	**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)	(5)	(1,276)	(46)	(31)	(371)	(2,215)
At 31 December 2008	**2,466**	**25**	**6,458**	**215**	**158**	**1,841**	**11,163**
Depreciation							
At 1 January 2007	-	-	-	-	-	-	-
Charge for the year	(197)	(1)	(594)	(35)	(16)	-	(843)
Disposals	1	-	8	1	1	-	11
At 31 December 2007	**(196)**	**(1)**	**(586)**	**(34)**	**(15)**	**-**	**(832)**
Charge for the year	(214)	(1)	(654)	(35)	(17)	-	(921)
Disposals	4	-	42	4	2	-	52
Effect of translation to presentation currency	69	1	203	11	5	-	289
At 31 December 2008	**(337)**	**(1)**	**(995)**	**(54)**	**(25)**	**-**	**(1,412)**
Carrying amount							
At 31 December 2007	**2,454**	**29**	**6,444**	**206**	**116**	**1,160**	**10,409**
At 31 December 2008	**2,129**	**24**	**5,463**	**161**	**133**	**1,841**	**9,751**

At 31 December 2008 and 2007, property, plant and equipment with carrying amount of USD 637 million and USD 4 million, respectively, were pledged as security for certain long-term and short-term borrowings (Notes 22 and 26).

Capital commitments are disclosed in Note 30.

No impairment of property, plant and equipment was recognized in the years ended 31 December 2008 and 2007.

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

- Cash flow projections are based on financial forecasts approved by management covering a six year period;
- The forecast sales volumes decline by 21% in 2009, increase by 19% in 2010, increase by 10% in 2011, and increase on average by 4% per annum in 2012 to 2013 and remain constant at 2013 level thereafter;
- The forecast sales prices decrease by 40% in 2009, increase by 7% in 2010, by 8% in 2011, by 4% in 2012 and increase by 1% per annum thereafter;
- Operating costs are forecast to increase on average by 4% per annum from 2009 to 2013 and remain constant at 2013 level thereafter;
- A post-tax discount rate of 14.3% (USD terms).

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 582 million;
- A 10% decrease in future planned revenues leads to impairment loss of USD 641 million.

14. GOODWILL

The change in the carrying value of goodwill for the year ended 31 December 2008 was as follows:

	2008	2007
Balance at the beginning of the year	**35**	**2**
Goodwill arising on acquisitions (Note 5)	17	33
Effect of translation to presentation currency	(7)	-
Balance at the end of the year	**45**	**35**

15. OTHER INTANGIBLE ASSETS, NET

	Licenses	Purchased software	Other intangibles	Total
Cost				
At 1 January 2007	**33**	**24**	**6**	**63**
Additions	4	11	2	17
Disposals	(6)	(2)	-	(8)
At 31 December 2007	**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**

	Licenses	Purchased software	Other intangibles	Total
Amortisation				
At 1 January 2007	**(9)**	**(10)**	**(1)**	**(20)**
Charge for the year	(3)	(9)	(2)	(14)
Disposals	6	2	-	8
At 31 December 2007	**(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)**
Carrying amount				
At 31 December 2007	**25**	**16**	**5**	**46**
At 31 December 2008	**23**	**7**	**6**	**36**

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

Year ended 31 December	
2009	10
2010	7
2011	4
2012	2
Thereafter	13
Total	**36**

Actual amortization 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 goodwill and other intangible assets was recognized in the years ended 31 December 2008 and 2007.

16. INVESTMENTS IN ASSOCIATES

At 31 December 2008 and 2007, the Group's investments in associates comprised the following:

		Investment carrying amount		Ownership and voting interest, %	
		31 December		31 December	
Associate	**Registered in**	**2008**	**2007**	**2008**	**2007**
Onarbay Enterprises Ltd	Cyprus	210	-	50%	-
CJSC Kazankovskaya Mine	Russia	-	26	50%	50%
LLC MMK Trans	Russia	18	4	50%	50%
Total		**228**	**30**		

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.

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.

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

	31 December	
	2008	**2007**
Total assets	1,294	248
Total liabilities	(849)	(253)
Net assets	445	(5)
Group's share of net assets of associates	**184**	**(2)**

	2008	**2007**
Total revenue	1,166	86
Total profit for the year	75	-
Group's share of profit of associates	**32**	**-**

17. INVENTORIES

	31 December	
	2008	**2007**
Raw materials	533	447
Work-in-progress	134	146
Finished goods and goods for resale	339	378
Total	**1,006**	**971**
Less: Allowance for obsolete and slow-moving items	(10)	(8)
Total inventories, net	**996**	**963**

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

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

	2008	2007
Balance at the beginning of the year	**8**	**6**
Reversal of allowance	(1)	-
Additional allowance increase	4	2
Effect of translation to presentation currency	(1)	-
Balance at the end of the year	**10**	**8**

At 31 December 2008 and 2007, inventory with carrying amount of USD 21 million and USD 8 million, respectively, were pledged as security for certain long-term and short-term borrowings (Notes 22 and 26).

18. TRADE AND OTHER RECEIVABLES

	31 December	
	2008	2007
Trade accounts receivable	864	700
Advances paid	87	86
Prepaid expenses	11	13
Interest receivable	4	70
Other receivables	62	84
	1,028	953
Allowance for doubtful accounts	(37)	(8)
Total trade and other receivables, net	**991**	**945**

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

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

	31 December	
	2008	2007
Less than 30 days	57	17
30-60 days	122	5
60-90 days	95	-
90-120 days	93	-
Over 120 days	77	1
Total	**444**	**23**

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	
	2008	**2007**
Balance at the beginning of the year	**8**	**12**
Change in allowance	40	(4)
Accounts receivable written-off	(1)	-
Effect of translation to presentation currency	(10)	-
Balance at the end of the year	**37**	**8**

19. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	31 December	
	2008	**2007**
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	208	993
Unlisted securities	4	-
Loans and receivables, at amortized cost		
Long-term loans	4	57
Long-term deposits	142	-
Long-term accounts receivable	-	1
Total non-current	**358**	**1,051**
Current		
Held-to-maturity investments, at amortized cost		
Promissory notes receivable	7	1
Loans and receivables, at amortized cost		
Short-term deposits	17	1,279
Short-term loans	6	150
Financial assets, at fair value through profit or loss		
Trading equity securities	83	321
Trading debt securities	21	59
Share in mutual investment fund	4	12
Total current	**138**	**1,822**

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 2008 and 2007, investments revaluation reserve resulting from unrealized holding gains and losses on these securities was USD 23 million and USD 614 million, respectively, net of related income tax effect of USD 6 million and USD 193 million, respectively.

At 31 December 2008 and 2007, the weighted average interest rates on short-term bank deposits with maturities at the reporting date exceeding ninety days were 10.19% and 9.82%, respectively.

At 31 December 2008, a long-term deposit of USD 142 million maturing in 2010 and short-term deposit of USD 16 million were placed in a Russian bank, which at the date of these consolidated financial statements is subject to financial restructuring following a change in shareholders. Management of the Group have no reason to believe the deposit will not be paid in full on maturity.

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 (loss)/gain on revaluation and sale of trading securities for the year ended 31 December 2008 and 2007 were USD 238 million (loss) and USD 27 million (gain), respectively. These results are included in other operating expenses/income in the consolidated income statement.

20. CASH AND CASH EQUIVALENTS

	31 December	
	2008	**2007**
Cash in banks, RUB	62	98
Cash in banks, USD	561	63
Cash in banks, EURO	94	14
Cash in banks, TRY	83	10
Bank deposits, RUB	-	2
Bank deposits, USD	-	3
Bank promissory notes, RUB	306	66
Total	**1,106**	**256**

At 31 December 2007, the weighted average interest rate on bank deposits with original maturities less than ninety days was 10.80%.

At 31 December 2008 and 2007, the weighted average interest rates on bank promissory notes were 12.0% and 7.81%, respectively.

21. SHARE CAPITAL

Common stock

	31 December	
	2008	**2007**
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 2008 and 2007, the Group held 78,997 thousand and 4,457 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.

Dividends

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.

At 30 March 2007, the Parent Company declared a final dividend of RUB 0.891 (USD 0.034) per common share in respect of the year ended 31 December 2006 representing a total dividend of USD 364 million. Of this total, USD 16 million was attributable to Group entities.

At 30 August 2007, the Parent Company declared an dividend of RUB 0.418 (USD 0.016) per common share in respect of the six months ended 30 June 2007 representing a total dividend of USD 189 million. Of this total, USD 8 million was attributable to Group entities.

22. LONG-TERM BORROWINGS

	Type of interest rate	Annual interest rate, actual at 31 December 2008	2007	31 December 2008	31 December 2007
Secured loans, RUB	Fixed	17%	13%	89	5
Unsecured loans, USD	Floating	3%	5%	240	145
Unsecured loans, USD	Fixed	6%	5%	34	13
Unsecured loans, RUB	Fixed	13%	10%	39	22
Unsecured loans, EUR	Fixed	7%	7%	3	5
Unsecured loans, RUB	Floating	-	7%	-	10
				405	**200**

The information provided below refers to total long-term borrowings, including current portion, identified in Note 26.

Corporate bonds

In October 2003, MMK Finance S.A., a wholly-owned subsidiary of the Group, issued on the Luxembourg Stock Exchange USD 300 million of 8% notes at an issue price of 98.99 percent. The notes are fully, unconditionally and irrevocably guaranteed by the Parent Company. Interest payments on the notes are due semi-annually in equal instalments on 21 April and 21 October of each year. The notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. For the years ended 31 December 2008 and 2007, interest expenses on these notes amounted to USD 20 million and USD 24 million respectively. The notes and outstanding interest payable were repaid in October 2008.

Loans

During the year ended 31 December 2008, foreign banks provided USD-denominated loans, bearing interest at 5.75%, LIBOR+5.00% (5.44% at 31 December 2008) and LIBOR+0.11% (1.86% at 31 December 2008) per annum, repayable from 2010 to 2017. The commitment fees on these loans are from 0.06% to 0.10% per annum on the undrawn facilities. At 31 December 2008, the outstanding balance of these loans was USD 200 million.

During the year ended 31 December 2008, a Russian bank provided a RUB-denominated loan, bearing interest at 16.25% per annum, repayable in December 2010. The commitment fees on this loan are 0.5% per annum on the undrawn facilities. At 31 December 2008, the outstanding balance of this loan was USD 101 million.

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 3:1; and
- The ratio of consolidated debt to consolidated equity should not exceed 1:1.

At 31 December 2008 and 2007, the Group was in compliance with its debt covenants.

At 31 December 2008 and 2007, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 291 million and USD 2 million, respectively, and inventory of nil and USD 2 million, respectively.

Debt repayment schedule

Year ended 31 December,	
2009 (presented as current portion of long-term borrowings, Note 26)	547
2010	205
2011	99
2012	30
2013 and thereafter	71
Total	**952**

23. 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 2008 and 2007:

	Minimum lease payments 31 December		**Present value of minimum lease payments 31 December**	
	2008	**2007**	**2008**	**2007**
Due within one year	23	33	19	27
Due in the second year	22	24	18	20
Due in the third year	7	7	5	6
Due in the fourth year	2	5	2	4
Due in the fifth year and further	1	1	1	1
Total	55	70	45	58
Less: future finance charges	(10)	(12)	-	-
Present value of minimum lease payments	**45**	**58**	**45**	**58**
Included in the consolidated balance sheet as:				
Current portion of long-term obligations under finance lease			19	27
Long-term obligations under finance lease			26	31
Total			**45**	**58**

At 31 December 2008 and 2007, the weighted average discount rate for capital lease obligations was 18% and 16%, respectively.

At 31 December 2008 and 2007, leased assets with a net carrying amount of USD 81 million and USD 114 million, respectively, were included in property, plant and equipment as follows:

	Gross carrying value	**Accumulated depreciation**	**Net carrying value**
Machinery and equipment	87	(8)	79
Construction-in-progress	2	-	2
Balance at 31 December 2008	**89**	**(8)**	**81**
Machinery and equipment	116	(6)	110
Construction-in-progress	4	-	4
Balance at 31 December 2007	**120**	**(6)**	**114**

24. RETIREMENT BENEFIT OBLIGATIONS

Defined contribution plans

Payments to the Russian Federation State Pension Fund amounted to USD 102 million and USD 95 million for the years ended 31 December 2008 and 2007, respectively.

In addition, the Group makes monthly contributions to a non-government pension fund, Sotsialnaya Zashchita Starosti, where its employees have individual accumulation agreements with the fund. The Group has the ability to exercise significant influence over the financial and operating policy decisions of the fund through representation on the Board of Directors of the fund. The monthly contribution made by the Group is equal to the employee's contribution, unless the employee is 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 years ended 31 December 2008 and 2007, the maximum monthly contributions by the Group for each employee were RUB 40,000 (USD 1,361) and RUB 6,000 (USD 235), respectively. The Group's total contributions to the fund amounted to USD 7 million and USD 6 million for the years ended 31 December 2008 and 2007, 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 360 (USD 14.48) to RUB 650 (USD 26.15) per month depending on the employee's actual years of service and qualifications.

For the years ended 31 December 2008 and 2007, the Group made monthly payments to the fund of RUB 559 (USD 22.49) and RUB 466 (USD 18.23), respectively, per fund member, which were then distributed to the individual members.

At 31 December 2008 and 2007, the principal actuarial assumptions used in determining the present value of benefit obligations and net periodic pension expenses were as follows:

	31 December	
	2008	**2007**
Discount rate	8.6%	9.0%
Future pension benefit increases	9.1%	8.4%
Average life expectancy of members from date of retirement	9.4	10.1

The components of the net periodic benefit costs for the years ended 31 December 2008 and 2007 were as follows:

	2008	2007
Interest cost	3	3
Actuarial losses	6	5
Foreign exchange losses	-	3
Total	**9**	**11**

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

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

	2008	2007
Present value of benefit obligations at beginning of the year	**37**	**30**
Interest cost	3	3
Actuarial losses	6	5
Benefit payments during the year	(5)	(4)
Foreign exchange losses	-	3
Currency translation adjustment	(7)	-
Defined benefit obligations at end of the year	**34**	**37**
Included in the consolidated balance sheet as:		
Current portion of retirement benefit obligations	3	4
Long-term portion of retirement benefit obligations	31	33
Total	**34**	**37**

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

Year ended 31 December	
2009	3
2010	3
2011	3
2012	3
2013-2017	11
Thereafter	11
Total	**34**

25. TRADE AND OTHER PAYABLES

	31 December	
	2008	2007
Trade accounts payable	987	339
Advances from customers	139	160
Dividends payable	81	11
Salary payable	43	76
Other taxes payable	43	42
Other current liabilities	28	58
Total	**1,321**	**686**

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

	31 December	
	2008	2007
Due in:		
1 month	899	501
1-3 months	200	23
3 months to 1 year	83	2
Total	**1,182**	**526**

At 31 December 2008 and 2007, overdue accounts payable amounted to USD 510 million and USD 96 million respectively.

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

	Type of interest rate	Annual interest rate, actual at 31 December		31 December	
		2008	2007	2008	2007
Short-term borrowings:					
Secured loans, USD	Floating	3%	6%	224	495
Secured loans, EUR	Floating	4%	6%	52	62
Secured loans, RUB	Fixed	16%	7%	154	125
Unsecured loans, RUB	Floating	-	8%	-	12
Unsecured loans, RUB	Fixed	15%	9%	298	16
Unsecured bank overdrafts, RUB	Fixed	16%	10%	1	9
				729	719

	Type of interest rate	Annual interest rate, actual at 31 December 2008	Annual interest rate, actual at 31 December 2007	31 December 2008	31 December 2007
Current portion of long-term borrowings:					
Unsecured corporate bonds, USD	Fixed	-	9%	-	303
Secured loans, RUB	Fixed	17%	14%	15	1
Secured loans, USD	Floating	3%	-	260	-
Unsecured loans, USD	Floating	2%	5%	90	118
Unsecured loans, RUB	Floating	-	7%	-	12
Unsecured loans, RUB	Fixed	10%	9%	31	38
Unsecured loans, USD	Fixed	6%	5%	148	4
Unsecured loans, EUR	Fixed	7%	7%	3	3
				547	479
Total				**1,276**	**1,198**

The weighted average interest rates of short-term borrowings at 31 December 2008 and 2007 were as follows:

	31 December 2008	31 December 2007
RUB-denominated	15%	8%
USD-denominated	4%	7%
EUR-denominated	4%	6%

At 31 December 2008 and 2007, short-term borrowings were secured by property, plant and equipment with a net carrying amount of USD 346 million and USD 2 million, respectively, inventory of USD 21 million and USD 6 million, respectively, and shares in a subsidiary of USD 157 million and USD nil, respectively.

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

	31 December 2008	31 December 2007
Due in:		
1 month	172	278
1-3 months	299	462
3 months to 1 year	805	458
Total	**1,276**	**1,198**

27. 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 28.

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

CJSC Profit

CJSC Profit, a company affiliated with the Group's controlling shareholders, purchases scrap metal from third parties and Group entities and sells it to the Group. In 2008 and 2007, CJSC Profit also reprocessed the scrap metal before selling it to the Group. These transactions are performed on arm's length basis. The Group also provided loans to the company.

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 affiliate, provides transportation and forwarding services to the Group.

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.

CJSC Kazankovskaya Mine

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

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 affiliate, a coal-producer, located in the Russian Federation, supplies coal to the Group at market terms.

Details of transactions with and balances between the Group and related parties at 31 December 2008 and 2007 and for the years ended 31 December 2008 and 2007 are disclosed below.

Transactions	**2008**	**2007**
Revenue		
CJSC Profit	382	136
LLC MEK	2	1
Total	384	137
Purchases		
CJSC Profit (scrap)	1,894	1,235
OJSC Belon	277	-
LLC MEK	147	139
CJSC Profit (property, plant and equipment)	37	-
LLC MMK Trans	25	27
Total	2,380	1,401
Loans provided		
CJSC Profit	206	75
Loans repaid		
CJSC Profit	284	59
Bank charges		
OJSC CUB	9	5
Bank loans and overdrafts obtained		
OJSC CUB	81	85
Bank loans and overdrafts repaid		
OJSC CUB	71	84
Insurance payments		
OJSC SKM	7	28
Lease payments		
CJSC SKM-Invest	6	17

	31 December	
Balances	**2008**	**2007**
Cash and cash equivalents		
OJSC CUB	155	115
Loans and overdraft facilities		
OJSC CUB	16	8
Loans provided		
CJSC Profit	-	78
CJSC Kazankovskaya Mine (refer to Note 16)	-	45
Total	-	123
Accounts receivable		
LLC MMK Trans	3	6
CJSC Profit	8	1
LLC MEK	-	-
Total	11	7
Accounts payable		
CJSC Profit	259	8
OJSC Belon	7	-
LLC MMK Trans	4	3
LLC MEK	2	-
OJSC SKM	-	2
Total	272	13
Lease payable		
CJSC SKM-Invest	-	22

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 2008 and 2007, key management personnel received as compensation USD 34 million and USD 17 million, respectively.

28. 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 23, 24 and 25) based on contractual undiscounted payments, including interest:

2008	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	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**
2007							
Fixed rate borrowings							
Principal	9%	**531**	3	133	345	50	-
Interest		**43**	3	5	29	6	-
		574	**6**	**138**	**374**	**56**	**-**
Floating rate borrowings							
Principal	6%	**811**	267	283	106	152	3
Interest		**77**	49	9	9	10	-
		888	**316**	**292**	**115**	**162**	**3**
Total		**1,462**	**322**	**430**	**489**	**218**	**3**

The most significant bank financing comprised credit facilities from certain Russian and foreign banks. At 31 December 2008 and 2007, the total unused element of all credit facilities was USD 929 million and USD 94 million, respectively.

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.

At 31 December 2008 and 2007, 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	
	2008	**2007**
Traders	230	364
Tube plants	211	85
Automobile producers	105	53
Other industries	318	198
Total	**864**	**700**

At 31 December 2008 and 2007, amounts related to financial guarantees given by the Group were as follows:

	31 December	
	2008	**2007**
Non-current		
Related parties	-	145
Third parties	61	76
	61	**221**
Current		
Related parties	-	40
Third parties	10	8
	10	**48**
Total	**71**	**269**

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 2008 and 2007, the carrying amounts of the Group's monetory assets and liabilities denominated in foreign currencies other than its functional currency, the Russian Rouble, were as follows:

	31 December 2008		31 December 2007	
	EUR	**USD**	**EUR**	**USD**
Assets				
Cash and cash equivalents	94	561	14	66
Loans	-	-	-	60
Trade receivables	61	137	16	304
Total assets	**155**	**698**	**30**	**430**
Liabilities				
Trade payables	(114)	(52)	(20)	(16)
Borrowings	(58)	(996)	(70)	(1,078)
Total liabilities	**(172)**	**(1,048)**	**(90)**	**(1,094)**
Total net position	**(17)**	**(350)**	**(60)**	**(664)**

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	
	2008	**2007**	**2008**	**2007**
Profit or (loss)	(2)	(6)	(35)	(66)

As discussed in Note 2, the Group's functional currency changed from USD to RUB on 1 January 2008. The foreign currency risk relating to USD for 2007 is for informational purposes only as the Group's functional currency was the USD.

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 annualized sensitivity to change of floating rates (LIBOR, 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 balance sheet date was outstanding for the whole annual period.

	31 December	
	2008	**2007**
Profit or loss	9	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 49 million (2007: 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 5 million (2007: increase/decrease by USD 20 million), as a result of changes in fair value of listed debt and equity securities classified as at FVTPL.

29. 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 optimisation of debt and equity.

The capital structure of the Group consists of debt (Notes 22 and 26), share capital (Note 21) 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 2008.

30. 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 2008, the Group executed non-binding purchase agreements of approximately USD 10,706 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 2007 – USD 16,689 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 2007, the Group executed a non-binding framework purchase agreement with its related party, CJSC Profit, to acquire in future periods through 2007 – 2011 scrap metal. The volume and prices are determined monthly in accordance with market conditions.

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 recognized in the consolidated income statement 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 2008 and 2007 were approximately USD 25 million and USD 26 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 2008 were as follows:

Due in one year	3
Due in the second year	3
Due thereafter	32
	38

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.

Recent volatility in global and Russian financial markets

In recent months a number of major economies around the world have experienced volatile capital and credit markets. A number of major global financial institutions have either been placed into bankruptcy, taken over by other financial institutions and/or supported by government funding. As a consequence of the recent market turmoil in capital and credit markets both globally and in Russia, notwithstanding any potential economic stabilisation measures that may be put into place by the Russian Government, there exists as at the date these consolidated financial statements are authorised for issue economic uncertainties surrounding the continual availability, and cost, of credit both for the Group and its counterparties, the potential for economic uncertainties to continue in the foreseeable future and, as a consequence, the potential that assets may be not be recovered at their carrying amount in the ordinary course of business, and a corresponding impact on the Group's profitability.

31. 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 2008 and 2007, 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 2007, USD 300 million of corporate bonds, repaid in October, 2008, had a fair value of 101.09% or USD 303 million. This fair value was determined based on Luxembourg Stock Exchange quotations.

At 31 December 2008 and 2007, fair value of unsecured long-term debt, denominated in USD, was USD 256 million and USD 141 million, respectively. This fair value was determined based on market rates available to the Group at respective date.

For the years ended 31 December 2008 and 2007, no derivatives were designated as hedges. A net gain of USD 5 million and USD 0.7 million, respectively, relating to a change in the fair value of derivative instruments was included in other operating income in the consolidated income statement.

32. EXPLANATION OF THE GROUP'S TRANSITION TO IFRS

The Group's financial statements for the year ended 31 December 2008 is the first annual consolidated financial statements that comply with IFRS. The Group has applied IFRS 1, "First-time Adoption of International Financial Reporting Standards" in preparing these results.

IFRS 1 sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to develop accounting policies based on IFRS effective at the reporting date of its first annual IFRS consolidated financial statements (i.e. 31 December 2008), and in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition (i.e. 1 January 2007). This standard provides a number of optional exemptions to this general principle. Those exemptions that the Group applied are set out below, together with a description in each case of the exemption adopted by the Group.

- Business combinations that occurred before the opening IFRS balance sheet date (IFRS 3, "Business Combination"): The Group has elected not to apply IFRS 3 retrospectively to business combinations that took place before the date of transition. As a result, in the opening balance sheet, goodwill arising from past business combinations remains as stated in US GAAP consolidated financial statements at 31 December 2006.
- Fair value or revaluation as deemed cost (IAS 16, "Property, Plant and Equipment"): The Group has elected to measure its property, plant and equipment at the date of transition to IFRS at its fair value (see adjustment (a) below).

The following reconciliations present a summary of the effects of the differences between IFRS and US GAAP on the Group's total equity and profit for the financial period for periods previously reported under US GAAP following the date of transition to IFRS.

Reconciliation of the balance sheet

		1 January 2007			31 December 2007		
	Notes	US GAAP*	Effect of transition to IFRS	IFRS	US GAAP*	Effect of transition to IFRS	IFRS
ASSETS							
NON-CURRENT ASSETS:							
Property, plant and equipment	(a)(b)	2,817	7,068	9,885	3,879	6,530	10,409
Goodwill	(b)	2	-	2	65	(30)	35
Other intangible assets		43	-	43	46	-	46
Investments in associates		84	-	84	30	-	30
Deferred tax assets	(c)	29	13	42	29	10	39
Investments in securities and other financial assets		301	-	301	1,051	-	1,051
Other assets		5	-	5	4	-	4
Total non-current assets		3,281	7,081	10,362	5,104	6,510	11,614
CURRENT ASSETS:							
Inventories	(a)	578	-	578	946	17	963
Trade and other receivables		641	-	641	945	-	945
Investments in securities and other financial assets		624	-	624	1,822	-	1,822
Income tax receivable	(c)	36	(17)	19	65	(22)	43
Other taxes receivable		191	-	191	244	-	244
Cash and cash equivalents		338	-	338	256	-	256
Total current assets		2,408	(17)	2,391	4,278	(5)	4,273
TOTAL ASSETS		**5,689**	**7,064**	**12,753**	**9,382**	**6,505**	**15,887**

*Amounts represent US GAAP balances presented under an IFRS format, including reclassifications for items with differing current and non-current classifications under IFRS as compared to US GAAP.

		1 January 2007			31 December 2007		
	Notes	US GAAP*	Effect of transition to IFRS	IFRS	US GAAP*	Effect of transition to IFRS	IFRS
EQUITY AND LIABILITIES							
EQUITY:							
Share capital		363	-	363	386	-	386
Treasury shares		(85)	-	(85)	(1)	-	(1)
Share premium		254	-	254	1,105	-	1,105
Investments revaluation reserve		18	-	18	614	-	614
Retained earnings	(E)	3,477	5,274	8,751	4,720	4,810	9,530
Equity attributable to shareholders of the parent company		4,027	5,274	9,301	6,824	4,810	11,634
Minority interest	(D)	12	36	48	87	65	152
Total equity		4,039	5,310	9,349	6,911	4,875	11,786
NON-CURRENT LIABILITIES:							
Long-term borrowings		577	-	577	200	-	200
Obligations under finance leases		29	-	29	30	1	31
Retirement benefit obligations		27	-	27	33	-	33
Deferred tax liabilities	(C)	61	1,752	1,813	294	1,591	1,885
Total non-current liabilities		694	1,752	2,446	557	1,592	2,149
CURRENT LIABILITIES:							
Trade and other payables		553	-	553	686	-	686
Short-term borrowings and current portion of long-term borrowings		375	-	375	1,198	-	1,198
Net assets attributable to minority participants	(D)	-	2	2	-	37	37
Current portion of obligations under finance leases		25	-	25	26	1	27
Current portion of retirement benefit obligations		3	-	3	4	-	4
Total current liabilities		956	2	958	1,914	38	1,952
TOTAL EQUITY AND LIABILITIES		**5,689**	**7,064**	**12,753**	**9,382**	**6,505**	**15,887**

*Amounts represent US GAAP balances presented under an IFRS format, including reclassifications for items with differing current and non-current classifications under IFRS as compared to US GAAP.

Reconciliation of consolidated profit

		Year ended 31 December 2007		
	Notes	US GAAP*	Effect of transition to IFRS	IFRS
REVENUE		8,197	-	8,197
COST OF SALES	(a)(b)	(5,095)	(615)	(5,710)
GROSS PROFIT		**3,102**	**(615)**	**2,487**
General and administrative expenses	(a)(b)	(438)	(14)	(452)
Selling and distribution expenses		(551)	-	(551)
Other operating income/(expenses), net	(a)	21	(52)	(31)
OPERATING PROFIT		**2,134**	**(681)**	**1,453**
Share of results of associates		(7)	-	(7)
Finance income		133	-	133
Finance costs		(87)	-	(87)
Foreign exchange gain, net		175	-	175
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	(b)	-	20	20
Change in net assets attributable to minority participants		-	(6)	(6)
Other income		37	-	37
Other expenses		(92)	-	(92)
PROFIT BEFORE TAX		**2,293**	**(667)**	**1,626**
INCOME TAX	(c)	(507)	187	(320)
PROFIT FOR THE PERIOD		**1,786**	**(480)**	**1,306**
Attributable to:				
Shareholders of the parent company		1,772	(464)	1,308
Minority interest		14	(16)	(2)
		1,786	**(480)**	**1,306**

* Amounts represent US GAAP balances presented under an IFRS format, including reclassifications to present expenses by function and other presentational differences.

Notes to the reconciliation of consolidated equity

(a) Property, plant and equipment

As discussed in Note 2, the Group revalued its property, plant and equipment at fair value at 1 January 2007 and treated this fair value as the deemed cost from that date. This has resulted in a number of adjustments including the following:

- Asset value: Increase in property, plant and equipment to fair value as of 1 January 2007. The offset of this increase is reflected in retained earnings and minority interest.
- Deprecation expense: Increase in depreciation expense based on the fixed asset valuation. This depreciation increase is reflected in inventory (for the portion capitalized in inventory at the balance sheet date) and through an increase to the expense recorded within cost of sales and general and administrative expenses. As a result, higher amounts of depreciation have been recognized in the periods from 1 January 2007 and allocated to inventory, cost of sales and general and administrative expenses.
- Loss on the sale of assets: The increase in the carrying value of the assets resulted in an impact on other operating income/(expense) due to the increased loss upon the disposal of certain of these assets.

(b) Business combinations

IFRS transition

- Minority interest: Under IFRS 3, minority interest is initially recorded at an amount equal to the minority's proportion of the net fair value of acquired assets and liabilities. Under US GAAP, fair values are assigned only to the parent company's share of the net assets acquired, with the minority interest valued at its historical book value. As a result, the Group recorded an adjustment to minority interest and property, plant and equipment related to business combinations which occurred after the transition date.
- Finalization of purchase price allocation (Goodwill adjustment): In addition, during 2008, the Group finalized its initial purchase price allocations associated with the acquisitions of MMK Atakas Metalurji, CJSC Interkos-IV, and OJSC Bashmetalloptorg. The finalization of purchase price allocation mainly resulted in increased value of property, plant and equipment and respective deferred income tax. Under IFRS, adjustments to the provisional values as a result of completing the initial accounting require that the adjustments be presented as if the initial accounting had been completed at the acquisition date. Under US GAAP, subsequent adjustments to these provisional measurements are to be accounted for in the period of change. As a result, adjustments to the consolidated balance sheet at 31 December 2007 and consolidated income statement for the year ended 31 December 2007 under IFRS have been recorded.
- Negative goodwill: Under US GAAP, negative goodwill was offset against long lived assets whereas under IFRS it is required to be recorded directly through income at the time of the acquisition. This represents the impact on income of this adjustment. There is no offsetting adjustment to property, plant and equipment and depreciation expense as it was considered in computing the property, plant and equipment adjustment described above.

Correction of US GAAP

- Correction of error in purchase price allocation: During the first quarter of 2007 the Group acquired a controlling interest in LLC Bakalskoe Rudoupravlenie, see Note 5. The finalization of the purchase accounting for this transaction occurred in third quarter of 2008. The adjustments from the provisional to final values have been treated as a correction of an error in this reconciliation.

(c) Income taxes

The fundamental comprehensive deferred tax asset and liability concept is similar under both IFRS and US GAAP; however certain differences exist, mostly relating to exceptions for the recognition of deferred taxes.

Balance Sheet

- Functional currency: Prior to 1 January 2008, the functional currency of the Group for financial reporting purposes was different to the local currency. In this situation, US GAAP requires deferred taxes to be computed based on the local currency, whereas IFRS requires deferred taxes to be computed based on the functional currency. As a result, under US GAAP the deferred taxes are computed in the local currency and then translated into the functional currency at current rates and these amounts are reported on the balance sheet and in the income statement. Upon the change of the Group's functional currency from the USD to the RUB on 1 January 2008 this difference was eliminated.
- Intra-group profits: Profit arising on sales of inventory between group companies in different tax jurisdictions creates a current tax expense to the group in the seller's jurisdiction and an increased tax basis to the group equal to purchase price in the purchaser's jurisdiction. As the intra-group profit is deferred in the group financial statements, so is any related group current tax expense. Under US GAAP, a prepaid tax asset has been recorded for this amount based on the seller's tax rate. Under IFRS, this prepaid tax asset is not recorded but is replaced by a deferred tax asset computed based on the purchaser's tax rate. This resulted in a decrease in prepaid taxes (included in income taxes receivable) and increase in deferred tax assets.
- Impact of other adjustments: Deferred tax liabilities have been adjusted to reflect the tax impact of the other adjustments between US GAAP and IFRS, principally consisting of the tax impact of the increase in the carrying value of the property, plant and equipment. This increased the deferred tax liability by approximately USD 1,600 million.

Profit and Loss

- The Group's income tax expense is impacted by the difference in the treatment of intra-group profits, as described above, and the tax impact of the other adjustments to IFRS.

Classifications

- Under IFRS, the Group must classify all deferred tax assets and liabilities as non-current. Under US GAAP deferred tax assets and liabilities are classified as current or non-current, depending on the underlying asset or liability that they relate to.

(d) The adjustment to minority interest consists of the following:

	Notes	1 January 2007	31 December 2007
Increase related to the minority shareholders' share in revaluation of property, plant and equipment	(a)	38	38
Recognition of minority interest at fair value	(b)	-	39
Finalization of purchase accounting	(b)	-	35
Impact of change in profit for the period		-	(10)
Reclassification of minority interest, related to the holders of shares in Group's subsidiaries, organized as limited liability companies to current liabilities		(2)	(37)
Total increase in minority interest, net		**36**	**65**

(e) The adjustment to retained earnings consists of the following:

	Notes	1 January 2007	31 December 2007
Revaluation of property, plant and equipment	(a)	7,020	7,020
Effect of recognition of net assets attributable to minority shareholders		(2)	(2)
Deferred tax effect, net	(c)	(1,744)	(1,744)
Effect of transition to IFRS on net profit for the period		-	(464)
Total adjustment to retained earnings		**5,274**	**4,810**

Cash flows

The adoption of IFRS did not result in any material adjustments to the consolidated statement of cash flows for the year ended 31 December 2007 other than the reclassification of cash flows related to interest and dividends received from operating activities to investing activities. Under US GAAP interest and dividends received were presented within operating activities, however, under IFRS these cash flows are instead presented as investing activities as they relate to returns on investments.

33. EVENTS AFTER THE BALANCE SHEET DATE

In February 2009, OJSC Sberbank provided a long-term RUB-denominated loan of USD 408 million, bearing interest of 17.25% per annum with maturity in February 2012. Property with carrying amount of USD 1,214 million was pledged as collateral under this loan.

In April 2009, Group and Czech Export Bank concluded agreements for the Bank to provide long-term USD-denominated loans of USD 133 million, bearing interest of 4.4% per annum, with maturity in 2017, and a long-term USD-denominated loan of USD 22.5 million, bearing interest of LIBOR+1.9% per annum, with maturity in 2010. The funds will be used to finance the Group's investment program.

34. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2008 were approved by the Group's management and authorized for issue on 10 April 2009.