OJSC NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

CONTENTS

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of OJSC Novolipetsk Steel:

We have audited the accompanying consolidated balance sheets of OJSC Novolipetsk Steel and its subsidiaries (the "Group") as at December 31, 2009, 2008 and 2007, and the related consolidated statements of income, cash flows and stockholders' equity and comprehensive income for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as at December 31, 2009, 2008 and 2007 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the Group changed the manner in which it accounts for non-controlling interests and business combinations in 2009 as required by changes in the respective accounting standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
March 31, 2010

(All amounts in thousands of US dollars, except for share data)

	Note	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
ASSETS				
Current assets				
Cash and cash equivalents	4	1,247,048	2,159,989	1,154,641
Short-term investments	5	451,910	8,089	153,462
Accounts receivable and advances given, net	6	913,192	1,487,847	1,696,451
Inventories, net	7	1,134,095	1,555,762	1,236,433
Other current assets		58,034	99,960	147,191
Deferred income tax assets	18	72,467	-	-
Current assets held for sale	16(a)	-	34,432	-
		3,876,746	**5,346,079**	**4,388,178**
Non-current assets				
Long-term investments	5	468,236	815,527	818,590
Property, plant and equipment, net	8	7,316,180	6,826,139	6,449,877
Intangible assets, net	9(b)	203,490	235,283	189,084
Goodwill	9(a)	556,636	613,668	1,189,459
Deferred income tax assets	18	12,199	-	-
Other non-current assets		68,457	33,546	40,754
Non-current assets held for sale	16(a)	-	194,286	-
		8,625,198	**8,718,449**	**8,687,764**
Total assets		**12,501,944**	**14,064,528**	**13,075,942**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	10	841,230	1,879,213	1,394,934
Short-term borrowings	11	556,563	1,079,806	1,536,570
Current income tax liability	18	19,419	10,497	70,686
Current liabilities held for sale	16(a)	-	10,959	-
		1,417,212	**2,980,475**	**3,002,190**
Non-current liabilities				
Deferred income tax liability	18	396,306	296,875	585,567
Long-term borrowings	11	1,938,652	1,929,772	73,225
Other long-term liabilities	12	139,906	128,944	316,616
Non-current liabilities held for sale	16(a)	-	5,393	-
		2,474,864	**2,360,984**	**975,408**
Total liabilities		**3,892,076**	**5,341,459**	**3,977,598**
Commitments and contingencies		**-**	**-**	**-**
Stockholders' equity				
NLMK stockholders' equity				
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at December 31, 2009, 2008 and 2007	15(a)	221,173	221,173	221,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		112,450	52,395	52,395
Accumulated other comprehensive (loss) / income		(796,756)	(549,879)	1,181,546
Retained earnings		9,171,068	8,956,013	7,526,150
		8,718,202	**8,689,969**	**8,991,531**
Non-controlling interest	14	**(108,334)**	**33,100**	**106,813**
Total stockholders' equity		**8,609,868**	**8,723,069**	**9,098,344**
Total liabilities and stockholders' equity		**12,501,944**	**14,064,528**	**13,075,942**

The consolidated financial statements as set out on pages 4 to 44 were approved on March 31, 2010.

President (Chairman of the Management Board)
Lapshin A.A.

Chief Accountant
Sokolov A.A.

	Note	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
Sales revenue	23	**6,139,895**	**11,698,661**	**7,719,061**
Cost of sales				
Production cost		(3,672,245)	(5,808,780)	(3,569,331)
Depreciation and amortization		(478,117)	(498,994)	(407,699)
		(4,150,362)	**(6,307,774)**	**(3,977,030)**
Gross profit		**1,989,533**	**5,390,887**	**3,742,031**
General and administrative expenses		(297,246)	(366,664)	(214,836)
Selling expenses		(654,628)	(734,489)	(442,657)
Taxes other than income tax		(102,076)	(100,025)	(79,977)
Impairment losses	9(a)	(43,662)	(128,389)	-
Accretion expense on asset retirement obligations		-	-	(6,190)
Operating income		**891,921**	**4,061,320**	**2,998,371**
Loss on disposals of property, plant and equipment		(4,420)	(9,594)	(27,285)
Losses on investments, net		(10,903)	(21,319)	(23,522)
Interest income		59,733	100,238	99,751
Interest expense		(170,905)	(217,270)	(31,417)
Foreign currency exchange (loss) / gain, net		(78,026)	(366,984)	80,495
Gain from disposal of subsidiaries	16	-	-	83,122
Other expenses, net	26(b)	(92,661)	(414,694)	(22,688)
Income from continuing operations before income tax		**594,739**	**3,131,697**	**3,156,827**
Income tax expense	18	(181,784)	(703,474)	(837,003)
Income from continuing operations, net of income tax		**412,955**	**2,428,223**	**2,319,824**
Equity in net losses of associates		(314,859)	(151,212)	(50,312)
Income from continuing operations		**98,096**	**2,277,011**	**2,269,512**
Discontinued operations				
Gain from operations of discontinued subsidiary	16(d)	-	-	1,261
Net income		**98,096**	**2,277,011**	**2,270,773**
Less: Net loss / (income) attributable to the non-controlling interest	14	**116,959**	**1,730**	**(23,490)**
Net income attributable to NLMK stockholders		**215,055**	**2,278,741**	**2,247,283**
Income per share – basic and diluted:				
Income from continuing operations attributable to NLMK stockholders per share (US dollars)		0.0359	0.3802	0.3748
Income from discontinued operations attributable to NLMK stockholders per share (US dollars)		-	-	0.0002
Net income attributable to NLMK stockholders per share (US dollars)		0.0359	0.3802	0.3750
Weighted-average shares outstanding, basic and diluted (in thousands)	17	5,993,227	5,993,227	5,993,227

(thousands of US dollars)

	Note	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income		**98,096**	**2,277,011**	**2,270,773**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		478,117	498,994	407,699
Loss on disposals of property, plant and equipment		4,420	9,594	27,285
Losses on investments, net		10,903	21,319	23,522
Equity in net losses of associates		314,859	151,212	50,312
Deferred income tax expense / (benefit)	18	34,443	(259,446)	37,925
(Gains) / losses on unrealized forward contracts	13	(470,930)	653,297	(58 708)
Impairment losses	9(a)	43,662	128,389	-
Settlement agreement on the dispute	26(b)	-	234,000	-
Cash in assets held for sale		-	(11,431)	-
Gain from disposal of subsidiaries		-	-	(83,122)
Gain from operations of discontinued subsidiary		-	-	(1,261)
Accretion expense on asset retirement obligations		-	-	6,190
Other		21,825	68,285	17,450
Changes in operating assets and liabilities				
Decrease / (increase) in accounts receivable		493,751	(698,002)	(33,325)
Decrease / (increase) in inventories		331,396	(364,316)	(200,074)
Decrease / (increase) in other current assets		17,193	45,690	(43,633)
Increase in loans provided by the subsidiary bank		-	-	(106,260)
Increase in accounts payable and other liabilities		10,534	89,776	242,830
Increase / (decrease) in current income tax payable		5,990	(63,610)	(33,700)
Net cash provided by operating activities		**1,394,259**	**2,780,762**	**2,523,903**
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases and construction of property, plant and equipment		(1,120,777)	(1,934,274)	(957,719)
Proceeds from sale of property, plant and equipment		12,719	9,789	12,278
Placement of bank deposits and purchases of other investments		(536,098)	(33,386)	(199,469)
Withdrawal of bank deposits, proceeds from sale of other investments and loans settled		510,336	95,803	11,606
Loans issued		(403,592)	(12,839)	(134,300)
Settlement of abandoned acquisition	26(b)	(234,000)	-	-
Acquisitions of subsidiaries, net of cash acquired of $422,841 in 2008 and $25,047 in 2007	22(a) 22(d)	-	(514,156)	-
Purchases of equity investments	5(a)	-	(6,488)	-
Payment for acquisition of interests in new subsidiaries	22(c)	-	(299,928)	-
Net cash received in acquisition of interests in new subsidiaries	22(b)	-	297,905	24,038
Movement of restricted cash		-	(1,006)	(1,020)
Proceeds from adjustment of the original purchase price of subsidiaries		-	-	37,089
Disposal of subsidiaries		-	-	(60,063)
Net cash used in investing activities		**(1,771,412)**	**(2,398,580)**	**(1,267,560)**

(thousands of US dollars)

	Note	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		1,076,756	3,735,078	268,844
Repayment of borrowings and notes payable		(1,540,242)	(2,248,720)	(451,802)
Capital lease payments		(69,094)	(90,675)	(3,066)
Dividends to shareholders		(1,981)	(842,792)	(702,983)
Dividends to non-controlling shareholders of existing subsidiaries		(127)	(12,324)	(19,146)
Prepayment for disposal of assets to a company under common control	16(a)	-	258,182	-
Proceeds from disposal of assets to the company under common control	16(d)	-	-	78,469
Net cash (used in) / provided by financing activities		**(534,688)**	**798,749**	**(829,684)**
Net (decrease) / increase in cash and cash equivalents		**(911,841)**	**1,180,931**	**426,659**
Effect of exchange rate changes on cash and cash equivalents		(1,100)	(175,583)	62,769
Cash and cash equivalents at the beginning of the year	4	2,159,989	1,154,641	665,213
Cash and cash equivalents at the end of the year	4	**1,247,048**	**2,159,989**	**1,154,641**
Supplemental disclosures of cash flow information:				
Cash paid during the year for:				
Income tax		136,378	1,020,320	702,688
Interest		170,702	201,635	26,318
Non cash investing activities:				
Capital lease liabilities incurred	20	83,186	107,793	448,731
Elimination of intercompany loan in business combination	22(a)	-	161,023	-
Non cash investing and financing activities as a result of:				
Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of $422,841 in 2008, $25,047 in 2007 and $14,127 in 2006	22	-	514,156	533,468

(thousands of US dollars)

	Note	NLMK stockholders: Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive income / (loss)	Retained earnings	Non-controlling interest	Comprehensive income / (loss)	Total stockholders' equity
Balance at December 31, 2006		**221,173**	**10,267**	**1,812**	**589,986**	**5,986,204**	**133,425**	**-**	**6,942,867**
Comprehensive income:									
Net income		-	-	-	-	2,247,283	23,490	2,270,773	2,270,773
Other comprehensive income:									
Dividends to non-controlling shareholders of existing subsidiaries		-	-	-	-	-	(12,906)	(12,906)	(12,906)
Cumulative translation adjustment	2(b)	-	-	-	591,560	-	9,058	600,618	600,618
Comprehensive income								2 858 485	**2 858 485**
Acquisitions of new subsidiaries	22(c)	-	-	-	-	-	(17,144)	-	(17,144)
Purchase of subsidiaries' shares from non-controlling interest		-	-	-	-	-	(2,686)	-	(2,686)
Disposal of a stake in non-wholly owned subsidiaries	16(b),(d)	-	-	-	-	-	(26,424)	-	(26,424)
Dividends to shareholders	15(b)	-	-	-	-	(707,337)	-	-	(707,337)
Earnings from disposal of assets to the company under common control	16(d), 25(c)	-	-	50,583	-	-	-	-	50,583
Balance at December 31, 2007		**221,173**	**10,267**	**52,395**	**1,181,546**	**7,526,150**	**106,813**	**-**	**9,098,344**
Comprehensive income:									
Net income / (loss)		-	-	-	-	2,278,741	(1,730)	2,277,011	2,277,011
Other comprehensive loss:									
Dividends to non-controlling shareholders of existing subsidiaries		-	-	-	-	-	(12,383)	(12,383)	(12,383)
Cumulative translation adjustment	2(b)	-	-	-	(1,731,425)	-	(2,081)	(1,733,506)	(1,733,506)
Comprehensive income								531,122	**531,122**
Acquisitions of new subsidiaries	22(d)	-	-	-	-	-	2,146	-	2,146
Purchase of subsidiaries' shares from non-controlling interest	22(d)	-	-	-	-	-	(84,913)	-	(84,913)
Change of non-controlling interest associated with purchase price adjustment	22(c)	-	-	-	-	-	24,942	-	24,942

(thousands of US dollars)

		NLMK stockholders							
	Note	**Common stock**	**Statutory reserve**	**Additional paid-in capital**	**Accumulated other comprehensive income / (loss)**	**Retained earnings**	**Non-controlling interest**	**Comprehensive income / (loss)**	**Total stockholders' equity**
Disposal of non-controlling interest in existing subsidiaries		-	-	-	-	-	306	-	306
Dividends to shareholders	15(b)	-	-	-	-	(848,878)	-	-	(848,878)
Balance at December 31, 2008		**221,173**	**10,267**	**52,395**	**(549,879)**	**8,956,013**	**33,100**	**-**	**8,723,069**
Comprehensive loss:									
Net income / (loss)		-	-	-	-	215,055	(116,959)	98,096	98,096
Other comprehensive loss:									
Cumulative translation adjustment	2(b)	-	-	-	(246,877)		(9,583)	(256,460)	(256,460)
Comprehensive loss								(158,364)	**(158,364)**
Disposal of assets to an entity under common control	16(a) 25(c)	-	-	85,345	-	-	(40,182)	-	45,163
Change in non-controlling interest	14	-	-	(25,290)	-	-	25,290	-	-
Balance at December 31, 2009		**221,173**	**10,267**	**112,450**	**(796,756)**	**9,171,068**	**(108,334)**	**-**	**8,609,868**

1 BACKGROUND

OJSC Novolipetsk Steel (the "Parent Company") and its subsidiaries (together – the "Group") is one of the largest iron and steel groups in the Russian Federation with facilities that allow it to operate an integrated steel production cycle. The Parent Company is a Russian Federation open joint stock company in accordance with the Civil Code of the Russian Federation. The Parent Company was originally established as a State owned enterprise in 1934 and was privatized in the form of an open joint stock company on January 28, 1993. On August 12, 1998 the Parent Company's name was re-registered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation.

The Group's principal activity is the production and sale of ferrous metals, primarily consisting of pig iron, steel slabs, long products, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel. These products are sold both in the Russian Federation and abroad. The Group also operates in the mining and coke-chemical segments and had a less significant seaport operating segment (Note 23).

The Group's main operations are in the Russian Federation and are subject to the legislative requirements of both the Russian Federation and the subsidiaries' regional authorities.

The Group's primary subsidiaries, located in Lipetsk and other regions of the Russian Federation, comprise:

- Mining companies OJSC Stoilensky GOK, OJSC StAGDoK and OJSC Dolomite. The principal business activity of these companies is mining and processing of iron-ore raw concentrate, fluxing limestone and metallurgical dolomite.
- Coke-chemical company OJSC Altai-Koks and its subsidiaries. The principal business activity of these companies is the production of blast furnace coke, cupola coke, nut coke and small-sized coke.
- Steel rolling company LLC VIZ-Stahl. The principal business activity of this company is the production of cold rolled grain oriented and non-oriented steel.
- OJSC Maxi-Group and its subsidiaries (acquired in 2007). The principal business activities of these companies are the collection and recycling of iron scrap, steel-making and production of long products.

The Group's major subsidiaries and equity investments, located outside the Russian Federation, comprise:

- Joint Venture with Duferco Group – established in 2006 on the basis of Steel Invest & Finance (Luxembourg) S.A. ("SIF S.A.") in which both parties hold a 50% interest. SIF S.A. holds 100% interests or majority votes in 24 companies located in Europe and USA which include one steel making plant and five steel rolling facilities as well as a network of steel service centers (Note 5(a)).
- Danish steel rolling company DanSteel A/S. The principal business activity of this company is production of hot rolled plates.
- Trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. (acquired in 2008). The principal business activity of these companies is sales of the Group's products outside the Russian Federation.
- American hot rolled coils producer Beta Steel Corp. (acquired in 2008). The principal business activity of this company is the production of hot rolled steel.

2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

(a) Statement of compliance

The Group maintains its accounting records in accordance with the legislative requirements of the country of incorporation of each of the Group's companies. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America ("US GAAP").

(b) Functional and reporting currency

In accordance with the laws of the Russian Federation the accounting records of the Parent Company are maintained, and the Parent Company's statutory financial statements for its stockholders are prepared, in Russian rubles.

The Group's principal functional currency is considered to be the Russian ruble. The functional currency of the foreign subsidiaries is their local currency. The accompanying consolidated financial statements have been prepared using the US dollar as the Group's reporting currency, utilizing period-end exchange rates for assets and liabilities, corresponding period quarterly weighted average exchange rates for consolidated statement of income accounts for the year ended December 31, 2009 (weighted average exchange rate for consolidated statement of income accounts for the years ended December 31, 2008 and 2007) and historic rates for equity accounts in accordance with the relevant provisions of ASC No. 830, *Foreign currency matters*. As a result of these translation procedures, a cumulative translation adjustment of $(256,460), $(1,733,506) and $600,618 was recorded directly in stockholders' equity in the years ended December 31, 2009, 2008 and 2007, respectively.

The Central Bank of the Russian Federation's closing rates of exchange as at December 31, 2009, 2008 and 2007 were 1 US dollar to 30.2442, 29.3804 and 24.5462 Russian rubles, respectively. The period weighted average exchange rates for the 1 quarter 2009, 2 quarter 2009, 3 quarter 2009 and 4 quarter 2009 were 33.9308, 32.2145, 31.3276 and 29.4729 Russian rubles to 1 US dollar, respectively. The Group calculated items of consolidated statement of income using weighted average exchange rate for the nine months ended September 30, 2008 (24.0454 Russian rubles to 1 US dollar) for the corresponding income and expenses in nine months ended September 30, 2008 and weighted average exchange rate for the fourth quarter 2008 (27.2672 Russian rubles to 1 US dollar) for calculation of income and expenses in the fourth quarter 2008. The annual weighted average exchange rate for the year ended December 31, 2007 was 25.5770 Russian rubles to 1 US dollar.

(c) Consolidation principles

These consolidated financial statements include all majority-owned and controlled subsidiaries of the Group. All significant intercompany accounts and transactions have been eliminated.

3 SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied by the Group from one reporting period to another with the exception of newly adopted accounting pronouncements.

(a) Use of estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates are used when accounting for certain items such as allowances for doubtful accounts; employee compensation programs; depreciation and amortization lives; asset retirement obligations; legal and tax contingencies; inventory values; valuations of investments and determining when investment impairments are other than temporary; goodwill; assets and liabilities assumed in a purchase business combinations and deferred tax assets, including valuation allowances. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash on current accounts with banks, bank deposits and other highly liquid short-term investments with original maturities of less than three months.

(c) Restricted cash

Restricted cash comprise funds legally or contractually restricted as to withdrawal.

(d) Accounts receivable and loans issued

Receivables and loans issued are stated at cost less an allowance for doubtful debts. Management quantifies this allowance based on current information regarding the customers' and borrowers' ability to repay their obligations. Amounts previously written off which are subsequently collected are recognized as income.

(e) Value added tax (VAT)

Output value added tax related to sales of goods (work performance, services provision) is payable to the tax authorities upon delivery of the goods (work, services) or property rights to customers. Input VAT on goods and services purchased (received) is generally recoverable against output VAT. VAT related to sales / purchases and services provision / receipt which has not been settled at the balance sheet date (VAT deferred) is recognized in the balance sheet on a gross basis and disclosed separately within current assets and current liabilities. Where a doubtful debt provision has been made, a loss is recorded for the gross amount of the debt, including VAT.

(f) Inventories

Inventories are stated at the lower of acquisition cost inclusive of completion expenses or market value. Inventories are released to production or written-off otherwise at average cost. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads.

The provision for obsolescence is calculated on the basis of slow-moving and obsolete inventories analysis. Such items are provided for in full.

(g) Investments in marketable debt and equity securities

Marketable debt and equity securities consist of investments in corporate debt and equity securities where the Group does not exert control or significant influence over the investee. The Group classifies marketable debt and equity securities using three categories: trading, held-to-maturity and available-for-sale. The specific identification method is used for determining the cost basis of all such securities.

Trading securities

Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are carried in the consolidated balance sheet at their fair value. Unrealized holding gains and losses on trading securities are included in the consolidated statement of income.

Held-to-maturity securities

Held-to-maturity securities are those securities which the Group has the ability and intent to hold until maturity. Such securities are recorded at amortized cost.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Premiums and discounts are amortized and recorded in the consolidated statement of income over the life of the related security held-to-maturity, as an adjustment to yield using the effective interest method.

Available-for-sale securities

All marketable securities not included in trading or held-to-maturity are classified as available-for-sale.

Available-for-sale securities are recorded at their fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and reported as a separate component of accumulated other comprehensive income in the stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities, less tax, are determined on a specific identification basis. Dividend and interest income are recognized when earned.

(h) Investments in associates and non-marketable securities

Investments in associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for using the equity method of accounting. The consolidated financial statements include the Group's share of the total recognized gains and losses of associates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

Investments in non-marketable securities

Investments in non-marketable securities where the Group does not exercise control or significant influence over the investee are carried at cost less provisions for any other than temporary diminution in value. Provisions are calculated for the investments in companies which are experiencing significant financial difficulties for which recovery is not expected within a reasonable period in the future, or under bankruptcy proceedings.

(i) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and adjustments for impairment losses (Note 3(l)). The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate portion of production overheads directly related to construction of assets.

Property, plant and equipment also include assets under construction and plant and equipment awaiting installation.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent expenditures

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, are capitalized with the carrying amount of the component subject to depreciation. Other subsequent expenditures are capitalized only when they increase the future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognized as expenses in the consolidated statement of income as incurred.

Capitalized interest

Interest costs are capitalized against qualifying assets as part of property, plant and equipment.

Such interest costs are capitalized over the period during which the asset is being acquired or constructed and borrowings have been incurred. Capitalization ceases when construction is interrupted for an extended period or when the asset is substantially complete. Further interest costs are charged to the statement of income.

(thousands of US dollars)

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Where funds are borrowed specifically for the purpose of acquiring or constructing a qualifying asset, the amount of interest costs eligible for capitalization on that asset is the actual interest cost incurred on the borrowing during the period.

Where funds are made available from general borrowings and used for the purpose of acquiring or constructing qualifying assets, the amount of interest costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on these assets.

Mineral rights

Mineral rights acquired in business combinations are recorded in accordance with provisions of ASC No. 805, *Business Combinations*, ("ASC No. 805") at their fair values at the date of acquisition, based on their appraised fair value. The Group reports mineral rights as a separate component of property, plant and equipment in accordance with the consensus reached by ASC No 930, *Extractive Activities – Mining,* ("ASC № 930") subtopic 360, *Property, Plant and Equipment.*

Depreciation and amortization

Depreciation is charged on a straight-line basis over the estimated remaining useful lives of the individual assets. Plant and equipment under capital leases and subsequent capitalized expenses are depreciated on a straight-line basis over the estimated remaining useful life of the individual assets. Depreciation commences from the time an asset is put into operation. Depreciation is not charged on assets to be disposed of and land. The range of the estimated useful lives is as follows:

Buildings and constructions	20 – 45 years
Machinery and equipment	2 – 40 years
Vehicles	5 – 25 years

Mineral rights are amortized using the straight-line basis over the license term given approximately even production during the period of license.

(j) Leasing

Leasing transactions are classified according to the lease agreements which specify the rewards and risks associated with the leased property. Leasing transactions where the Group is the lessee are classified into capital leases and operating leases. In a capital lease, the Group receives the major portion of economic benefit of the leased property and recognizes the asset and associated liability on its balance sheet. All other transactions in which the Group is the lessee are classified as operating leases. Payments made under operating leases are recorded as an expense.

(k) Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. Under ASC No. 350, *Intangibles - Goodwill and Other,* ("ASC No. 350") goodwill and intangible assets with indefinite useful lives are subject to impairment test at least annually and on an interim basis when an event occurs or circumstances change between annual tests that would more-likely-than-not result in impairment.

Under ASC No. 350, goodwill is assessed for impairment by using the fair value based method. The impairment test required by ASC No. 350 includes a two-step approach. Under the first step, companies must compare fair value of a "reporting unit" to its carrying value. A reporting unit is the level at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, step two is required to determine if goodwill is impaired.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Under step two, the amount of goodwill impairment is measured by the amount, if any, that the reporting unit's goodwill carrying value exceeds its "implied" fair value of goodwill. The implied fair value of goodwill is determined by deducting the fair value of all tangible and intangible net assets of the reporting unit (both recognized and unrecognized) from the fair value of the reporting unit (as determined in the first step).

The Group performs the required annual goodwill impairment test at the end of each calendar year.

The excess of the fair value of net assets acquired over purchase cost is determined as negative goodwill, and is allocated to the acquired non-current assets, except for deferred taxes, if any, until they are reduced to zero.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

(l) Impairment of long-lived assets

Long-lived assets, such as property, plant and equipment, mineral rights and purchased intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset, generally determined by reference to the discounted future cash flows. Assets held for sale that meet certain criteria are measured at the lower of their carrying amount or fair value less cost to sell.

(m) Derivative instruments

The Group uses foreign currency derivative instruments to manage its exposure to foreign exchange risk. Forwards and options (Note 13) are used to reduce the effects of fluctuations in the foreign exchange rates and corresponding effects on business transactions denominated in foreign currencies. The Group has not elected to designate derivative instruments as qualifying for hedge accounting treatment. As a result, the changes in fair value of all derivatives are recognized immediately in results of operations in "Foreign currency exchange, net" line.

(n) Pension and post-retirement benefits other than pensions

The Group follows the Pension and Social Insurance legislation of the Russian Federation and other countries where the Group operates. Contributions to the Russian Federation Pension Fund by the employer are calculated as a percentage of current gross salaries. Such contributions are expensed as incurred.

The Parent Company and some other Group companies have an agreement with a non-Government pension fund (the "Fund") in accordance with which contributions are made on a monthly basis. Contributions are calculated as a certain fixed percentage of the employees' salaries. These pension benefits are accumulated in the Fund during the employment period and distributed by the Fund subsequently. As such, all these benefits are considered as made under a defined contribution plan and are expensed as incurred. Accordingly, the Group has no long-term commitments to provide funding, guarantees, or other support to the Fund.

In addition, lump sum benefits are paid to employees of a number of the Group's companies on retirement depending on the employment period and the salary level of the individual employee. The scheme is considered as a defined benefit plan. The expected future obligations to the employees are assessed by the Group's management and accrued in the consolidated financial statements, however these are not material.

(o) Asset retirement obligations

The Group's land, buildings and equipment are subject to the provisions of ASC No. 410, *Asset Retirement and Environmental Obligations*. This ASC addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Group's asset retirement obligation (ARO) liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities at both surface and underground mines in accordance with federal and state reclamation laws as defined by each mining permit.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group estimates its ARO liabilities for final reclamation and mine closure based upon detailed engineering calculations of the amount and timing of the future cash spending for a third party to perform the required work. Spending estimates are escalated for inflation and then discounted at the credit-adjusted risk-free rate. The Group records an ARO asset associated with the discounted liability for final reclamation and mine closure. The obligation and corresponding asset are recognized in the period in which the liability is incurred.

The liability is accreted to its present value each period and the capitalized cost is depreciated in accordance with the Group's depreciation policies for property, plant and equipment. As changes in estimates occur (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities), the revisions to the obligation and asset are recognized at the appropriate credit-adjusted risk-free rate.

(p) Borrowing activities

The Group's general-purpose funding is principally obtained from commercial paper and short-term and long-term borrowings. Commercial paper, when issued at a discount, is recorded at the proceeds received and accreted to its par value. Borrowings are carried at the principal amount borrowed, net of unamortized discounts or premiums.

(q) Commitments and contingencies

Contingent liabilities, including environmental remediation costs, arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability can be assessed and the amount of the assessment and / or remediation can be reasonably estimated.

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. Group companies accrue expenses associated with environmental remediation obligations when such expenses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change.

(r) Income tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when a different tax rate is enacted.

Pursuant to the provisions of ASC No. 740, *Income Taxes*, the Group provides valuation allowances for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

(s) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(t) Revenue recognition

Goods sold

Revenue from the sale of goods is recognized in the consolidated statement of income when there is a firm arrangement, the price is fixed and determinable, delivery has occurred, and collectability is reasonably assured.

Interest income

Interest income is recognized in the consolidated statement of income as it is earned.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Shipping and handling

The Group bills its customers for the shipped steel products with product delivery to the place of destination in accordance with revised delivery terms agreed with customers. The related shipping and handling expense is reported in selling expenses. Previously, arrangements for product delivery were entirely the responsibility of customers. Portion of this expense in selling expenses in 2007-2009 varied from 84% to 86%.

(v) Expenses

Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of interest expense, except for interest which is incurred on construction projects and capitalized (Note 3(i)).

(w) Non-cash transactions

Non-cash settlements represent offset transactions between customers and suppliers, when exchange equivalents are defined and goods are shipped between the parties without exchange of cash.

The related sales and purchases are recorded in the same manner as cash transactions. The fair market value for such transactions is based on the value of similar transactions in which monetary consideration is exchanged with a third party.

Purchases of property, plant and equipment under capital lease arrangements are also recognized as non-cash transactions.

(x) Segment reporting

According to ASC No.280, *Segment reporting*, segment reporting follows the internal organizational and reporting structure of the Group. The Group's organization comprises four reportable segments:

- steel segment, comprising production and sales of steel products, primarily pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel;
- long products segment, comprising a number of steel-production facilities combined in a single production system beginning from iron scrap collection and recycling to steel-making, production of long products, reinforcing rebar, and metalware;
- mining segment, comprising mining, processing and sales of iron ore, fluxing limestone and metallurgical dolomite, which supplies raw materials to the steel segment and third parties;
- coke-chemical segment, comprising production and sales primary blast furnace coke, cupola coke, nut coke and small-sized coke supplying steel segment and third parties with raw materials;

and other segments, not reported separately in the consolidated financial statements.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

(y) Guarantees

The fair value of a guarantee is determined and recorded as a liability at the time when the guarantee is issued. The initial guarantee amount is subsequently remeasured to reflect the changes in the underlying liability. The expense is included in the related line items of the consolidated statements of income and comprehensive income, based on the nature of the guarantee. When the likelihood of performing on a guarantee becomes probable, a liability is accrued, provided it is reasonably determinable on the basis of the facts and circumstances at that time.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) Recent accounting pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 160, *Non-controlling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51* ("SFAS No. 160") (codified within ASC 810, Consolidation). This Statement provides new standards to govern the accounting and reporting for non-controlling (formerly known as minority) interests in partially owned consolidated subsidiaries and for the loss of control of subsidiaries. The Statement establishes that a non-controlling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 was effective as of January 1, 2009. As a result of the adoption of this Statement, the Group prospectively attributed the non-controlling interest its share of losses of $116,959 which resulted in a deficit in the non-controlling interest balance. The presentation and disclosure requirements of SFAS No. 160 were applied retrospectively.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS No. 141(R)") (codified within ASC 805, *Business Combinations*), which replaces SFAS No. 141. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize all assets acquired and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed and requires the acquirer to disclose certain information related to the nature and financial effect of the business combination. SFAS No. 141(R) also establishes principles and requirements for how an acquirer recognizes any non-controlling interest in the acquiree and the goodwill acquired in a business combination. SFAS No. 141(R) is effective on a prospective basis for business combinations for which the acquisition date is on or after January 1, 2009. Depending on the terms, conditions and details of the business combination, if any, that take place subsequent to January 1, 2009, SFAS No. 141(R) may have a material impact on the Group's consolidated financial statements. SFAS No. 141(R) also amends SFAS No. 109, *Accounting for Income Taxes*, such that adjustments made to deferred taxes and acquired tax contingencies after January 1, 2009, even for business combinations completed before this date, will impact net income. Management has determined that the adoption of SFAS No. 141(R) had no material impact on the Group's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* (SFAS No. 168) (codified within ASC 105, Generally Accepted Accounting Principles), which became effective for the Group from the interim period ended September 30, 2009. The Codification is the sole source of authoritative US GAAP to be applied by non-governmental entities and supersedes all non-SEC accounting and reporting standards existing on September 15, 2009. The issuance of SFAS No. 168 and the Codification does not change GAAP. All references to accounting standards in these financial statements were updated to corresponding ASC references. Management has determined that the adoption of SFAS No. 168 had no impact on the Group's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No.46(R)*. SFAS No. 167 amends FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable interest entities – an interpretation of ARB No.51* (not yet included into Codification), which will become effective for the Group on January 1, 2010. This Standard requires the Group to perform an analysis to determine whether the Group's variable interest or interests give it a controlling financial interest in a variable interest entity. The Group is also required to assess whether it has an implicit financial responsibility to ensure that the variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. Management is currently evaluating its impact on the Group's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-02, *Accounting and Reporting for Decreases in Ownership of a Subsidiary – a Scope Clarification*. This update provides amendments to ASC No. 810-10, *Consolidation – Overall* (formerly SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*) to clarify the scope of the decrease in ownership provisions of ASC 810-10 and related guidance. ASU No. 2010-02 also clarifies that the decrease in ownership guidance does not apply to certain transactions even if they involve businesses. ASU 2010-02 expands the disclosures required for a business combinations achieved in stages and deconsolidation activity within the scope of ASC 810-10. ASU 2010-02 is effective for both interim and annual periods ending on or after December 15, 2009. The amendments are to be applied retrospectively to the first period that an entity adopted ASU No. 810-10. The adoption of this statement did not have an impact on the Group's financial position, results of operations and disclosures related to non-controlling interests.

(thousands of US dollars)

4 CASH AND CASH EQUIVALENTS

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Cash – Russian rubles	79,793	75,561	124,773
Cash – US dollars	125,917	48,195	10,049
Cash – other currencies	64,197	31,493	13,116
Deposits – Russian rubles	208,514	317,772	947,322
Deposits – US dollars	729,092	1,591,632	20,486
Deposits – Euros	25,778	89,683	38,656
Deposits – other currencies	11,474	4,832	-
Other cash equivalents	2,283	821	239
	1,247,048	**2,159,989**	**1,154,641**

5 INVESTMENTS

Balance sheet classification of investments:

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Short-term investments and current portion of long-term investments	451,910	8,089	153,462
Long-term investments	468,236	815,527	818,590
Total investments	**920,146**	**823,616**	**972,052**

As at December 31, 2009 the major part of short-term investments are represented by loans issued.

Long-term and short-term investments include loans issued to SIF S.A. (Note 25(b)).

(a) Investments in associates

	As at December 31, 2009 Ownership	As at December 31, 2008 Ownership	As at December 31, 2007 Ownership	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Steel Invest & Finance (Luxembourg) S.A.	50.00%	50.00%	50.00%	305,284	654,134	817,942
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.00%	50.00%	-	6,230	6,488	-
				311,514	**660,622**	**817,942**

(thousands of US dollars)

5 INVESTMENTS (continued)

Acquisition of Steel Invest & Finance (Luxembourg) S.A. shares

In December 2006, the Group acquired 50% of the issued shares of SIF S.A. for $805 million accounted for by the Group under the equity method in line with a strategic partnership with the Duferco Group who holds an equal participation in SIF S.A.'s share capital.

As at December 31, 2009, the difference between the cost of the Group's investment and the amount of acquired equity in SIF S.A.'s net assets, appraised at fair value, amounted to $27,419 and was accounted for as if SIF S.A. was a consolidated subsidiary.

The transaction agreements provide for the call options for the Group and put and call options arrangements for Duferco in the event of future major corporate events, including future disagreements, modified in February 2008 to include:

- the Group has a perpetual option to acquire one share of SIF S.A. at the per share price of the Original Transaction and thus increase its participation in SIF S.A. to a controlling (50% plus one share);
- effective from December 18, 2010 the Group will have a perpetual option to buy, and Duferco will have a perpetual option to sell all of Duferco's interest in SIF S.A. at a price based on the change in the consolidated shareholders equity of SIF S.A. between December 2006 and the exercise date.

Summarized financial information for equity-method investment in SIF S.A., is as follows:

	As at December 31, 2009	As at December 31, 2008
Current assets	1,580,750	2,289,830
Non-current assets	1,316,182	1,276,334
Total assets	**2,896,932**	**3,566,164**
Current liabilities	(1,086,909)	(2,393,931)
Non-current liabilities	(1,805,213)	(529,535)
Total liabilities	**(2,892,122)**	**(2,923,466)**
Equity	**4,810**	**642,698**

The revenues and net loss of SIF S.A. for the twelve months, ended December 31, 2009 amounted to $2,047,806 and $(619,557), respectively.

The Group's losses related to SIF S.A. amounted to $(314,859), $(151,212) and $(50,312) for the years ended December 31, 2009, 2008 and 2007, respectively.

Information about the Group's operations with SIF S.A. and its subsidiary is disclosed in Note 25.

(b) Non-marketable securities

Non-marketable securities amounted to $237, $390 and $648 as at December 31, 2009, 2008 and 2007, respectively.

(thousands of US dollars)

6 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at December 31, 2009	**As at December 31, 2008**	**As at December 31, 2007**
Trade accounts receivable	619,722	964,257	996,669
Advances given to suppliers	91,858	123,588	313,550
Taxes receivable	365,466	489,352	416,696
Accounts receivable from employees	3,407	2,709	5,968
Other accounts receivable	148,261	178,996	207,181
	1,228,714	1,758,902	1,940,064
Allowance for doubtful debts	(315,522)	(271,055)	(243,613)
	913,192	**1,487,847**	**1,696,451**

As at December 31, 2007, the Group had accounts receivable from Steelco Mediterranean Trading Ltd., Cyprus and Moorfield Commodities Company, UK, each of which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by these debtors totaled $194,648 and $473,841 as at December 31, 2007.

As at December 31, 2009, 2008 and 2007, the Group had other accounts receivable of $126,705, $95,033 and $73,051, respectively, from companies for which a 100% allowance was recorded. These accounts receivable were acquired by the Group through a business combination (Note 22(c)).

7 INVENTORIES

	As at December 31, 2009	**As at December 31, 2008**	**As at December 31, 2007**
Raw materials	613,940	833,236	756,983
Work in process	219,455	326,168	310,832
Finished goods and goods for resale	351,879	480,135	209,878
	1,185,274	1,639,539	1,277,693
Provision for obsolescence	(51,179)	(83,777)	(41,260)
	1,134,095	**1,555,762**	**1,236,433**

As at December 31, 2009, 2008 and 2007, inventories of nil, $35,900 and $82,920, respectively, served as collateral for certain borrowings (Note 11).

(thousands of US dollars)

8 PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Land	136,596	91,553	88,353
Mineral rights	512,106	527,162	616,620
Buildings	1,400,208	1,385,103	1,428,223
Land and buildings improvements	1,221,530	1,213,582	1,339,274
Machinery and equipment	5,850,662	5,699,662	5,841,034
Vehicles	345,213	333,351	333,209
Construction in progress and advances for construction and acquisition of property, plant and equipment	2,817,937	2,355,259	2,197,131
Leased assets	328,204	310,534	457,191
Other	68,398	72,169	79,393
	12,680,854	11,988,375	12,380,428
Accumulated depreciation	(5,364,674)	(5,162,236)	(5,930,551)
	7,316,180	**6,826,139**	**6,449,877**

In August 2005, the Group acquired a license for exploration and mining of Zhernovsky coal deposit, expiring in 2025. The carrying value of this license as at December 31, 2009 is $28,529.

The other mineral rights relate to mining segment, and were acquired by the Group in 2004 through a business combination. The carrying value of these mineral rights as at December 31, 2009 is $242,903. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2009, 2008 and 2007, property, plant and equipment of $45,647, $272,678 and $390,816 (net book value), respectively, served as collateral for certain borrowings (Note 11).

The amount of interest capitalized is $29,693 for the year ended December 31, 2009. These amounts were insignificant for the years ended December 31, 2008 and 2007.

9 GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Goodwill

Balance as at December 31, 2006	**559,703**
Acquired in new subsidiaries (Note 22)	592,171
Cumulative translation adjustment	37,585
Balance as at December 31, 2007	**1,189,459**
Acquired in new subsidiaries	54,772
Acquired in existing subsidiaries	43,188
Change associated with purchase price adjustment (Note 22(c))	(310,988)
Goodwill associated with disposal assets held for sale (Note 16(a))	(77,238)
Goodwill impairment	(128,389)
Cumulative translation adjustment	(157,136)
Balance as at December 31, 2008	**613,668**
Goodwill impairment	(43,662)
Cumulative translation adjustment	(13,370)
Balance as at December 31, 2009	**556,636**

(thousands of US dollars)

9 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Goodwill arising from the acquisition in 2008 of a controlling interest in Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. amounted to $2,055 and was allocated to the steel segment. Resulting goodwill in Beta Steel Corp. amounted to $35,727 and was also allocated to the steel segment. Goodwill arising from the other immaterial acquisitions in 2008 (Note 22(d)) amounted to $16,991 in new subsidiaries and $43,188 in existing subsidiaries and was allocated to the steel and mining segments. Calculated based on the Group's management best estimate of final consideration, the goodwill arising from the acquisition of a controlling interest in OJSC Maxi-Group and its subsidiaries in 2007 amounted to $281,183, was allocated to the long products segment (Note 22(c)) and was subsequently partially impaired.

Goodwill impairment

The Group performed a test for impairment of goodwill as at December 31, 2009 and 2008 using the income approach primarily with Level 3 inputs, in accordance with ASC No. 820. As a result the Group determined that the goodwill associated with the Long product segment was partially impaired, recording an estimated charge of $43,662 and $128,389 in "Impairment losses" line in the consolidated statement of income for the years ended December 31, 2009 and 2008, respectively. The Group's management believes that the current global economic crisis and economic conditions within the industry were the primary factors that led to the impairment of goodwill.

The Group performed a test for impairment of goodwill as at December 31, 2007 which indicated no impairment.

(b) Other intangible assets

	Subsidiary	Total useful life, months	Gross book value as at December 31, 2009	Gross book value as at December 31, 2008	Gross book value as at December 31, 2007
	Note 22				
Industrial intellectual property	LLC VIZ-Stahl	149	56,499	58,160	69,614
Customer base	LLC VIZ-Stahl	125	107,299	110,456	132,207
Customers relationships (oil)	OJSC TMTP	66	-	-	12,740
Customers relationships (dry cargo)	OJSC TMTP	66	-	-	14,113
Customers relationships	DanSteel A/S	72	4,344	4,470	5,352
Beneficial lease interest	Beta Steel Corp.	38	8,700	8,700	-
Customers relationships (electricity)	Beta Steel Corp.	18	7,200	7,200	-
Customer base	Novexco (Cyprus) Ltd. Novex Trading (Swiss) S.A.	180	89,910	89,910	-
			273,952	278,896	234,026
Accumulated amortization			(70,462)	(43,613)	(44,942)
			203,490	**235,283**	**189,084**

The intangible assets were acquired in business combinations (Note 22) and met the criteria for separate recognition outlined in ASC No. 805. They were recorded under the provisions of ASC No. 805 at fair values at the date of acquisition, based on their appraised value. Aggregate amortization expense amounted to $23,102, $16,276 and $25,481 for the years ended December 31, 2009, 2008 and 2007, respectively.

Estimated amortization expense in subsequent annual periods	
2010	(21,500)
2011	(21,374)
2012	(20,776)
2013	(20,776)
2014 and later	(116,667)

(thousands of US dollars)

10 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Trade accounts payable	400,236	489,486	266,640
Advances received	114,472	54,127	165,624
Taxes payable other than income tax	87,402	81,966	65,322
Accounts payable and accrued liabilities to employees	130,813	129,724	159,578
Dividends payable	2,574	4,859	4,877
Short-term capital lease liability	30,383	35,722	32,273
Negative fair values of unrealized forward contracts (Note 13)	290	495,540	-
Other accounts payable	75,060	587,789	700,620
	841,230	**1,879,213**	**1,394,934**

Other accounts payable as at December 31, 2008 include payables to the company under common control for OJSC TMTP shares of $241,833 (Note 16(a)) and amount of settlement with respect to dispute with DBO Holdings Inc. totaled $234,000 (Note 26(b)).

As at December 31, 2007, the Group had accounts payable of $555,578 to Mr. Maximov (non-controlling shareholder of OJSC Maxi-Group) in respect of the purchase from him of his shares in OJSC Maxi-Group, which was included in other accounts payable. This amount was reduced as at December 31, 2008 as a result of the first payment for the acquired shares for $299,928 (as at the date of the transaction) and subsequent write off of the remaining accounts payable resulting from the purchase price adjustment based on the Group's management revised estimate of the remaining consideration due (Note 22(c)).

11 SHORT-TERM AND LONG-TERM BORROWINGS

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Parent Company			
Loan, RUR denominated, with interest rate 9.6% per annum	-	-	203,933
Bonds, RUR denominated, with interest rate from 9.75% to 10.75% per annum	502,627	-	-
Loans, US$ denominated, with interest rates from LIBOR +1.2% to 3.86% per annum, mature 2010-2013	1,506,580	1,657,105	-
Maxi-Group			
Russian rubles			
Loans with interest rates from MosPrime3M+2.25% to 16% per annum, mature 2010-2013	317,086	908,002	602,456
Bonds with interest rates from 10% to 12% per annum	227	980	93,656
Other borrowings	59,315	56,065	92,551
US dollars			
Loans with interest rate LIBOR (1 m) +3.75% per annum, mature 2010	19,355	119,431	282,394
Other borrowings	-	-	10,250
Euros			
Loans with interest rates from EURIBOR (6 m) +1.3% to EURIBOR (6 m) +4% per annum, mature 2010-2017	52,209	122,559	256,700
Other borrowings	11,277	19,631	33,902
	2,468,676	**2,883,773**	**1,575,842**

(thousands of US dollars)

11 SHORT-TERM AND LONG-TERM BORROWINGS (continued)

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Other companies			
Loan, RUR denominated, with interest rate 10% per annum	26,538	81,825	14,124
Loan, US$ denominated, with interest rate 5% per annum	-	-	19,677
Loan, EURO denominated, with interest rate 5.38% per annum	-	43,711	-
Other borrowings	1	269	152
	2,495,215	**3,009,578**	**1,609,795**
Less: short-term loans and current maturities of long-term loans	(556,563)	(1,079,806)	(1,536,570)
Long-term borrowings	**1,938,652**	**1,929,772**	**73,225**

The Group's long-term borrowings as at December 31, 2009 mature between 2 to 8 years.

As at December 31, 2009, 2008 and 2007, more than 18%, 40% and 85%, respectively, of total short-term and long-term borrowings of the Group are payable by Maxi-Group.

As at December 31, 2009, 2008 and 2007, loans of nil, $50,204 and $339,469, respectively, were collateralized with guarantee letters and other guarantees issued by companies which are the related parties of Maxi-Group (Note 25(e)). As at December 31, 2009, 2008 and 2007, loans of nil, $78,563 and $281,081, respectively, were collateralized with the shares of Maxi-Group companies.

The payments scheduled for long-term loans are as follows:

2010	515,855
2011	577,555
2012	601,386
2013	238,041
Remainder	5,815
	1,938,652

New borrowings

The amount of loans and bonds, received by the Group under the new loan agreements concluded in the year ended December 31, 2009, and outstanding as at December 31, 2009, is $523,797.

In November 2009, the Parent Company issued bonds with a nominal value of 1,000 Russian rubles per each bond (total value of 10 billion Russian rubles which are $330,642 as at December 31, 2009), with a maturity period of 1092 days and a coupon rate of 10.75% per annum.

In December 2009, the Parent Company issued bonds with a nominal value of 1,000 Russian rubles per each bond (total value of 5 billion Russian rubles which are $165,321 as at December 31, 2009), with a maturity period of 1092 days and a coupon rate of 9.75% per annum.

Major terms of loan agreements

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses regarding the possibility of acceleration in case of unfavorable economic situation and also clauses in relation to performance of the borrowers, including cross default provisions, as well as legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfill contractual obligations. The Group companies are in compliance with debt covenants as of the date of approval of these consolidated financial statements.

(thousands of US dollars)

12 OTHER LONG-TERM LIABILITIES

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Long-term capital lease liability (Note 19)	137,592	128,712	316,558
Other long-term liabilities	2,314	232	58
	139,906	**128,944**	**316,616**

13 FORWARD CONTRACTS

The Group holds or purchases derivative financial instruments for purposes other than trading to mitigate foreign currency exchange rate risk.

Positive fair values of unrealized forward exchange contracts, amounting to $209, nil and $68,392 respectively, are included in other current assets as at December 31, 2009, 2008 and 2007.

Negative fair values of unrealized forward exchange contracts, amounting to $(290) and $(495,540) are included in the line "Accounts payable and other liabilities" in the consolidated balance sheets as at December 31, 2009 and 2008, respectively (the corresponding amount was immaterial as at December 31, 2007) (Note 10).

In accordance with ASC No. 820, the fair value of foreign currency derivatives is determined using Level 2 inputs. The inputs used include quoted prices for similar assets or liabilities in an active market. Fair value is determined as the sum of the differences between the discounted market forward rate in the settlement month prevailing at December 31, 2009 and the appropriate contract settlement rate, multiplied by the respective notional amount of the contract.

The amounts recorded represent the US dollar equivalent of the commitments to sell and purchase foreign currencies (no commitments to purchase foreign currencies as at December 31, 2007). The table below summarizes by major currency the contractual amounts and positive fair values of the Group's unrealized forward exchange and option contracts in US dollars.

	As at December 31, 2009		As at December 31, 2008		As at December 31, 2007	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	48,059	209	-	-	1,767,295	63,247
Euro	-	-	-	-	707,389	5,145
	48,059	**209**	**-**	**-**	**2,474,684**	**68,392**

The table below summarizes by major currency the contractual amounts and negative fair values of the Group's unrealized forward exchange and option contracts in US dollars.

	As at December 31, 2009		As at December 31, 2008		As at December 31, 2007	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	59,826	(290)	1,411,825	(353,169)	-	-
Euro	-	-	915,723	(142,371)	-	-
	59,826	**(290)**	**2,327,548**	**(495,540)**	**-**	**-**

During 2009, 2008 and 2007 gains / (losses) from forward exchange contracts amounted to $(95,033), $(641,159) and $96,619, respectively. These gains and losses were included in "Foreign currency exchange, net" line in consolidated statements of income.

14 NON-CONTROLLING INTEREST

Change in non-controlling interest of Maxi-Group companies

In June 2009, the Parent Company acquired through a public auction for $44,572 interests of between 32% and 100% in three companies controlled by Maxi-Group.

In accordance with the Russian legislation concerning pledges and pledge contracts terms, the auction was conducted by an independent organizer in order to discharge Maxi-Group subsidiaries' pledge obligations under its loans taken prior to the date of acquisition (Note 22(c)). The auction's starting price was determined by an independent appraiser.

In July 2009, the Parent Company acquired for $7,185 an additional interest of 25% in one of the abovementioned Maxi-Group companies and as a result increased its direct interest in this subsidiary to a controlling stake.

As a result of these transactions between Group companies, there was an increase of non-controlling interest by $25,290 with a corresponding decrease in the additional paid-in capital.

The above acquisitions were carried out for the purpose of more efficient management of the assets.

In July 2009, a non-controlling shareholder of Maxi-Group initiated legal proceedings to contest the results of the public auction, for which a court has subsequently made a judgment to refuse the stated claims (Note 26(b)).

Following the adoption of ASC No. 810 the non-controlling interest in consolidated subsidiaries was attributed its share of losses which resulted in a deficit in the non-controlling interest position (i.e., the net assets of partially owned subsidiaries attributed to the non-controlling interest stake were in a deficit position). The Group evaluated that, for the year ended December 31, 2009, consolidated net income attributable to the Parent Company would have been $111,078 and basic net income per share of common stock would have been $0.0185 dollars had the requirements prior to the adoption of ASC No. 810 been applied.

15 STOCKHOLDERS' EQUITY

(a) Stock

As at December 31, 2009, 2008 and 2007, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the annual stockholders' meeting.

(b) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at a General Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. As at December 31, 2009, 2008 and 2007, the retained earnings of the Parent Company, available for distribution in accordance with the legislative requirements of the Russian Federation, amounted to $8,154,649, $7,551,800 and $6,972,850, converted into US dollars using exchange rates at December 31, 2009, 2008 and 2007, respectively.

The dividend policy, which was approved by the General Shareholders' Meeting on June 6, 2006, provides for a minimum annual dividend payment of at least 20% of annual net income and sets an objective of reaching an average rate of dividend payments during the five-year cycle of at least 30% of net income, both determined in accordance with US GAAP.

(thousands of US dollars)

15 STOCKHOLDERS' EQUITY (continued)

No dividends were declared by the Parent Company for the year ended December 31, 2009.

In June 2009, the Parent Company declared dividends for the year ended December 31, 2008 of 2 Russian rubles per share for the total of $471,338 (at the historical rate), including interim dividends for the six months ended June 30, 2008 of 2 Russian rubles per share, declared in September 2008. Dividends payable amounted to $2,574 at December 31, 2009 (Note 10).

In June 2008, the Parent Company declared dividends for the year ended December 31, 2007 of 3 Russian rubles per share for the total of $737,682, including interim dividends for the six months ended June 30, 2007 of 1.5 Russian ruble per share for the total of $360,142. Dividends payable amounted to $4,859 at December 31, 2008 (Note 10).

In September 2007 the Parent Company declared interim dividends for the six months ended June 30, 2007 of 1.5 Russian ruble per share for the total of $360,142. Dividends payable amounted to $4,877 at December 31, 2007 (Note 10).

In June 2007, the Parent Company declared dividends for the year ended December 31, 2006 of 3 Russian rubles per share for the total of $683,267, including interim dividends for the six months ended June 30, 2006 of 1.5 Russian ruble per share for the total of $336,072.

16 DISPOSALS OF ASSETS

(a) Disposal of TMTP Group

In December 2008, the Parent Company reached an agreement to sell, to an entity under common control, its full controlling share (69.41%) in OJSC TMTP and its subsidiaries (TMTP) for a total consideration of $258,182 (as at the date of payment). The transaction was closed in January 2009. An after-tax gain on this transaction of $85,345 was recognized by the Group, and included within the "Disposal of assets to an entity under common control" line in the consolidated statements of stockholders' equity and comprehensive income for the year ended December 31, 2009.

Management of the Group plans to continue to use the shipping services provided by TMTP. Accordingly, operations of TMTP until the date of disposal in these consolidated financial statements are reflected within continuing operations of the Group within other segments.

The carrying amounts of the major classes of assets and liabilities of TMTP as at the date of disposal are as follows (in relation to the 100% stake):

Current assets	37,329
Non-current assets, including goodwill	182,558
Total assets	**219,887**
Current liabilities	(12,676)
Non-current liabilities	(5,254)
Total liabilities	**(17,930)**
Net assets	**201,957**

Information on TMTP's transactions for January 2009 is as follows:

Sales revenue	6,006
Net income	2,976

This transaction was carried out in line with the earlier announced strategy of the Group's further development. In accordance with a resolution passed by the Board of Directors in February 2006, the interest in OJSC TMTP and its subsidiaries was classified as a non-core asset.

(thousands of US dollars)

16 DISPOSALS OF ASSETS (continued)

(b) Disposal of a subsidiary bank

In June 2007, the Group completed the sale, to a related party (OJSC Bank Zenit) (Note 25(c)), of its full share in OJSC Lipetskcombank (54.88%) for a total consideration of $47,662. A pre-tax gain on this transaction of $24,097 was recognized by the Group, and included within the "Gain from disposal of subsidiaries" line in the consolidated statement of income for the year ended December 31, 2007.

The carrying amounts of the major classes of assets and liabilities of OJSC Lipetskcombank at June 29, 2007 are as follows (in relation to a 100% stake):

Current assets	509,508
Non-current assets	86,031
Total assets	**595,539**
Current liabilities	(507,642)
Non-current liabilities	(44,759)
Total liabilities	**(552,401)**
Net assets	**43,138**

Information on OJSC Lipetskcombank transactions, for the period from January 1, 2007 to June 29, 2007 is as follows:

Income	33,823
Net loss	(237)

This transaction was carried out in line with the previously announced strategy of the Group's further development. In accordance with a resolution passed by the Board of Directors in February 2006, the interest in OJSC Lipetskcombank was classified as a none-core asset.

(c) Disposal of Prokopyevskugol group

In April 2007, a subsidiary of the Parent Company – Kuzbass Asset Holdings Limited – sold to MUE Municipal Sustenance Department, owned by the Administration of Prokopyevsk (Kemerovo Region), the Group's coal producing companies, the Prokopyevskugol group, for one US dollar. A pre-tax gain on this transaction of $57,577 was recognized by the Group, and included in "Gain from disposal of subsidiaries" line.

Due to the high level of production cost at those companies and the inability of the Group to significantly cut costs without closing down loss-making mines and operations and, hence, implement personnel lay offs the Group took a decision to sell the Prokopyevskugol group. Given the fact that proper attention to social aspects is a key issue of such restructuring, the Group management accepted the offer referred to above.

During 2006, the Parent Company granted an interest-free loan to Prokopyevskugol group companies in the total amount of approximately $140,000. In February 2007, the Parent Company assigned its rights under the loan to a third party for a total amount of $30,000. In March 2007, the third party waived its right to claim the loan from Prokopyevskugol group entirely (a related income tax effect of $33,413 was accrued by the Group and included in the "Income tax" line). A net pre-tax gain on this operation of $30,028 was recognized by the Group, and included within the "Other expenses, net" line.

(thousands of US dollars)

16 DISPOSALS OF ASSETS (continued)

The carrying amounts of the major classes of assets and liabilities of Prokopyevskugol group companies at April 2, 2007 were as follows (in relation to 100% stake):

Current assets	44,364
Non-current assets	114,401
Total assets	**158,765**
Current liabilities	(40,947)
Non-current liabilities	(175,395)
Total liabilities	**(216,342)**
Negative net assets	**(57,577)**

Information on the Prokopyevskugol group companies' transactions, before intercompany eliminations, for the period from January 1, 2007 to April 2, 2007 is as follows:

Sales revenue	37,865
Net income (including gain, less tax, on entire waiving by a third party of the right to claim the loan totaled $106,400)	74,412

(d) Disposal of energy assets

In February 2007, the Parent Company completed the sales to a company under common control of its full controlling interest in LLC Lipetskaya municipal energy company (51.00%) and non-controlling interests in several other investees for $78,469.

The carrying amounts of the major classes of assets and liabilities of LLC Lipetskaya municipal energy company and its subsidiary at February 28, 2007 were as follows (in relation to 100% stake):

Current assets	22,663
Non-current assets	7,067
Total assets	**29,730**
Current liabilities	(18,058)
Total liabilities	**(18,058)**
Net assets	**11,672**

Information on LLC Lipetskaya municipal energy company and its subsidiary transactions, for the two months ended February 28, 2007 is as follows:

Sales revenue	28,860
Net income (less income tax of $486)	2,403

These transactions were carried out in line with the Group's strategic development planned for 2007 to 2011. In accordance with a resolution passed by the Board of Directors in February 2006, the interests in the energy companies were classified as none-core assets.

17 EARNINGS PER SHARE

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	215,055	2,278,741	2,247,283
Basic and diluted net income per share (US dollars)	**0.0359**	**0.3802**	**0.3750**

Basic net income per share of common stock is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the reporting period, after giving retroactive effect to any stock splits.

The average shares outstanding for the purposes of basic and diluted earnings per share information was 5,993,227,240 for the years ended December 31, 2009, 2008 and 2007.

The Parent Company does not have potentially dilutive shares outstanding.

18 INCOME TAX

	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
Current income tax expense	147,341	962,920	799,078
Deferred income tax expense / (benefit):			
origination and reversal of temporary differences	34,443	(259,446)	37,925
Total income tax expense	**181,784**	**703,474**	**837,003**

The corporate income tax rate applicable to the Group is predominantly 20%, prior to January 1, 2009 it was 24%.

In 2009, the Group recognized a net consolidated income tax expense of $181,784. In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current taxable profits and tax liabilities of other Group companies and, accordingly, net taxes may accrue even where there is a consolidated tax loss. Included in the income tax expense in 2009, is $127,950 of income tax benefits related to the tax losses of certain subsidiaries of the Group. The Group's management believes there is positive evidence to support the realizability of the deferred income tax assets.

Income before income tax is reconciled to the income tax expense as follows:

	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
Income from continuing operations before income tax	594,739	3,131,697	3,156,827
Income tax at applicable tax rate	118,948	751,607	757,638
Decrease in income tax resulting from:			
changing from 9% to 0% of the tax rate applicable to income received in form of dividends since January 1, 2008	-	(77,911)	-
changing from 24% to 20% of the income tax rate from January 1, 2009	-	(64,336)	-
Increase in income tax resulting from:			
non-deductible expenses and unrecognized tax assets	62,836	94,114	79,365
Total income tax expense	**181,784**	**703,474**	**837,003**

(thousands of US dollars)

18 INCOME TAX (continued)

The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities are presented below:

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Deferred tax assets			
Accounts payable and other liabilities	75,296	108,433	23,160
Non-current liabilities	33,940	30,615	64,367
Accounts receivable	11,334	17,254	5,349
Net operating loss and credit carryforwards (expiring in 2011-2029)	171,183	-	-
Other	-	11,439	2,881
Less: valuation allowance	(41,566)	-	-
	250,187	167,741	95,757
Deferred tax liabilities			
Property, plant and equipment	(514,911)	(399,681)	(507,459)
Intangible assets	(26,375)	(28,099)	(46,788)
Inventories	(6,777)	(27,016)	(21,338)
Other	(16,467)	(9,820)	(105,739)
	(564,530)	(464,616)	(681,324)
Total deferred tax liability	**(314,343)**	**(296,875)**	**(585 567)**

The amount of net operating losses that can be utilized each year is limited under the Group's different tax jurisdictions. The Group established a valuation allowance against certain deferred tax assets. The Group regularly revaluates assumptions underlying its assessment of the realizability of its deferred tax assets and makes adjustments to the extent necessary.

19 CAPITAL AND OPERATIONAL LEASES

	Capital leases
Future minimum lease payments	
2010	74,362
2011	59,524
2012	53,814
2013	42,339
2014	37,179
Remainder	45,745
Total minimum lease payments	**312,963**
Less: amount representing estimated executory costs (including taxes payable by the lessor) and profit thereon, included in total minimum lease payments	(16,540)
Net lease payments	**296,423**
Less: amount representing interest	(77,086)
Present value of minimum lease payments	**219,337**
Short-term capital lease liability, including advances given	(47,907)
Less: advances given	17,524
Short-term capital lease liability	(30,383)
Long-term capital lease liability, including advances given	171,430
Less: advances given	(33,838)
Long-term capital lease liability	**137,592**

(thousands of US dollars)

19 CAPITAL AND OPERATIONAL LEASES (continued)

The average capital lease contracts term is 6 years.

The discount rate used for calculation of the present value of the minimum lease payments for assets received in 2009, 2008 and 2007 varied from 10.5% to 13.5%.

Capital lease charges of $23,179, $12,867 and $6,333 were recorded in the consolidated statement of income for the years ended December 31, 2009, 2008 and 2007, respectively.

The majority of the fixed assets held under the capital lease arrangements as at December 31, 2009 were acquired by the Group through a business combination (Note 22(c)) or are owned by the Group company providing the transportation services.

At December 31, 2009, 2008 and 2007, net book value of the machinery, equipment and vehicles held under the capital lease arrangements was:

	As at December 31, 2009	As at December 31, 2008	As at December 31, 2007
Machinery and equipment	120,004	139,643	323,126
Vehicles	208,200	170,891	134,065
	328,204	310,534	457,191
Accumulated depreciation	(57,282)	(44,501)	(39,432)
Net book value of property, plant and equipment obtained under capital lease arrangements	**270,922**	**266,033**	**417,759**

The Group incurred expenses in respect of operational leases of $3,408, $2,582 and $11,251 in 2009, 2008 and 2007, respectively.

20 NON-CASH TRANSACTIONS

Approximately $57,500, $86,800 and $74,000 of the Group's 2009, 2008 and 2007 revenues, respectively, were settled in the form of mutual offset against the liability to pay for goods supplied.

Prices for goods sold and purchased through non-cash settlement arrangements are fixed in the respective contracts and generally reflect current market prices.

In 2009, 2008 and 2007 the Group acquired equipment and vehicles under capital lease arrangements with the right to buy out leased assets upon completion of the underlying agreements. The amount of capital lease liabilities incurred during the years ended December 31, 2009, 2008 and 2007, were $83,186, $107,793 and $448,731, respectively.

21 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

The Group's management believes that the carrying values of cash, trade and other receivables, trade and other payables (excluding forward contracts – Note 13), and short-term loans approximate to a reasonable estimate of their fair value due to their short-term maturities. The fair value of investments and notes receivable, excluding equity method investments, is defined using Level 2 inputs, which include interest rates for similar instruments in active market. Fair values for these investments are determined based on discounted cash flows and approximate their book values. The fair value of long term debt is based on current borrowing rates available for financings with similar terms and maturities and approximates its book value.

The fair values of trading and available-for-sale securities are based on quoted market prices for these or similar instruments.

(thousands of US dollars)

22 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS

(a) Acquisition of Beta Steel Corp. shares

In October 2008, the Group acquired a 100% of interest in Beta Steel Corp. The acquired company was consolidated by the Group for the first time as at the effective date of obtaining control, which management considers to be October 2008. The initial amount paid to the sellers was $190,442. The remaining amount of the purchase price totaled $161,023 was paid to certain banks as repayments of Beta Steel Corp.'s loans in accordance with the share-purchase agreement provisions.

The acquisition of Beta Steel Corp. was made as a part of the Group's strategy of product diversification and increasing sales of finished products in its core markets.

The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraiser. The resulting goodwill primarily reflects the control premium paid for the acquisition:

Current assets	60,356
Intangible assets	15,900
Property, plant and equipment	301,591
Other non-current assets	36
Goodwill	35,727
Total assets acquired	**413,610**
Current liabilities	(52,075)
Non-current liabilities	(269)
Deferred income tax liability	(9,801)
Total liabilities assumed	**(62,145)**
Net assets acquired	**351,465**
Less: cash acquired	(3,308)
Net assets acquired, net of cash acquired	**348,157**

The revenues and net loss of Beta Steel Corp. in 2008 were $404,848 and $(45,882), respectively.

(b) Acquisition of international traders

In December 2007, the Group reached an agreement to acquire 100% of the shares in trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A., which from December 2007 conduct the business previously operated by Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus, and Tuscany Intertrade (UK) (Note 24(c)). The acquired companies were consolidated by the Group for the first time as at the effective date of obtaining control, which management considers to be May 2008. The amount paid to the seller was $119,935.

This acquisition is in line with the Group's strategy to establish an international trading structure. This acquisition will also give the Group better control over export sales and further enhance its presence in core markets.

As both companies were acquired within one share-purchase agreement and share a single client base as their main asset, the Group's management believes that it is more practical to disclose the information on assets and liabilities of the acquired entities in the consolidated format.

The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with ASC No. 805. Property, plant and equipment and intangible assets were recorded at fair values:

(thousands of US dollars)

22 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

Current assets	866,137
Intangible assets	89,910
Other non-current assets	109
Goodwill	2,055
Total assets acquired	**958,211**
Current liabilities	(838,276)
Total liabilities assumed	**(838,276)**
Net assets acquired	**119,935**
Less: cash acquired	(417,840)
Net assets acquired, net of cash acquired	**(297,905)**

The revenues and net income of Novex Trading (Swiss) S.A. and Novexco (Cyprus) Ltd. in 2008 were $4,978,904 and $4,475, respectively.

In the course of initially conducted consolidation of international traders one-off change in the Group's operating assets and liabilities has occurred with the reflection of corresponding effects in operating activities in consolidated statement of cash flow.

(c) Acquisition of OJSC Maxi-Group shares

In November 2007, the Parent Company entered into a binding agreement and a shareholder agreement in relation to the acquisition of a controlling stake in Maxi-Group as well as agreements granting short-term loans (secured by a pledge of shares in companies of Maxi-Group) of $398,152, half of which was granted before the acquisition date.

In December 2007, in accordance with the terms of the agreement the Parent Company acquired a 50% plus one share interest in Maxi-Group. In accordance with the formula defined in the share purchase agreement, the Group has estimated a preliminary purchase price of $558,515 as at the date of obtaining control and accrued the corresponding liability as at December 31, 2007 (Note 10). In January 2008, the Parent Company paid $299,928 of the purchase price (translated at the exchange rate at the date of payment). The final payment between the parties was required after completion of the Maxi-Group due diligence process and finalization of the corresponding price adjustment.

Considering that the one-year deadline to settle the purchase price allocation passed in December 2008, the Group's management prepared its best estimate of the Maxi-Group shares purchase price as at this date of $299,088 (as at the date of transfer of the ownership). Thereafter, as stipulated by the binding agreement, the Parent company carried out due diligence of Maxi-Group, based on which it calculated a downward adjustment to the purchase price and in December 2009 requested the seller to return the overpaid amount.

The purchase price negotiation has not been finalized and as the parties failed to reach an agreement, they applied to the International Commercial Arbitration Court by the Chamber of Commerce and Industry of the Russian Federation (hereinafter, ICA Court), which under the terms of the binding agreement was determined as the party to be applied to for the purpose of settlement of any differences regarding the purchase price (Note 26(b)).

The acquired companies were consolidated for the first time as at the transfer of the ownership date of Maxi-Group's shares, which management considers to be December 2007.

This acquisition is in line with the Group's strategy to expand its operations in the Russian market. The acquisition will give the Group a significant share of the domestic long products market and lead to full self-sufficiency in steel scrap.

(thousands of US dollars)

22 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

The Group completed the best estimated purchase price allocation determined as at the date of one-year deadline to finalise the purchase price allocation, including assessment of fair value of property, plant and equipment, intangible assets and tax, legal, environmental and other contingencies. The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraiser. The resulting goodwill primarily reflects the control premium paid for the acquisition:

Current assets	561,301
Property, plant and equipment	1,936,953
Other non-current assets	531
Goodwill	281,183
Total assets acquired	**2,779,968**
Current liabilities	(1,154,228)
Non-current liabilities	(1,277,623)
Deferred income tax liability	(29,729)
Total liabilities assumed	**(2,461,580)**
Non-controlling interest	(19,300)
Net assets acquired	**299,088**
Less: cash acquired	(25,047)
Net assets acquired, net of cash acquired	**274,041**

(d) Other acquisitions

In 2008, the Parent Company made a number of immaterial acquisitions of stock in existing (OJSC Stoilensky GOK, OJSC Altai-Koks, OJSC StAGDoK, OJSC Dolomit and LLC Vtormetsnab NLMK) and new subsidiaries (OJSC VIZ and CJSC Vtorchermet) for the total consideration of $170,383 and recorded goodwill of $43,188 on existing and $16,991 on new subsidiaries (Note 9(a)).

23 SEGMENTAL INFORMATION

The Group has four reportable business segments: steel, long products, mining and coke-chemical. These segments are combinations of subsidiaries, have separate management teams and offer different products and services. The above four segments meet criteria for reportable segments. Subsidiaries are consolidated by the segment to which they belong based on their products and management.

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to three operating segments of the Group. Those segments include the trade seaport services business (Note 16(a)), insurance and other services. None of these segments has met any of the quantitative thresholds for determining a reportable segment. The amount of investments in equity method investee and equity in net losses of associates are included in steel segment (Note 5(a)). Rendering banking services and operations on coal mining and refining were ceased in the first half of 2007.

The Group's management determines intersegmental sales and transfers, as if the sales or transfers were to third parties. The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income from continuing operations, net of income tax.

Segmental information for the year ended December 31, 2009 is as follows:

(thousands of US dollars)

23 SEGMENTAL INFORMATION (continued)

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	5,305,187	572,476	84,997	171,963	5,272	6,139,895	-	6,139,895
Intersegment revenue	98,911	309,984	430,457	330,286	41	1,169,679	(1,169,679)	-
Depreciation and amortization	(293,106)	(72,504)	(81,232)	(30,475)	(800)	(478,117)	-	(478,117)
Gross profit	**1,587,058**	**51,844**	**216,904**	**100,362**	**2,330**	**1,958,498**	**31,035**	**1,989,533**
Operating income / (loss)	**785,032**	**(141,753)**	**159,780**	**60,394**	**1,410**	**864,863**	**27,058**	**891,921**
Interest income	183,933	2,797	11,802	329	1,196	200,057	(140,324)	59,733
Interest expense	(83,621)	(226,598)	(33)	(973)	(4)	(311,229)	140,324	(170,905)
Income tax	(148,326)	21,612	(27,346)	(18,021)	(806)	(172,887)	(8,897)	(181,784)
Income / (loss) from continuing operations, net of income tax	**1,239,668**	**(400,638)**	**140,376**	**40,361**	**2,454**	**1,022,221**	**(609,266)**	**412,955**
Segment assets, including goodwill	10,543,461	2,104,795	1,000,955	752,724	41,729	14,443,664	(1,941,720)	12,501,944
Capital expenditures	(857,859)	(180,828)	(79,718)	(2,322)	(50)	(1,120,777)	-	(1,120,777)

Segmental information for the year ended December 31, 2008 is as follows:

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	9,642,940	1,178,185	62,886	731,816	82,834	11,698,661	-	11,698,661
Intersegment revenue	242,685	658,485	870,296	415,416	6,324	2,193,206	(2,193,206)	-
Depreciation and amortization	(285,171)	(81,279)	(77,494)	(40,353)	(14,697)	(498,994)	-	(498,994)
Gross profit	**4,039,891**	**532,428**	**611,798**	**202,639**	**41,551**	**5,428,307**	**(37,420)**	**5,390,887**
Operating income	**3,227,065**	**177,421**	**548,473**	**88,364**	**31,278**	**4,072,601**	**(11,281)**	**4,061,320**
Interest income	124,327	3,734	61,580	210	3,919	193,770	(93,532)	100,238
Interest expense	(105,624)	(201,483)	(117)	(3,551)	(27)	(310,802)	93,532	(217,270)
Income tax	(500,876)	(48,475)	(126,615)	(23,377)	(11,953)	(711,296)	7,822	(703,474)
Income / (loss) from continuing operations, net of income tax	**2,820,445**	**(206,813)**	**485,025**	**84,965**	**21,793**	**3,205,415**	**(777,192)**	**2,428,223**
Segment assets, including goodwill	10,319,824	2,253,124	1,400,030	1,022,413	187,861	15,183,252	(1,118,724)	14,064,528
Capital expenditures	(1,380,306)	(388,060)	(122,193)	(8,595)	(35,120)	(1,934,274)	-	(1,934,274)

(thousands of US dollars)

23 SEGMENTAL INFORMATION (continued)

Segmental information for the year ended December 31, 2007 is as follows:

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	6,946,050	62,262	105,442	517,308	87,999	7,719,061	-	7,719,061
Intersegment revenue	24,432	-	783,422	167,408	41,904	1,017,166	(1,017,166)	-
Depreciation and amortization	(265,335)	(4,177)	(80,306)	(40,460)	(17,421)	(407,699)	-	(407,699)
Gross profit	**2,891,787**	**8,792**	**588,204**	**205,744**	**48,583**	**3,743,110**	**(1,079)**	**3,742,031**
Operating income	**2,362,820**	**1,555**	**523,245**	**113,563**	**4,744**	**3,005,927**	**(7,556)**	**2,998,371**
Interest income	30,173	6,914	51,292	-	18,530	106,909	(7,158)	99,751
Interest expense	(11,177)	(16,023)	(378)	(4,270)	(6,727)	(38,575)	7,158	(31,417)
Income tax	(585,917)	(492)	(131,643)	(25,573)	(40,748)	(784,373)	(52,630)	(837,003)
Income / (loss) from continuing operations, net of income tax	**1,772,543**	**(31,752)**	**443,108**	**78,769**	**155,582**	**2,418,250**	**(98,426)**	**2,319,824**
Segment assets, including goodwill	7,904,615	2,898,515	1,953,223	1,034,930	328,219	14,119,502	(1,043,560)	13,075,942
Capital expenditures	(794,160)	(37,858)	(98,876)	(8,860)	(17,965)	(957,719)	-	(957,719)

The allocation of total revenue by territory is based on the location of end customers who purchased the Group's products from international traders (Note 24(c)) and the Group, for goods sold, and also based on the country of the customers' registration for services provided. The Group's total revenue from external customers by geographical area for the years ended December 31, 2009, 2008 and 2007, is as follows:

	For the year ended December 31, 2009	For the year ended December 31, 2008	For the year ended December 31, 2007
Russia	2,280,492	4,560,896	2,903,267
European Union	847,098	2,045,622	1,542,051
Middle East, including Turkey	1,301,566	1,952,551	1,122,438
North America	300,536	714,511	304,871
Asia and Oceania	1,225,460	1,785,518	995,709
Other regions	184,743	639,563	850,725
	6,139,895	**11,698,661**	**7,719,061**

Geographically, all significant assets, production and administrative facilities of the Group are substantially located in Russia, USA and Denmark.

24 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

Russian Federation

The Russian Federation's economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that in practice is not freely convertible in most countries outside the Russian Federation and relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian Federation market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there had been a significant decline in the Russian Federation stock market since mid-2008, which has only partially been recovered.

The effects of the global financial crisis continued to have a severe effect on the Russian economy in 2009, including lower income from exports, lower domestic demand and steep increase in financing costs.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Impact of the ongoing global financial and economic crisis

The ongoing global liquidity and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and higher interbank lending rates and very high volatility in stock and currencies markets. The uncertainty in the global financial market has also led to bank failures and bank rescues in the United States of America, European Union, the Russian Federation and other countries.

Such circumstances could affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions. Deteriorating operating conditions may also have an impact on cash flow management and assessment of the impairment of financial and non-financial assets.

The lower liquidity situation led to a reduction in demand for steel from ultimate customers and had a negative impact on debtors' ability to repay their debts on a timely basis.

Management believes it is taking all the necessary measures to support the sustainability and growth of the Group's business in the current circumstances.

(b) Convertibility of Russian ruble

Future movements in the exchange rate between the Russian ruble and the US dollar will affect the reported US dollar amounts related to the Russian ruble carrying values of the Group's assets and liabilities. Such movements may also affect the Group's ability to realize profitably assets presented in US dollars in these consolidated financial statements. Accordingly, any translation of ruble amounts to US dollars should not be construed as a representation that such ruble amounts have been, could be, or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate. Commencing in September 2008, the volatility in currency markets increased and in the fourth quarter of 2008 and the first quarter of 2009 the exchange rate of the Russian ruble to the US dollar substantially decreased. Subsequently, there has been a substantial recovery in the value of the Russian ruble.

(c) Commercial risks

The Group minimizes its sales risks by having a wide range of geographical zones for sales, which allows the Group to respond quickly to changes in the situation on one or more sales markets on the basis of an analysis of the existing and prospective markets.

(thousands of US dollars)

24 RISKS AND UNCERTAINTIES (continued)

The Group's sales outside the Russian Federation in monetary terms for the years ended December 31, 2009, 2008 and 2007 were 63%, 61% and 62% of the total sales, respectively.

The Group relies on export sales to generate foreign currency earnings. As the Group sells outside the Russian Federation a significant portion of its production, it is exposed to foreign currency risk as well as global economic and political risks.

The Group's future profitability and overall performance are strongly affected by the prices of ferrous metal products set in the international metal trading market that are subject to significant fluctuations.

Before May 2008 the Group used to sell to three international traders that accounted for the majority of its sales outside Russia (Note 22(b)). In 2007, Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus and Tuscany Intertrade (UK), purchased 40%, 23%, and 6% of the Group's sales outside Russia. Price fluctuations of sales to these companies were in line with general trends in global price fluctuations. The Group's prices for sales outside Russia were comparable to the prices of Russian competitors. As at December 31, 2007 1.02% of the share capital of the Parent Company was held by a company beneficially owned by the shareholders of these traders.

In 2007, Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. acquired the trading business of Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK) and Moorfield Commodities Company, UK. All business operations related to these trading companies and the client base of the abovementioned companies were transferred to the acquirers. In May 2008, the Group acquired 100% of the shares in trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. and consolidated them (Note 22(b)).

Price fluctuations of the Group's sales outside the Russian Federation are in line with general trends in global price fluctuations. The Group's prices for sales outside Russia are comparable to the prices of Russian competitors.

Due to its foreign currency denominated assets and liabilities, the Group is subject to the risk arising from foreign exchange rate fluctuations. The Group's objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes. The net foreign currency position as at December 31, 2009 is as follows:

	US dollar	Euro	Other currencies
Cash and cash equivalents	853,556	88,414	16,640
Accounts receivable and advances given	159,816	439,983	5,744
Investments	50,000	371,820	-
Accounts payable and other liabilities	(185,321)	(101,034)	(3,781)
Short-term borrowings	(419,355)	(3,986)	-
Long-term borrowings	(1,106,580)	(59,500)	-

25 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to ASC No. 850. Balances as at December 31, 2009, 2008 and 2007 and transactions for the years ended December 31, 2009, 2008 and 2007 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to an associate (SIF S.A.) and one of its subsidiaries were $483,546, $543,682 and $185,009 for the years ended December 31, 2009, 2008 and 2007, respectively. Sales to other related parties were $6,802, $24,074 and $7,358 for the years ended December 31, 2009, 2008 and 2007, respectively.

25 RELATED PARTY TRANSACTIONS (continued)

Related accounts receivable from associate (SIF S.A.) and its subsidiary equaled $145,243, $193,875 and $18,953 as at December 31, 2009, 2008 and 2007, respectively. Accounts receivable from other related parties equaled $690, $4,390 and $1,993 as at December 31, 2009, 2008 and 2007, respectively.

Purchases and services

Purchases from subsidiary of an associate (SIF S.A.) were $74,193 for the year ended December 31, 2008. There were no such purchases for the years ended December 31, 2009 and 2007. Purchases from the companies under common control, were $6,683, $8,063 and $7,151 for the years ended December 31, 2009, 2008 and 2007, respectively.

Accounts payable to subsidiary of an associate (SIF S.A.) were nil and $62,990 as at December 31, 2009 and 2008, respectively. Accounts payable to the related parties were $117, $18,154 and $27,958 as at December 31, 2009, 2008 and 2007, respectively.

(b) Financial transactions

In May 2007, the Parent Company issued a loan of 100 million Euro to its associate (SIF S.A.) for the purpose of financing the acquisition of its new subsidiary Sharon Coating LLC (former Winner Steel LLC). In November 2008, the loan was increased to 109 million Euro. In 2009 this loan was prolonged untill December 2018. In 2009, the Parent Company issued additional loans of 259 million Euro and 50 million US dollars to SIF S.A. and its subsidiary, maturing in 2010. The carrying amount of these loans, including interest accrued, is $589,542, $155,648 and $151,473 as at December 31, 2009, 2008 and 2007, respectively.

As at December 31, 2009, 2008 and 2007, the Group issued guarantees for SIF S.A. and its subsidiaries amounting to $201,942, $55,693 and nil, respectively. These guarantees are mostly issued in favor of banks.

Deposits and current accounts of the Group companies in banks under significant influence of the Group's management (OJSC Bank Zenit and OJSC Lipetskcombank) amounted to $108,722, $69,515 and $257,615 as at December 31, 2009, 2008 and 2007, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2009, 2008 and 2007 amounted to $1,899, $388 and $9,341, respectively.

The Group granted interest free loans to management in the total amount of nil, $250 and nil for the years ended December 31, 2009, 2008 and 2007, respectively. The aggregate amount of interest free loans granted to management outstanding as at December 31, 2009, 2008 and 2007 was $132, $204 and $151, respectively.

Agent fees paid to a company under significant influence of the Group's management for services connected with the purchase of shares in subsidiaries for the years ended December 31, 2009, 2008 and 2007 amounted to nil, $2,746 and $42, respectively (Note 22).

(c) Common control transfers and disposal of investments

In December 2008, the Parent Company reached an agreement to sell, to a company under common control, its full controlling share in OJSC TMTP for a total consideration of $258,182 (as at the date of payment) (Note 16(a)) and completed the disposal in January 2009.

In June 2007, the Parent Company sold, to a related party (OJSC Bank Zenit), all of its shareholding in a subsidiary bank for $47,662 and recorded income, less corresponding tax, of $15,895 on this transaction in the consolidated statement of income (Note 16(b)).

In February 2007, the Parent Company sold, to a common control company, its full interests in various energy companies for $78,683 and recorded net income of $50,583 on this transaction in additional paid-in capital.

25 RELATED PARTY TRANSACTIONS (continued)

(d) Contributions to non-governmental pension fund and charity fund

Total contributions to a non-governmental pension fund and charity fund amounted to $3,349, $4,786 and $12,363 in 2009, 2008 and 2007, respectively. The Group has no long-term commitments to provide funding, guarantees, or other support to the abovementioned funds.

(e) Outstanding balances with the related parties of Maxi-Group originated prior to acquisition by the Group

Accounts receivable

Accounts receivable less provision, including accounts receivable from the related parties of OJSC Maxi-Group acquired in a business combination, equaled $1,811, $7,397 and $37,116 as at December 31, 2009, 2008 and 2007, respectively.

Accounts payable

Accounts payable, including accounts payable from the related parties of OJSC Maxi-Group acquired in a business combination, were $32,897, $35,959 and $64,808 as at December 31, 2009, 2008 and 2007, respectively.

Financial settlements

Short-term loans issued amounted to $139, $2,715 and $4,093 as at December 31, 2009, 2008 and 2007, respectively.

As at December 31, 2009, 2008 and 2007, loans of nil, $50,204 and $339,469, respectively, were collateralized with guarantee letters and other guarantees issued by the related parties of OJSC Maxi-Group.

Short-term and long-term loans received amounted to $86, $446 and $23,406 as at December 31, 2009, 2008 and 2007, respectively.

(f) Outstanding balances with non-controlling shareholder of Maxi-Group

Short-term loans received from the non-controlling shareholder of Maxi-Group amounted to $53,529 and $48,463 as at December 31, 2009 and 2008, respectively.

As at December 31, 2007, the Group had preliminary estimated accounts payable of $555,578, to non-controlling shareholder of OJSC Maxi-Group in respect of the purchase from him of his shares in OJSC Maxi-Group, which is included in other accounts payable (Note 10).

26 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

The Group’s export trading activities are subject to from time to time compliance reviews of importers’ regulatory authorities. The Group’s export sales were considered within several anti-dumping investigation frameworks. The Group takes steps to address negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts coordinated through the Russian authorities. No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying consolidated financial statements.

26 COMMITMENTS AND CONTINGENCIES (continued)

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Group believes that any ultimate liability resulting from these legal actions will not significantly affect its financial position or results of operations, and no amount has been accrued in the accompanying consolidated financial statements.

In July 2009 the Parent Company and OJSC Maxi-Group received a claim filed in a court in Russia from the Maxi-Group's non-controlling shareholder to invalidate and reverse the results of the public auction through which NLMK acquired shares in companies, controlled by Maxi-Group (Note 14). Subsequently in November 2009 a Russian court of the first instance adjudicated against the claim from the Maxi-Group's non-controlling shareholder and an appellate court upheld this decision. Accordingly, no adjustments in relation to this claim were made in these consolidated financial statements.

In January 2010 the Parent Company received a claim from the non-controlling shareholder of OJSC Maxi-Group filed with the ICA Court to enforce the additional payment by the Parent Company for the shares of OJSC Maxi-Group in accordance with the binding agreement. This claim is based on the non-controlling shareholder's interpretation of the binding agreement. In February 2010, as a result of due diligence of Maxi-Group entities, the Parent Company filed a counter-claim to ICA Court seeking collection from the non-controlling shareholder of OJSC Maxi-Group of excessively paid amounts for the acquired shares. Management of the Group believes that the probability of an unfavourable outcome for the Group in relation to the non-controlling shareholder's claim is remote. No adjustments related to these claims were made in these consolidated financial statements.

In August 2008, the Group announced that it had reached a definitive agreement (the "Merger Agreement") to acquire the U.S. steel pipe and tube manufacturer John Maneely Company ("JMC") for approximately $3.53 billion (gross purchase price assuming no debt and cash).

On October 15, 2008 a lawsuit was brought against NLMK by DBO Holdings Inc., the parent company of JMC. The lawsuit was filed in the United States District Court for the Southern District of New York. It alleged that NLMK breached the terms of the Merger Agreement and sought to obtain damages in an amount to be determined at a trial, an order to compel NLMK to fulfill its obligations under the Merger Agreement, and an award of costs and such other relief as the court may grant. On November 13, 2008 NLMK terminated the Merger Agreement and subsequently settled the dispute.

In March 2009, NLMK and DBO Holdings Inc. signed a settlement agreement with respect to their dispute concerning NLMK's abandoned acquisition of John Maneely Company, which provided for the full mutual release and discharge by the parties arising from the potential transaction and payment to DBO Holdings Inc. an amount of $234 million. This amount was fully paid to DBO Holdings Inc. in March 2009.

(c) Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore there are no significant liabilities for environmental damage or remediation.

(d) Insurance

To minimize its risks the Group has voluntary insurance contracts to insure property, plant and equipment, land transport and aircraft as well as certain type of cargo and purchased accident and health insurance, and medical insurance for employees, and directors and officers liability insurance (D&O). The Group also purchases operating entities civil liability coverage for dangerous production units.

26 COMMITMENTS AND CONTINGENCIES (continued)

(e) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $1,678,660, $1,510,813 and $1,635,623 as at December 31, 2009, 2008 and 2007, respectively.

(f) Social commitments

The Group makes contributions to mandatory and voluntary social programs. The Group's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Group's employees. The Group has transferred certain social operations and assets to local authorities, however, management expects that the Group will continue to fund certain social programs through the foreseeable future. These costs are recorded in the period they are incurred.

(g) Tax contingencies

Russian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at December 31, 2009, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

(h) Financial guarantees issued

As at December 31, 2009, 2008 and 2007, the Group has issued guarantees amounting to $214,148, $67,058 and $118,619, respectively, which equals to their maximum potential amount of future payments. Most of these guarantees were issued for related parties (Note 25(b)). No amount has been accrued in these consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

27 SUBSEQUENT EVENTS

In January 2010 the Parent Company received a copy of a claim filed by the Maxi-Group's non-controlling shareholder (Note 26(b)).

In March 2010 the Parent Company issued bonds with a nominal value of 1,000 Russian rubles per each bond (total value of 10 billion Russian rubles), with a maturity period of 1092 days and a coupon rate of 7.75% per annum.

In March 2010 Board of Directors of the Parent Company approved a decision to issue bonds with a total value of 50 billion Russian rubles and a maturity period of 10 years.

The Group has performed an evaluation of subsequent events through the date of approval of the consolidated financial statements which is also the date that they are available to be issued.