Evraz Group S.A.

Consolidated Financial Statements

Year Ended December 31, 2009

Evraz Group S.A.

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Year ended December 31, 2009

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Independent auditors' report

To Shareholders and Board of Directors
Evraz Group S.A.

We have audited the accompanying consolidated financial statements of Evraz Group S.A. and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Ernst & Young LLC

March 29, 2010

Evraz Group S.A.

Consolidated Statement of Operations

(In millions of US dollars, except for per share information)

	Notes	2009	2008*	2007
		Year ended December 31,		
Revenue				
Sale of goods	**3**	**$ 9,505**	$ 19,990	$ 12,627
Rendering of services	**3**	**267**	390	232
		9,772	20,380	12,859
Cost of revenue	**7**	**(8,756)**	(13,463)	(7,976)
Gross profit		**1,016**	6,917	4,883
Selling and distribution costs	**7**	**(623)**	(856)	(538)
General and administrative expenses	**7**	**(645)**	(895)	(682)
Social and social infrastructure maintenance expenses		**(53)**	(114)	(82)
Loss on disposal of property, plant and equipment		**(81)**	(37)	(26)
Impairment of assets	**5, 9, 10**	**(163)**	(880)	(7)
Revaluation deficit on property, plant and equipment	**9**	**(564)**	–	–
Foreign exchange gains/(losses), net		**156**	(471)	(55)
Other operating income		**38**	28	14
Other operating expenses	**7**	**(128)**	(60)	(39)
Profit/(loss) from operations		**(1,047)**	3,632	3,468
Interest income	**7**	**40**	57	41
Interest expense	**7**	**(677)**	(655)	(409)
Share of profits/(losses) of joint ventures and associates	**11, 13**	**(8)**	194	88
Gain/(loss) on financial assets and liabilities, net	**7**	**97**	(129)	(71)
Gain/(loss) on disposal groups classified as held for sale, net	**12**	**(19)**	(43)	(6)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**4**	**10**	–	10
Other non-operating gains/(losses), net		**4**	(5)	4
Profit/(loss) before tax		**(1,600)**	3,051	3,125
Income tax benefit/(expense)	**8**	**339**	(1,192)	(946)
Net profit/(loss)		**$ (1,261)**	$ 1,859	$ 2,179
Attributable to:				
Equity holders of the parent entity		**$ (1,251)**	$ 1,797	$ 2,103
Minority interests		**(10)**	62	76
		$ (1,261)	$ 1,859	$ 2,179
Earnings/(losses) per share:				
basic, for profit/(loss) attributable to equity holders of the parent entity, US dollars	**20**	**$ (9.30)**	$ 14.55	$ 17.62
diluted, for profit/(loss) attributable to equity holders of the parent entity, US dollars	**20**	**$ (9.30)**	$ 14.50	$ 17.49

* The amounts shown here do not correspond to the 2008 financial statements and reflect adjustments made in connection with the completion of initial accounting (Note 4).

The accompanying notes form an integral part of these consolidated financial statements.

Evraz Group S.A.

Consolidated Statement of Comprehensive Income

(In millions of US dollars)

	Notes	Year ended December 31, 2009	2008*	2007
Net profit/(loss)		**$ (1,261)**	$ 1,859	$ 2,179
Other comprehensive income				
Effect of translation to presentation currency		**6**	(2,288)	510
Net gains/(losses) on available-for-sale financial assets *(Note 13)*		**12**	(150)	–
Net (gains)/losses on available-for-sale financial assets reclassified to profit or loss *(Notes 7 an 13)*		**(8)**	150	–
Income tax effect		–	–	–
		4	–	–
Deferred income tax benefit resulting from reduction in tax rate recognised in equity		–	7	–
Surplus on revaluation of property, plant and equipment of the Group's subsidiaries	**3, 9**	**7,901**	–	–
Deficit on revaluation of property, plant and equipment recognised in other comprehensive income	**3, 9**	**(38)**	–	–
Decrease in revaluation surplus in connection with the impairment of property, plant and equipment	**3, 9**	**(98)**	–	–
Impairment losses reversed through other comprehensive income	**3, 9**	**55**	–	–
Income tax effect	**8**	**(1,653)**	–	–
		6,167	–	–
Surplus on revaluation of property, plant and equipment of the Group's joint ventures and associates	**11**	**66**	–	–
Effect of translation to presentation currency	**11**	**(13)**	(116)	56
Share of other comprehensive income of joint ventures and associates accounted for using the equity method		**53**	(116)	56
Revaluation surplus on acquisition of a controlling interest in associates (Note 4)		–	–	280
Income tax effect		–	–	(69)
		–	–	211
Total other comprehensive income/(loss)		**6,230**	(2,397)	777
Total comprehensive income/(loss), net of tax		**$ 4,969**	(538)	$ 2,956
Attributable to:				
Equity holders of the parent entity		**$ 4,889**	(522)	$ 2,871
Minority interests		**80**	(16)	85
		$ 4,969	$ (538)	$ 2,956

* The amounts shown here do not correspond to the 2008 financial statements and reflect adjustments made in connection with the completion of initial accounting (Note 4).

The accompanying notes form an integral part of these consolidated financial statements.

Evraz Group S.A.

Consolidated Statement of Financial Position

(In millions of US dollars)

	Notes	December 31, 2009	2008*	2007
ASSETS				
Non-current assets				
Property, plant and equipment	**9**	**$ 14,941**	$ 9,012	$ 10,107
Intangible assets other than goodwill	**10**	**1,098**	1,108	806
Goodwill	**5**	**2,211**	2,167	2,145
Investments in joint ventures and associates	**11**	**687**	551	592
Deferred income tax assets	**8**	**40**	44	22
Other non-current financial assets	**13**	**66**	118	93
Other non-current assets	**13**	**128**	160	147
		19,171	13,160	13,912
Current assets				
Inventories	**14**	**1,886**	2,416	1,619
Trade and other receivables	**15**	**1,001**	1,369	1,802
Prepayments		**134**	76	196
Loans receivable		**1**	108	48
Receivables from related parties	**16**	**107**	137	60
Income tax receivable		**58**	262	86
Other taxes recoverable	**17**	**258**	397	351
Other current assets	**18**	**120**	589	25
Cash and cash equivalents	**19**	**675**	930	327
		4,240	6,284	4,514
Assets of disposal groups classified as held for sale	**12**	**13**	7	211
		4,253	6,291	4,725
Total assets		**$ 23,424**	$ 19,451	$ 18,637
EQUITY AND LIABILITIES				
Equity				
Equity attributable to equity holders of the parent entity				
Issued capital	**20**	**$ 375**	$ 332	$ 320
Treasury shares	**20**	**–**	(9)	–
Additional paid-in capital	**20**	**1,739**	1,054	286
Revaluation surplus	**4,9**	**6,338**	218	211
Legal reserve	**20**	**36**	30	29
Unrealised gains and losses		**4**	–	–
Accumulated profits		**3,164**	4,377	4,108
Translation difference		**(1,372)**	(1,330)	996
		10,284	4,672	5,950
Minority interests		**324**	245	406
		10,608	4,917	6,356
Non-current liabilities				
Long-term loans	**21**	**5,931**	6,064	4,653
Deferred income tax liabilities	**8**	**2,537**	1,389	1,690
Finance lease liabilities	**22**	**58**	40	54
Employee benefits	**23**	**307**	292	347
Provisions	**25**	**176**	153	132
Other long-term liabilities	**26**	**68**	58	55
		9,077	7,996	6,931
Current liabilities				
Trade and other payables	**27**	**1,069**	1,479	1,242
Advances from customers		**112**	107	305
Short-term loans and current portion of long-term loans	**21**	**1,992**	3,922	2,103
Payables to related parties	**16**	**235**	322	1,204
Income tax payable		**108**	156	76
Other taxes payable	**28**	**140**	154	209
Current portion of finance lease liabilities	**22**	**17**	15	15
Provisions	**25**	**35**	63	55
Amounts payable under put options for shares of subsidiaries	**4**	**17**	–	6
Dividends payable by the parent entity to its shareholders		**–**	309	80
Dividends payable by the Group's subsidiaries to minority shareholders		**13**	11	16
		3,738	6,538	5,311
Liabilities directly associated with disposal groups classified as held for sale	**12**	**1**	–	39
		3,739	6,538	5,350
Total equity and liabilities		**$ 23,424**	$ 19,451	$ 18,637

* The amounts shown here do not correspond to the 2008 financial statements and reflect adjustments made in connection with the completion of initial accounting (Note 4).

The accompanying notes form an integral part of these consolidated financial statements.

Evraz Group S.A.

Consolidated Statement of Cash Flows

(In millions of US dollars)

	Year ended December 31, 2009	2008*	2007
Cash flows from operating activities			
Net profit/(loss)	**$ (1,261)**	$ 1,859	$ 2,179
Adjustments to reconcile net profit/(loss) to net cash flows from operating activities:			
Deferred income tax (benefit)/expense *(Note 8)*	**(524)**	(402)	(87)
Depreciation, depletion and amortisation *(Note 7)*	**1,632**	1,195	749
Loss on disposal of property, plant and equipment	**81**	37	26
Impairment of assets	**163**	880	7
Revaluation deficit on property, plant and equipment	**564**	–	–
Foreign exchange (gains)/losses, net	**(156)**	471	55
Interest income	**(40)**	(57)	(41)
Interest expense	**677**	655	409
Share of (profits)/losses of associates and joint ventures	**8**	(194)	(88)
(Gain)/loss on financial assets and liabilities, net	**(97)**	129	71
(Gain)/loss on disposal groups classified as held for sale, net	**19**	43	6
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**(10)**	–	(10)
Other non-operating (gains)/losses, net	**(4)**	5	(4)
Bad debt expense	**41**	33	9
Changes in provisions, employee benefits and other long-term assets and liabilities	**(16)**	25	(8)
Expense arising from the share option plans *(Note 24)*	**6**	35	5
Share-based payments under cash-settled award *(Note 24)*	**(35)**	–	–
Other	**(2)**	12	2
	1,046	4,726	3,280
Changes in working capital:			
Inventories	**682**	(499)	(111)
Trade and other receivables	**438**	345	(80)
Prepayments	**(52)**	100	(66)
Receivables from/payables to related parties	**(162)**	165	–
Taxes recoverable	**238**	(355)	37
Other assets	**(56)**	(3)	3
Trade and other payables	**(353)**	238	(9)
Advances from customers	**1**	(203)	4
Taxes payable	**(73)**	51	(74)
Other liabillities	**(9)**	(2)	10
Net cash flows from operating activities	**1,700**	4,563	2,994
Cash flows from investing activities			
Issuance of loans receivable to related parties	**(28)**	(1)	(31)
Proceeds from repayment of loans issued to related parties, including interest	**40**	32	1
Issuance of loans receivable	**(3)**	(147)	(94)
Proceeds from repayment of loans receivable, including interest	**114**	33	58
Proceeds from the transaction with a 49% ownership interest in NS Group *(Note 18)*	**506**	–	–
Purchases of subsidiaries, net of cash acquired *(Notes 4 and 11)*	**(16)**	(1,914)	(4,755)
Purchases of minority interests	**(8)**	(120)	(421)
Purchases of other investments	**(67)**	(896)	(2)
Sale of other investments	**48**	99	1
Restricted deposits at banks in respect of investing activities	**(16)**	3	(1)
Short-term deposits at banks, including interest	**20**	29	24
Purchases of property, plant and equipment and intangible assets	**(441)**	(1,103)	(744)
Proceeds from disposal of property, plant and equipment	**6**	27	34
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs *(Note 12)*	**28**	161	223
Dividends received	**1**	70	57
Other investing activities, net	**(1)**	(9)	–
Net cash flows from/(used in) investing activities	**183**	(3,736)	(5,650)

* The amounts shown here do not correspond to the 2008 financial statements and reflect adjustments made in connection with the completion of initial accounting (Note 4).

Continued on the next page

Evraz Group S.A.

Consolidated Statement of Cash Flows (continued)

(In millions of US dollars)

	Year ended December 31, 2009	2008*	2007
Cash flows from financing activities			
Issue of shares, net of transaction costs of $5 million, $1 million and $nil, respectively *(Notes 4, 20 and 24)*	**$ 310**	$ (1)	$ 35
Repurchase of vested share options *(Notes 20 and 24)*	**(3)**	(77)	(21)
Purchase of treasury shares *(Note 20)*	**(5)**	(197)	(8)
Sale of treasury shares *(Note 20)*	**7**	81	2
Contribution from/(distribution to) a shareholder *(Note 4)*	**65**	(68)	–
Dividends paid by the parent entity to its shareholders	**(90)**	(1,276)	(916)
Dividends paid by the Group's subsidiaries to minority shareholders	**(2)**	(81)	(48)
Proceeds from bank loans and notes	**3,427**	5,657	4,638
Repayment of bank loans and notes, including interest	**(4,987)**	(3,949)	(1,771)
Net proceeds from/(repayment of) bank overdrafts and credit lines, including interest	**(794)**	(54)	212
Payments under covenants reset *(Note 21)*	**(85)**	–	–
Restricted deposits at banks in respect of financing activities	**1**	–	9
Proceeds from loans provided by related parties	**–**	–	3
Repayment of loans provided by related parties, including interest	**–**	(21)	(1)
Payments under finance leases, including interest	**(31)**	(20)	(22)
Payments of restructured liabilities, including interest	**–**	(121)	–
Proceeds from sale-leaseback	**38**	–	–
Net cash flows from/(used in) financing activities	**(2,149)**	(127)	2,112
Effect of foreign exchange rate changes on cash and cash equivalents	**11**	(97)	29
Net increase/(decrease) in cash and cash equivalents	**(255)**	603	(515)
Cash and cash equivalents at beginning of year	**930**	327	842
Cash and cash equivalents at end of year	**$ 675**	$ 930	$ 327
Supplementary cash flow information:			
Cash flows during the year:			
Interest paid	**$ (586)**	$ (565)	$ (392)
Interest received	**29**	44	42
Income taxes paid by the Group	**(141)**	(1,680)	(1,084)

* The amounts shown here do not correspond to the 2008 financial statements and reflect adjustments made in connection with the completion of initial accounting (Note 4).

The accompanying notes form an integral part of these consolidated financial statements.

Evraz Group S.A.

Consolidated Statement of Changes in Equity

(In millions of US dollars)

	Attributable to equity holders of the parent entity										
	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Unrealised gains and losses	Accumulated profits	Translation difference	Total	Minority interests	Total Equity
At December 31, 2008 (as previously reported)	$ 332	$ (9)	$ 1,054	$ 218	$ 30	$ –	$ 4,448	$ (1,344)	$ 4,729	$ 245	$ 4,974
Adjustments to provisional values *(Note 4)*	–	–	–	–	–	–	(71)	14	(57)	–	(57)
At December 31, 2008 (as restated)	332	(9)	1,054	218	30	–	4,377	(1,330)	4,672	245	4,917
Net loss	–	–	–	–	–	–	(1,251)	–	(1,251)	(10)	(1,261)
Other comprehensive income/(loss)	–	–	–	6,178	–	4	–	(42)	6,140	90	6,230
Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment	–	–	–	(58)	–	–	58	–	–	–	–
Total comprehensive income/(loss) for the period	–	–	–	6,120	–	4	(1,193)	(42)	4,889	80	4,969
Issue of share capital *(Note 20)*	43	–	492	–	–	–	–	–	535	–	535
Transaction costs in respect of the issue of shares *(Note 20)*	–	–	(5)	–	–	–	–	–	(5)	–	(5)
Equity component of convertible bonds *(Note 20)*	–	–	133	–	–	–	–	–	133	–	133
Derecognition of minority interests arising on acquisition of subsidiaries *(Note 4)*	–	–	–	–	–	–	(5)	–	(5)	–	(5)
Contribution from a shareholder *(Note 4)*	–	–	65	–	–	–	–	–	65	–	65
Purchase of treasury shares *(Note 20)*	–	(5)	–	–	–	–	–	–	(5)	–	(5)
Sale of treasury shares *(Note 20)*	–	12	–	–	–	–	(6)	–	6	–	6
Exercise of share options *(Note 20)*	–	2	–	–	–	–	(3)	–	(1)	–	(1)
Appropriation of net profit to legal reserve *(Note 20)*	–	–	–	–	6	–	(6)	–	–	–	–
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 20)*	–	–	–	–	–	–	–	–	–	(1)	(1)
At December 31, 2009	$ 375	$ –	$ 1,739	$ 6,338	$ 36	$ 4	$ 3,164	$ (1,372)	$ 10,284	$ 324	$ 10,608

The accompanying notes form an integral part of these consolidated financial statements.

Evraz Group S.A.

Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

	Attributable to equity holders of the parent entity										
	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Unrealised gains and losses	Accumulated profits	Translation difference	Total	Minority interests	Total Equity
At December 31, 2007	$ 320	$ –	$ 286	$ 211	$ 29	$ –	$ 4,108	$ 996	$ 5,950	$ 406	$ 6,356
Net profit*	–	–	–	–	–	–	1,797	–	1,797	62	1,859
Other comprehensive income/(loss)*	–	–	–	7	–	–	–	(2,326)	(2,319)	(78)	(2,397)
Total comprehensive income/(loss) for the period*	–	–	–	7	–	–	1,797	(2,326)	(522)	(16)	(538)
Issue of share capital *(Notes 4 and 20)*	12	–	746	–	–	–	–	–	758	–	758
Transaction costs in respect of the issue of shares *(Note 20)*	–	–	(1)	–	–	–	–	–	(1)	–	(1)
Acquisition of minority interests in existing subsidiaries *(Notes 4 and 6)*	–	–	21	–	–	–	(37)	–	(16)	(62)	(78)
Decrease in minority interests arising due to change in ownership within the Group	–	–	–	–	–	–	3	–	3	(3)	–
Distribution to a shareholder *(Note 4)*	–	–	–	–	–	–	(18)	–	(18)	–	(18)
Change in the fair value of liability to a shareholder *(Note 4)*	–	–	–	–	–	–	215	–	215	–	215
Equity-settled share-based payments *(Note 24)*	–	–	2	–	–	–	–	–	2	–	2
Purchase of treasury shares *(Note 20)*	–	(197)	–	–	–	–	–	–	(197)	–	(197)
Sale of treasury shares *(Note 20)*	–	108	–	–	–	–	(39)	–	69	–	69
Exercise of share options *(Note 20)*	–	80	–	–	–	–	(145)	–	(65)	–	(65)
Appropriation of net profit to legal reserve *(Note 20)*	–	–	–	–	1	–	(1)	–	–	–	–
Dividends declared by the parent entity to its shareholders *(Note 20)*	–	–	–	–	–	–	(1,506)	–	(1,506)	–	(1,506)
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 20)*	–	–	–	–	–	–	–	–	–	(80)	(80)
At December 31, 2008*	$ 332	$ (9)	$ 1,054	$ 218	$ 30	$ –	$ 4,377	$ (1,330)	$ 4,672	$ 245	$ 4,917

* The amounts shown here do not correspond to the 2008 financial statements and reflect adjustments made in connection with the completion of initial accounting (Note 4).

The accompanying notes form an integral part of these consolidated financial statements.

Evraz Group S.A.

Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

	Attributable to equity holders of the parent entity										
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Revaluation surplus**	**Legal reserve**	**Unrealised gains and losses**	**Accumulated profits**	**Translation difference**	**Total**	**Minority interests**	**Total Equity**
At December 31, 2006	$ 318	$ –	$ 531	$ –	$ 28	$ –	$ 2,750	$ 439	$ 4,066	$ 169	$ 4,235
Net profit	–	–	–	–	–	–	2,103	–	2,103	76	2,179
Other comprehensive income/(loss)	–	–	–	211	–	–	–	557	768	9	777
Total comprehensive income/(loss) for the period	–	–	–	211	–	–	2,103	557	2,871	85	2,956
Acquisition of minority interests in existing subsidiaries *(Note 6)*	–	–	–	–	–	–	–	–	–	(10)	(10)
Minority interests arising on acquisition of subsidiaries *(Note 4)*	–	–	–	–	–	–	–	–	–	298	298
Minority interests arising on acquisition of a single asset entity *(Note 10)*	–	–	–	–	–	–	–	–	–	44	44
Decrease in minority interests arising due to change in ownership within the Group	–	–	–	–	–	–	5	–	5	(5)	–
Derecognition of minority interests in subsidiaries *(Notes 4 and 6)*	–	–	–	–	–	–	(151)	–	(151)	(305)	(456)
Recognition of minority interests in respect of the expired put options *(Note 4)*	–	–	–	–	–	–	78	–	78	170	248
Distribution to a shareholder *(Note 4)*	–	–	–	–	–	–	(50)	–	(50)	–	(50)
Change in the fair value of liability to a shareholder *(Note 4)*	–	–	–	–	–	–	76	–	76	–	76
Equity-settled share-based payments *(Note 24)*	–	–	5	–	–	–	–	–	5	–	5
Purchase of treasury shares *(Note 20)*	–	(8)	–	–	–	–	–	–	(8)	–	(8)
Exercise of share options (*Notes 20 and 24*)	2	8	33	–	–	–	(27)	–	16	–	16
Appropriation of net profit to legal reserve *(Note 20)*	–	–	–	–	1	–	(1)	–	–	–	–
Dividends declared by the parent entity to its shareholders *(Note 20)*	–	–	(283)	–	–	–	(675)	–	(958)	–	(958)
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 20)*	–	–	–	–	–	–	–	–	–	(40)	(40)
At December 31, 2007	$ 320	$ –	$ 286	$ 211	$ 29	$ –	$ 4,108	$ 996	$ 5,950	$ 406	$ 6,356

The accompanying notes form an integral part of these consolidated financial statements.

1. Corporate Information

These consolidated financial statements were authorised for issue in accordance with a resolution of the directors of Evraz Group S.A. on March 29, 2010.

Evraz Group S.A. ("Evraz Group" or "the Company") is a joint stock company registered under the laws of Luxembourg on December 31, 2004. The registered address of Evraz Group is 1, Allee Scheffer L-2520, Luxembourg.

Evraz Group, together with its subsidiaries (the "Group"), is involved in production and distribution of steel and related products. In addition, the Group produces vanadium products and owns and operates certain mining assets. The Group is one of the largest steel producers globally.

Lanebrook Limited (Cyprus) is the ultimate controlling party of Evraz Group.

The major subsidiaries included in the consolidated financial statements of Evraz Group were as follows at December 31:

Subsidiary	Effective ownership interest, %			Business activity	Location
	2009	2008	2007		
OAO Nizhny Tagil Iron & Steel Plant	100.00	100.00	100.00	Steel production	Russia
OAO West-Siberian Iron & Steel Plant	100.00	100.00	100.00	Steel production	Russia
OAO Novokuznetsk Iron & Steel Plant	100.00	100.00	100.00	Steel production	Russia
Evraz Vitkovice Steel a.s.	100.00	100.00	100.00	Steel production	Czech Republic
Highveld Steel and Vanadium Corporation*	85.12	85.12	80.92	Steel production	South Africa
Dnepropetrovsk Iron and Steel Works	96.03	96.03	95.57	Steel production	Ukraine
Evraz Inc. N.A.	100.00	100.00	100.00	Steel mill	USA
Evraz Inc. N.A. Canada	100.00	100.00	–	Steel mill	Canada
ZAO Yuzhkuzbassugol*	100.00	100.00	100.00	Coal mining	Russia
OAO Kachkanarsky Mining-and-Processing Integrated Works	100.00	100.00	100.00	Ore mining and processing	Russia
OAO Evrazruda	100.00	100.00	100.00	Ore mining	Russia
Sukha Balka	99.42	99.42	99.25	Ore mining	Ukraine

* Before the purchase of controlling interests in ZAO Yuzhkuzbasugol and Highveld Steel and Vanadium Corporation in 2007 (Note 4), these entities were accounted for under the equity method (Note 11).

At December 31, 2009, the Group employed approximately 110,000 employees, excluding joint venture's and associates' employees.

1. Corporate Information (continued)

Going Concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. The Group's activities in all of its operating segments have been adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis. The Group reported net loss of $1,261 million for the year ended December 31, 2009.

As of December 31, 2009, the Group had unutilised bank loans in the amount of $1,345 million, including $864 million of committed facilities and $481 million of uncommitted facilities.

In the period from January 1, 2010 to the date of authorisation of issue of these consolidated financial statements, the Group received $596 million of new borrowings (including $506 million under the rouble-denominated bonds issue – Note 32) and repaid $239 million of current loans and borrowings. The remaining current maturities are expected to be covered by free cash flows and refinancing of current debts.

In November 2009, the Group reset certain financial covenants and obtained waivers from its lenders (Note 21). At December 31, 2009, the Group was in compliance with all of its financial covenants (Note 21).

Taking into consideration the current market situation, the Board and the management anticipate that the Group will comply with all debt covenants during 2010.

2. Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared under historical cost convention, except as disclosed in the accounting policies below. Exceptions include, but are not limited to, certain categories of property, plant and equipment carried under revaluation model of IAS 16 "Property, Plant and Equipment" at fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses, available for sale investments measured at fair value, assets classified as held for sale measured at the lower of their carrying amount or fair value less costs to sell and post-employment benefits measured at present value.

Completion of Initial Accounting

In 2009, the Group finalised its purchase price allocation for the acquisition of IPSCO Inc. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition and restated consolidated financial statements as of December 31, 2008 and for the year then ended (Note 4).

Changes in Accounting Policies

In the preparation of these consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for:

- the change in accounting policy in respect of the subsequent measurement of property, plant and equipment, i.e. the adoption of a revaluation model under IAS 16 "Property, Plant and Equipment" as of January 1, 2009;
- the adoption of new standards and interpretations and revision of the existing standards as of January 1, 2009.

Property, Plant and Equipment

Prior to January 1, 2009, the Group applied the cost model for the measurement of property, plant and equipment. The Group's property, plant and equipment were stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Property, plant and equipment acquired in business combinations were measured at fair value at the dates of business combinations.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

Property, Plant and Equipment (continued)

The ongoing global financial crisis has resulted in a devaluation and significant fluctuations of the Russian rouble and Ukrainian hryvnia, the functional currencies of subsidiaries, which constitute a significant part of the Group's business. As the assets and liabilities of these subsidiaries are translated into the US dollar, the presentation currency of the Group's consolidated financial statements, at the rate of exchange ruling at the end of the reporting periods, this resulted in a significant deviation of the US dollar denominated carrying value of property, plant and equipment from its replacement cost. Under these circumstances, the revaluation model for the measurement of property, plant and equipment became a tool, which provides reliable and more relevant information about the Group's assets. The Group made a voluntarily change in the accounting policies to account for the selected classes of property, plant and equipment – land, buildings and constructions, machinery and equipment – under the revaluation model instead of the cost model. The Group continued to apply the cost model for other classes of property, plant and equipment.

As of January 1, 2009, the Group revalued the selected classes of assets based on valuation performed by an independent professionally qualified valuer. Since most of the assets subject to revaluation represent specialised items of property, plant and equipment that are rarely sold, except as part of a continuing business, the Group used the depreciated replacement cost approach as the main approach to valuation of buildings and constructions and machinery and equipment with the income approach used to support the results of the main approach. The Group used market based value approach as the main approach to valuation of land.

The significant assumptions applied in estimating the items' fair values were as follows:

The replacement cost was determined as follows:
- land – based on indicative market transactions;
- buildings and constructions – based on the relevant price books adjusted for the subsequent price changes;
- machinery and equipment – based on the related item's weight, where the cost per mass unit was determined in terms of the cost of materials components, labour, engineering and other costs for each specific type of equipment.

The remaining useful lives were determined based on the linear-age life method using the independent valuer's experience and data provided by technical specialists of the Group. The maximum physical depreciation level for main equipment was limited at the level of 65-90% depending on a specific type of equipment.

Functional obsolescence of assets with the excess capital costs was determined by the independent valuer based on cost-to-capacity analysis. The cost-to-capacity factor applied was 0.7.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

Property, Plant and Equipment (continued)

The assumptions used for the income approach were as follows:

	Period of forecast, years	After-tax discount rate, %	Commodity	Average price of the commodity per ton in 2009
Russia				
Steel	5	12.86	steel products	$465-$544
Iron ore	12-19	14.75	iron ore	$59-$74
Coal	27	14.39	coal	$60-$82
Other	4	11.97	services	–
Ukraine				
Steel	5	13.12	steel products	$522
Coke	5	13.92	coke	$149-$174
Iron ore	26	15.20	iron ore	$43
Europe				
Steel	5	9.93- 10.27	steel products	$510-$810
South Africa				
Steel	6	11.94	steel products	$593
Vanadium	6	11.94	vanadium products	$23,000-$28,000
North America				
Steel	8	9.3-10.7	steel products	$727-$2,266
Vanadium	6	9.69	vanadium products	$37,000

For the periods not covered by the forecasts cash flow projections have been estimated by extrapolating the respective business plans results using a zero real growth rate.

The following accounting policy was adopted for the revalued classes of property, plant and equipment:

After recognition as an asset, an item of property, plant and equipment is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

Property, Plant and Equipment (continued)

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The revaluation surplus included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the asset is retired or disposed of.

Deferred income taxes are charged or credited to other comprehensive income if they relate to revaluation of property, plant and equipment credited or charged to other comprehensive income. Deferred income taxes are charged or credited to profit or loss if they relate to revaluation of property, plant and equipment credited or charged to profit or loss.

The application of the revaluation model under IAS 16 has been accounted for prospectively. The adoption of the revaluation model resulted in additional charges recognised in the consolidated statement of operations for the year ended December 31, 2009:

- revaluation deficit in the amount of $420 million (net of income tax effect of $144 million),
- additional depreciation expense of $558 million (net of income tax effect of $148 million),
- impairment loss recognised as of the date of revaluation in respect of goodwill in the amount of $76 million,
- impairment loss recognised as of the date of revaluation in respect of classes of property, plant and equipment that were not subject to revaluation in the amount of $60 million (net of income tax effect of $16 million), and
- impairment losses recognised as of the date of revaluation in respect of intangible assets in the amount of $11 million (net of income tax effect of $4 million).

The revaluation surplus arising on revaluation of property, plant and equipment of $6,231 million, net of income tax effect of $1,670 million, cannot be distributed to shareholders.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

New/Revised Standards and Interpretations Adopted in 2009

- IFRS 8 "Operating Segments"

This Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The adoption of this Standard did not have any effect on the financial position or performance of the Group.

The Group determined operating segments based on information that is regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. As the comparative segment information is not available and the cost to develop it would be excessive, the segment information for the current period was presented on both the old basis and the new basis of segmentation. Segment disclosures are shown in Note 3.

- IAS 1 (revised) "Presentation of Financial Statements"

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated Financial Statements" – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments to IFRS 1 allows an entity to determine the cost of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the statement of operations in the separate financial statements. The new requirements affect only separate financial statements and do not have any impact on the consolidated financial statements.

- Amendments to IFRS 2 "Share-based Payments" – Vesting Conditions and Cancellations

The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

New/Revised Standards and Interpretations Adopted in 2009 (continued)

- Amendments to IFRS 7 "Financial Instruments: Disclosures" – Improving Disclosures about Financial Instruments

The amended Standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. These additional disclosures are presented in Note 29.

- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 (revised) "Presentation of Financial Statements" – Puttable instruments and obligations arising on liquidation

The Standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any effect on the financial position or performance of the Group.

- IFRIC 13 "Customer Loyalty Programmes"

This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

This interpretation provides guidance on the accounting for a hedge of a net investment. As such, it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group of the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

- IFRIC 18 "Transfer of Assets from Customers"

This interpretation provides guidance on how to account for items of property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets. It is only applicable to such assets that are used to connect the customer to a network or to provide ongoing access to a supply of goods or services or both. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

New/Revised Standards and Interpretations Adopted in 2009 (continued)

- Certain amendments to standards following the May 2008 "improvement to IFRSs" project

These amendments clarify wording and remove inconsistencies in the standards. There are separate transitional provisions for each standard.

Standards Issued But Not Yet Effective

The Group has not applied the following standards and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 2 (revised) "Share-based Payment" – Group Cash-settled Share-based Payment Transactions (effective from January 1, 2010);
- IFRS 3 (revised) "Business Combinations" (effective for annual periods beginning on or after July 1, 2009);
- IAS 27 (revised) "Consolidated Financial Statements" (effective for annual periods beginning on or after July 1, 2009);
- IAS 24 (revised) "Related Party Disclosures" (effective for annual periods beginning on or after January 1, 2011);
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2013);
- IFRIC 17 "Distributions of Non-Cash Assets to Owners" (effective for annual periods beginning on or after July 1, 2009);
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after July 1, 2010);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items (effective for annual periods beginning on or after July 1, 2009);
- Amendment to IAS 32 "Financial Instruments: Presentation" (effective for annual periods beginning on or after February 1, 2010);
- Amendments to IFRIC 14/IAS 19 "Prepayments of a Minimum Funding Requirement" (effective for annual periods beginning on or after January 1, 2011);
- Amendments to standards following April 2009 "improvements to IFRS" project (separate transitional provisions for each standard).

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates

Accounting Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- The Group determined that it obtained an access to the economic benefits associated with potential voting rights in respect of 54.1% shares of Highveld Steel and Vanadium Corporation on February 26, 2007 (Note 11).
- The Group determined that a 49% ownership interest in NS Group does not represent an investment in an associate (Note 4).
- For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration or extent to which the fair value of an investment is less than its cost. Based on these criteria, in 2008, the Group identified an impairment of $150 million on available-for-sale investments – quoted shares, which is recognised within gain/(loss) on financial assets and liabilities in the consolidated statement of operations for the year ended December 31, 2008 (Notes 7 and 13).

Estimation Uncertainty

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

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2009, 2008 and 2007, the Group recognised an impairment loss of $66 million, $117 million and $7 million, respectively (Note 9).

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Impairment of Property, Plant and Equipment (continued)

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and, ultimately, the amount of any impairment.

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

In 2009, following the independent valuation, the Group changed its estimation of useful lives of property, plant and equipment, which resulted in a decrease in depreciation expense by $671 million as compared to the amount that would have been charged had no change in estimate occurred. In 2008, the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately $22 million. No such changes took place in 2007.

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques which require considerable judgement in forecasting future cash flows and developing other assumptions.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

The carrying amount of goodwill at December 31, 2009, 2008 and 2007 was $2,211 million, $2,167 million and $2,145 million, respectively. More details are provided in Note 5. In 2009 and 2008, the Group recognised an impairment loss in respect of goodwill in the amount of $135 million and $756 million, respectively (Note 5).

Mineral Reserves

Mineral reserves are a material factor in the Group's computation of depreciation, depletion and amortisation charge. The Group estimates its mineral reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). Estimation of reserves in accordance with JORC Code involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgement and development of assumptions.

Site Restoration Provisions

The Group reviews site restoration provisions at each reporting date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the end of the reporting period based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgement is required in forecasting future site restoration costs.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Post-Employment Benefits

The Group uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, expected rate of return on plan assets, etc.).

In addition, post-employment benefit obligations were calculated taking into consideration that certain of the Group's subsidiaries discontinued to pay lump-sum amounts at retirement date during 2009 (Note 23).

Allowances

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2009, 2008 and 2007, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of $92 million, $89 million and $79 million, respectively (Notes 15 and 16).

The Group makes an allowance for obsolete and slow-moving raw materials and spare parts (Note 14). In addition, certain finished goods of the Group are carried at net realisable value (Note 14). Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of the reporting period to the extent that such events confirm conditions existing at the end of the period.

Litigations

The Group exercises judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results. More details are provided in Note 31.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Current Taxes

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia and Ukraine the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details are provided in Note 31.

Deferred Income Tax Assets

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the statement of operations.

Foreign Currency Transactions

The presentation currency of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the consolidated financial statements.

The functional currencies of the Group's subsidiaries are the Russian rouble, US dollar, euro, Czech koruna, South African rand, Canadian dollar and Ukrainian hryvnia. As at the reporting date, the assets and liabilities of the subsidiaries with the functional currency other than the US dollar, are translated into the presentation currency at the rate of exchange ruling at the end of the reporting period, and their statements of operations are translated at the exchange rates that approximate the exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary with the functional currency other than the US dollar, the deferred cumulative amount recognised in equity relating to that particular subsidiary is recognised in the statement of operations.

2. Significant Accounting Policies (continued)

Foreign Currency Transactions (continued)

Transactions in foreign currencies in each subsidiary of the Group are initially recorded in the functional currency at the rate ruling at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the end of the reporting period. All resulting differences are taken to the statement of operations.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Basis of Consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

Minority interest is that portion of the profit or loss and net assets of subsidiaries attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Acquisition of Subsidiaries (continued)

Minority interests at the end of the reporting period represents the minority shareholders' portion of the the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination.

Minority interests are presented in the consolidated statement of financial position within equity, separately from the parent's shareholders' equity.

Losses allocated to minority interests do not exceed the minority interest in the equity of the subsidiary. Any additional losses are allocated to the Group unless there is a binding obligation of the minority to fund the losses.

For the identifiable assets, liabilities and contingent liabilities initially accounted for at provisional values, the carrying amount of identifiable asset, liability or contingent liability that is recognised or adjusted as a result of completing the initial accounting is calculated as if its fair value or adjusted fair value at the acquisition date had been recognised from that date. Goodwill or any gain recognised when the acquired interest in net fair values of the identifiable assets, liabilities and contingent liabilities exceeds the cost of their acquisition is adjusted from the acquisition date by an amount equal to adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognised or adjusted.

Comparative information presented for the periods before the completion of initial accounting for the acquisition is presented as if the initial accounting had been completed from the acquisition date.

Increases in Ownership Interests in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative, in the consolidated financial statements.

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the "Predecessor"). Related goodwill inherent in the Predecessor's original acquisition is also recorded in the financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control (continued)

These financial statements, including corresponding figures, are presented as if a subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Put Options Over Minority Interests

The Group derecognises minority interests if minority shareholders have a put option over their holdings. The difference between the amount of the liability recognised in the statement of financial position over the carrying value of the derecognised minority interests is charged to accumulated profits.

Investments in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost including goodwill. Subsequent changes in the carrying value reflect the post acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any. The Group's share of its associates' profits or losses is recognised in the statement of operations and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obligated to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Interest in Joint Ventures

The Group's interest in its joint ventures is accounted for under the equity method of accounting whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of joint ventures. The statement of operations reflects the Group's share of the results of operations of joint ventures.

2. Significant Accounting Policies (continued)

Property, Plant and Equipment

Before January 1, 2009, the Group's property, plant and equipment were stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred and recognition criteria are met.

As discussed in *Changes in Accounting Policies* above, starting from January 1, 2009, the Group applies the revaluation model under IAS 16 "Property, Plant and Equipment" for certain classes of property, plant and equipment. These classes are stated at fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The Group's property, plant and equipment include mining assets, which consist of mineral reserves, mine development and construction costs and capitalised site restoration costs. Mineral reserves represent tangible assets acquired in business combinations. Mine development and construction costs represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, buildings, machinery and equipment.

At each end of the reporting period management makes an assessment to determine whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as impairment loss in the statement of operations or other comprehensive income. An impairment loss recognised for an asset in previous years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Land is not depreciated. Depreciation of property, plant and equipment, except for mining assets, is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives of items of property, plant and equipment and methods of their depreciation are reviewed, and adjusted as appropriate, at each fiscal year-end. The table below presents the useful lives of items of property, plant and equipment.

	Useful lives (years)	**Weighted average remaining useful life (years)**
Buildings and constructions	15-60	17
Machinery and equipment	4-45	12
Transport and motor vehicles	7-20	12
Other assets	3-15	6

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

The Group determines the depreciation charge separately for each significant part of an item of property, plant and equipment.

Depletion of mining assets including capitalised site restoration costs is calculated using the units-of-production method based upon proved and probable mineral reserves.

Maintenance costs relating to items of property, plant and equipment are expensed as incurred. Major renewals and improvements are capitalised, and the replaced assets are derecognised.

The Group has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which are carried at their recoverable amount of zero. The costs to maintain such assets are expensed as incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

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

2. Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the carrying amount of the investments in associates. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised but is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit or the group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Sometimes the fair value of the Group's share of the net assets acquired in a business combination exceeds the cost of acquisition. Such excess is recognised in the consolidated statement of operations.

Intangible Assets Other Than Goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditures on internally generated intangible assets, excluding capitalised development costs, are expensed as incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash generating unit level.

2. Significant Accounting Policies (continued)

Intangible Assets Other Than Goodwill (continued)

The table below presents the useful lives of intangible assets.

	Useful lives (years)	Weighted average remaining useful life (years)
Customer relationships	1-15	13
Trade names and trademarks	5	3
Water rights and environmental permits with definite lives	5	3
Patented and unpatented technology	5	3
Contract terms	1-49	47
Other	5-10	5

Certain water rights and environmental permits are considered to have indefinite lives as management believes that these rights will continue indefinitely.

The most part of the Group's intangible assets represents customer relationships arising on business combinations (Note 10).

Emission Rights

One of the Group's subsidiaries participates in the programme for emission reduction established by Kyoto protocol. Emission rights (allowances) for each compliance period (one year) are issued at the beginning of the year, actual emissions are verified after the end of the year.

Allowances, whether issued by government or purchased, are accounted for as intangible assets in accordance with IAS 38 "Intangible Assets". Allowances that are issued for less than fair value are measured initially at their fair value.

When allowances are issued for less than fair value, the difference between the amount paid and fair value is recognised as a government grant. Initially the grant is recognised as deferred income in the statement of financial position and subsequently recognised as income on a systematic basis over the compliance period for which the allowances were issued, regardless of whether the allowances are held or sold.

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability is a provision that is within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and it is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period being the present market price of the number of allowances required to cover emissions made up to the end of the reporting period.

2. Significant Accounting Policies (continued)

Intangible Assets Other Than Goodwill (continued)

Financial Assets

The Group classified its investments into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity and available-for-sale. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its investments after initial recognition.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading and included in the category "financial assets at fair value through profit or loss". Investments which are included in this category are subsequently carried at fair value; gains or losses on such investments are recognised in income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Non-derivative financial assets with fixed or determinable payments and fixed maturity that management has the positive intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity investments are carried at amortised cost using the effective yield method.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the end of the reporting period or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statement of operations. Reversals of impairment losses in respect of equity instruments are not recognised in the statement of operations. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of operations.

2. Significant Accounting Policies (continued)

Financial Assets (continued)

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other valuation models.

All purchases and sales of financial assets under contracts to purchase or sell financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place are recognised on the settlement date i.e. the date the asset is delivered by/to the counterparty.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring or producing inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Accounts Receivable

Accounts receivable, which generally are short term, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

The Group establishes an allowance for impairment of accounts receivable that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar receivables in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

2. Significant Accounting Policies (continued)

Value Added Tax

The tax authorities permit the settlement of sales and purchases value added tax ("VAT") on a net basis.

The Group's subsidiaries located in Russia apply accrual method for VAT recognition, under which VAT becomes payable upon invoicing and delivery of goods or rendering services as well upon receipt of prepayments from customers. VAT on purchases, even not settled at the end of the reporting period, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Borrowings

Borrowings are initially recognised at the fair value of consideration received, net of directly attributable transaction costs. After initial recognition borrowings are measured at amortised cost using the effective interest rate method; any difference between the amount initially recognised and the redemption amount is recognised as interest expense over the period of the borrowings.

Prior to 2008, borrowing costs were expensed as incurred. Since January 1, 2008 borrowing costs relating to qualifying assets are capitalised (Note 9).

Financial Guarantee Liabilities

Financial guarantee liabilities issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period and the amount initially recognised.

2. Significant Accounting Policies (continued)

Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Treasury Shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in statement of operations on the purchase, sale, issue or cancellation of the treasury shares.

Dividends

Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared before or on the end of the reporting period. Dividends are disclosed when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period but before the financial statements are authorised for issue.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Provisions for site restoration costs are capitalised within property, plant and equipment.

2. Significant Accounting Policies (continued)

Employee Benefits

Social and Pension Contributions

Defined contributions are made by the Group to the Russian and Ukrainian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 23%), based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Employee Benefits

The Group companies provide pensions and other benefits to their employees. The entitlement to these benefits is usually conditional on the completion of a minimum service period. Certain benefit plans require the employee to remain in service up to retirement age. Other employee benefits consist of various compensations and non-monetary benefits. The amount of the benefits is stipulated in the collective bargaining agreements and/or in the plan documents.

The liability recognised in the statement of financial position in respect of post-employment benefits is the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligations.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses for each individual plan exceed 10% of the higher of defined benefit obligation and the fair value of plan assets. The excess of cumulative actuarial gains or losses over the 10% of the higher of defined benefit obligation and the fair value of plan assets are recognised over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately. The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly.

The Group includes expected return on plan assets in interest expense caption of the consolidated statement of operations.

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

Other Costs

The Group incurs employee costs related to the provision of benefits such as health services, kindergartens and other services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to cost of sales.

Share-based Payments

In 2005 and 2006, the Group adopted share option plans, under which certain directors, senior executives and employees of the Group received remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with non-executive directors and employees is measured by reference to the fair value of options at the date on which they are granted. The fair value is determined using the Black-Scholes-Merton model, further details of which are given in Note 24. In valuing equity-settled transactions, no account is taken of any conditions, other than market conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity (additional paid-in capital), over the period in which service conditions are fulfilled, ending on the date on which the relevant persons become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit in the statement of operations for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest. Once a share-settled transaction has vested no further accounting entries are made to reverse the cost already charged, even if the instruments that are the subject of the transaction are subsequently forfeited or, in the case of options, are not exercised. In this case, the Group makes a transfer between different components of equity.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

2. Significant Accounting Policies (continued)

Share-based Payments (continued)

Cash-settled share-based payment transactions represent transactions in which the Group acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of the Group's shares or other equity instruments. The extended portion of the options under Plan 2005 (Note 24) could be settled in cash.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes-Merton model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to and including the settlement date with changes in fair value recognised in the statement of operations.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (Note 20).

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. The moment of transfer of the risks and rewards of ownership is determined by the contract terms.

Rendering of Services

The Group’s revenues from rendering of services include electricity, transportation, port and other services. Revenue is recognised when services are rendered.

Interest

Interest is recognised using the effective interest method.

2. Significant Accounting Policies (continued)

Revenue (continued)

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Rental Income

Rental income is accounted for on a straight-line basis over the lease term on ongoing leases.

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of operations.

Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Segment Information

The Group adopted IFRS 8 "Operating segments" starting from January 1, 2009. The Group did not restate the segment information for prior periods reported as comparative information in these consolidated financial statements, because the necessary information is not available and the cost to develop it would be excessive.

Consequently, the Group disclosed segment information for the current period on both the new basis of segmentation in accordance with IFRS 8 "Operating Segments" and the basis used in previous periods in accordance with IAS 14 "Segment Reporting". The adoption of IFRS 8 did not result in a change in reportable segments previously disclosed by the Group.

For management purposes, the Group is organised into business units based on their products and services, and has four reportable operating segments:

- *Steel production* segment includes production of steel and related products at eleven steel mills.
- *Mining* segment includes iron ore and coal mining and enrichment.
- *Vanadium products* segment includes extraction of vanadium ore and production of vanadium products. Vanadium slag arising in steel-making process is also allocated to vanadium segment.
- *Other operations* include energy generating companies, seaports, shipping and railway transportation companies.

Management and investment companies were not allocated to any of the segments.

No operating segments have been aggregated to form the above reportable segments.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA. This performance indicator is calculated based on management accounts that differ from the IFRS consolidated financial statements for the following reasons:

1) for the last month of the reporting period, the statement of operations for each operating segment is prepared using a forecast for that month;
2) the statement of operations is based on local GAAP figures with the exception of depreciation expense which approximates the amount under IFRS.

Segment revenue is revenue reported in the Group's statement of operations that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated on a reasonable basis to a segment, whether from sales to external customers or from transactions with other segments.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to external counterparties and expenses relating to transactions with other segments.

3. Segment Information (continued)

Segment result is segment revenue less segment expense that is equal to earnings before interest, tax and depreciation and amortisation ("EBITDA").

Segment EBITDA is determined as segment's profit/(loss) from operations adjusted for impairment of assets, profit/(loss) on disposal of property, plant and equipment and intangible assets, foreign exchange gains/(losses), depreciation, depletion and amortisation expense and revaluation deficit on property, plant and equipment.

Segment assets and liabilities are not reviewed by the Group's chief operating decision maker and presented in these consolidated financial statements in accordance with the previous accounting policies in respect of segment information.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets do not include income tax assets. As segment's segment result does not include interest or dividend income, its segment assets do not include the related receivables, loans, investments, or other income-producing assets.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities do not include income tax liabilities. As segment result does not include interest expense, segment liabilities do not include the related interest-bearing liabilities.

The following table presents measures of segment profit or loss based on management accounts in accordance with the new accounting policies in respect of segment information.

Year ended December 31, 2009

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 9,292	$ 188	$ 226	$ 117	$ –	$ 9,823
Inter-segment sales	129	1,160	36	439	(1,764)	–
Total revenue	9,421	1,348	262	556	(1,764)	9,823
Segment result – EBITDA	$ 950	$ 179	$ 12	$ 110	$ –	$ 1,251

3. Segment Information (continued)

The following table shows a reconciliation of revenue and EBITDA used by management for decision making and revenue and profit or loss before tax per the consolidated financial statements prepared under IFRS.

Year ended December 31, 2009

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue	$ 9,421	$ 1,348	$ 262	$ 556	$ (1,764)	$ 9,823
Forecasted vs. actual revenue	(54)	(2)	3	–	–	(53)
Reclassifications and other adjustments	(389)	110	98	209	(26)	2
Revenue per IFRS financial statements	$ 8,978	$ 1,456	$ 363	$ 765	$ (1,790)	$ 9,772
EBITDA	$ 950	$ 179	$ 12	$ 110	$ –	$ 1,251
Forecasted vs. actual EBITDA	(27)	–	–	–	–	(27)
Exclusion of management services from segment result	53	30	–	4	–	87
Unrealised profits adjustment	25	–	–	–	14	39
Reclassifications and other adjustments	(98)	70	(2)	53	–	23
	(47)	100	(2)	57	14	122
EBITDA based on IFRS financial statements	$ 903	$ 279	$ 10	$ 167	$ 14	$ 1,373
Unallocated subsidiaries						(136)
						$ 1,237
Depreciation, depletion and amortisation expense	(1,151)	(368)	(54)	(58)		(1,631)
Impairment of goodwill	(135)	–	–	–		(135)
Impairment of property, plant and equipment and intangible assets	(33)	5	–	–		(28)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	(56)	(19)	–	(6)		(81)
Revaluation deficit on property, plant and equipment	(422)	(112)	(4)	(26)		(564)
Foreign exchange gains/(losses), net	54	1	–	–		55
	$ (840)	$ (214)	$ (48)	$ 77	$ 14	$ (1,147)
Unallocated income/(expenses), net						100
Profit/(loss) from operations						$ (1,047)
Interest income/(expense), net						$ (637)
Share of profits/(losses) of joint ventures and associates						(8)
Gain/(loss) on financial assets and liabilities						97
Loss on disposal groups classified as held for sale						(19)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition						10
Other non-operating gains/(losses), net						4
Profit/(loss) before tax						$ (1,600)

3. Segment Information (continued)

Under the previous basis of segmentation in accordance with IAS 14 "Segment Reporting", the Group's primary reporting format was business segments and its secondary format was geographical segments. The following tables present revenue and profit information regarding business segments for the years ended December 31, 2009, 2008 and 2007 in accordance with the previous accounting policies in respect of segment information.

Year ended December 31, 2009

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 8,855	$ 435	$ 354	$ 128	$ –	$ 9,772
Inter-segment sales	123	1,021	9	637	(1,790)	–
Total revenue	8,978	1,456	363	765	(1,790)	9,772
Result						
Segment result	$ (840)	$ (214)	$ (48)	$ 77	$ 14	$ (1,011)
Unallocated expenses						(36)
Profit/(loss) from operations						$ (1,047)
Share of profits/(losses) of joint ventures and associates	(1)	(7)	–	–		(8)
Other income/(expenses), net						(545)
Income tax expense						339
Net profit/(loss)						$ (1,261)
Assets and liabilities						
Segment assets	$ 16,985	$ 3,933	$ 618	$ 855		$ 22,391
Investments in joint ventures and associates	65	622	–	–		687
Unallocated assets						346
Total assets						$ 23,424
Segment liabilities	$ 1,373	$ 484	$ 155	$ 43		$ 2,055
Unallocated liabilities						10,761
Total liabilities						$ 12,816
Other segment information						
Additions to property, plant and equipment and intangible assets	$ 208	$ 150	$ 2	$ 33		$ 393
Property, plant and equipment and intangible assets acquired in business combinations	7	–	54	–		61
Depreciation, depletion and amortisation	(1,155)	(378)	(54)	(58)		(1,645)
Revaluation surplus	6,668	801	25	407		7,901
Revaluation deficit recognised in statement of operations	(422)	(112)	(4)	(26)		(564)
Revaluation deficit recognised in other comprehensive income	–	(38)	–	–		(38)
Impairment losses recognised in statement of operations	(217)	(74)	–	–		(291)
Impairment losses reversed through statement of operations	49	79	–	–		128
Impairment losses recognised in other comprehensive income	(86)	(12)	–	–		(98)
Impairment losses reversed through other comprehensive income	55	–	—	–		55

3. Segment Information (continued)

Year ended December 31, 2008

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 17,623	$ 1,290	$ 1,201	$ 266	$ –	$ 20,380
Inter-segment sales	302	2,344	5	756	(3,407)	–
Total revenue	17,925	3,634	1,206	1,022	(3,407)	20,380
Result						
Segment result	$ 2,746	$ 971	$ 170	$ 83	$ 20	$ 3,990
Unallocated expenses						(358)
Profit/(loss) from operations						$ 3,632
Share of profits/(losses) of joint ventures and associates	–	194	–	–	–	194
Other income/(expenses), net						(775)
Income tax expense						(1,192)
Net profit/(loss)						$ 1,859
Assets and liabilities						
Segment assets	$ 12,794	$ 3,684	$ 478	$ 547		$ 17,503
Investments in joint ventures and associates	10	541	–	–		551
Unallocated assets						1,397
Total assets						$ 19,451
Segment liabilities	$ 1,881	$ 460	$ 101	$ 70		$ 2,512
Unallocated liabilities						12,022
Total liabilities						$ 14,534
Other segment information						
Additions to property, plant and equipment and intangible assets	$ 740	$ 415	$ 9	$ 30		$ 1,194
Property, plant and equipment and intangible assets acquired in business combinations	1,534	–	–	–		1,534
Depreciation, depletion and amortisation	(756)	(380)	(43)	(47)		(1,226)
Impairment losses recognised in statement of operations	(821)	(56)	–	(3)		(880)

3. Segment Information (continued)

Year ended December 31, 2007

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 11,743	$ 371	$ 583	$ 162	$ –	$ 12,859
Inter-segment sales	165	1,532	–	621	(2,318)	–
Total revenue	11,908	1,903	583	783	(2,318)	12,859
Result						
Segment result	$ 3,036	$ 444	$ 45	$ 87	$ 2	$ 3,614
Unallocated expenses						(146)
Profit/(loss) from operations						$ 3,468
Share of profits/(losses) of joint ventures and associates	20	68	–	–		88
Other income/(expenses), net						(431)
Income tax expense						(946)
Net profit/(loss)						$ 2,179
Assets and liabilities						
Segment assets	$ 11,957	$ 4,473	$ 469	$ 692		$ 17,591
Investments in joint ventures and associates	4	588		–		592
Unallocated assets						454
Total assets						$ 18,637
Segment liabilities	$ 1,846	$ 421	$ 116	$ 41		$ 2,424
Unallocated liabilities						9,857
Total liabilities						$ 12,281
Other segment information						
Additions to property, plant and equipment and intangible assets	$ 460	$ 192	$ 7	$ 131		$ 790
Property, plant and equipment and intangible assets acquired in business combinations	3,339	3,175	–	306		6,820
Depreciation, depletion and amortisation	(478)	(213)	(30)	(36)		(757)
Impairment losses recognised in statement of operations	(4)	(2)	–	(1)		(7)

3. Segment Information (continued)

The revenues from external customers for each group of similar products and services are presented in the following table:

US$ million	**2009**	2008	2007
Steel Production			
Construction products	**$ 2,184**	$ 4,949	$ 3,709
Flat-rolled products	**1,448**	3,236	1,966
Railway products	**1,113**	2,221	1,694
Tubular products	**1,008**	1,753	703
Semi-finished products	**2,018**	3,512	2,496
Other steel products	**236**	562	435
Other products	**729**	1,305	694
Rendering of services	**119**	85	46
	8,855	17,623	11,743
Mining			
Iron ore	**175**	708	145
Coal	**219**	461	165
Other products	**22**	84	37
Rendering of services	**19**	37	24
	435	1,290	371
Vanadium Products			
Vanadium in slag	**60**	290	167
Vanadium in alloys and chemicals	**290**	909	416
Other products	**3**	–	–
Rendering of services	**1**	2	–
	354	1,201	583
Other Operations			
Rendering of services	**128**	266	162
	128	266	162
	$ 9,772	$ 20,380	$ 12,859

3. Segment Information (continued)

Distribution of the Group's revenues by geographical area based on the location of customers for the years ended December 31 was as follows:

US$ million	**2009**	2008	2007
Russia	**$ 2,950**	$ 7,575	$ 5,954
USA	**1,543**	3,232	1,964
Canada	**861**	1,283	91
China	**528**	172	72
United Arab Emirates	**415**	289	27
South Africa	**298**	649	319
Thailand	**285**	479	175
Philippines	**250**	149	144
Ukraine	**233**	913	186
Taiwan	**228**	504	373
Vietnam	**226**	234	82
Kazakhstan	**210**	327	380
Korea	**174**	760	400
Austria	**148**	415	173
Italy	**140**	343	361
Turkey	**130**	192	87
Czech Republic	**120**	295	277
Germany	**116**	417	263
Jordan	**101**	74	58
Poland	**93**	166	179
Indonesia	**74**	143	75
Syria	**62**	104	2
Slovakia	**51**	119	33
Great Britain	**25**	173	119
Other countries	**511**	1,373	1,065
	$ 9,772	$ 20,380	$ 12,859

None of the Group's customers amounts to 10% or more of the consolidated revenues.

3. Segment Information (continued)

Carrying amounts of the Group's assets by geographical area in which the assets are located at December 31 were as follows:

US$ million	2009	2008	2007
Russia	**$ 13,061**	$ 8,252	$ 8,813
USA	**2,905**	3,604	3,125
Canada	**2,671**	2,415	–
South Africa	**1,443**	1,052	1,515
Ukraine	**1,354**	1,533	3,399
Czech Republic	**807**	613	577
Switzerland	**512**	646	475
Italy	**377**	415	414
Cyprus	**148**	159	212
Luxembourg	**113**	723	39
Other countries	**33**	39	68
	$ 23,424	$ 19,451	$ 18,637

The additions to the property, plant and equipment and intangible assets based on the location of the Group's subsidiaries for the years ended December 31 were as follows:

US$ million	2009	2008	2007
Russia	**$ 293**	$ 971	$ 586
USA	**30**	50	39
South Africa	**26**	53	62
Canada	**15**	15	5
Czech Republic	**14**	19	13
Ukraine	**13**	84	81
Other countries	**3**	8	6
	$ 394	$ 1,200	$ 792

4. Business Combinations

Oregon Steel Mills

On January 12, 2007, the Group acquired approximately 90.65% of the outstanding shares of Oregon Steel Mills, Inc. ("OSM") through a tender offer. OSM, located in the United States and Canada, produces plates, pipes, rails and other long steel products.

In accordance with the US legislation, following the acquisition of the controlling interest in OSM, all the untendered shares were converted into the right to receive $63.25 in cash which is the same price per share paid during the tender offer. As a result, the Group effectively acquired a 100% ownership interest in OSM. On January 23, 2007, OSM was merged with the Group's wholly owned subsidiary and the merged entity was named as Evraz Oregon Steel Mills, Inc. In 2008, the subsidiary was renamed into Evraz Inc. N.A.

Total cash consideration for the acquisition of a 100% ownership interest in OSM amounted to $2,276 million, including transaction costs of $10 million.

As a result, the financial position and the results of operations of OSM were included in the Group's consolidated financial statements beginning January 12, 2007.

The table below sets forth the fair values of OSM's consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

US$ million	**January 12, 2007**
Property, plant and equipment	$ 1,038
Intangible assets	373
Other non-current assets	3
Inventories	442
Accounts and notes receivable	131
Cash	2
Total assets	**1,989**
Non-current liabilities	155
Deferred income tax liabilities	359
Current liabilities	235
Total liabilities	**749**
Minority interests	**46**
Net assets	**$ 1,194**
Purchase consideration	**$ 2,276**
Goodwill	**$ 1,082**

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ 2
Cash paid	(2,269)
Net cash outflow	**$ (2,267)**

4. Business Combinations (continued)

Oregon Steel Mills (continued)

Certain transaction costs amounting to $4 million were paid in 2006. In 2008, the Group paid $3 million of the transaction costs outstanding at December 31, 2007.

For the period from January 12, 2007 to December 31, 2007, OSM reported net profit amounting to $49 million.

Highveld Steel and Vanadium Corporation

On July 13, 2006, the Group acquired a 24.9% ownership interest in Highveld Steel and Vanadium Corporation Limited ("Highveld"), one of the largest steel producers in South Africa and a leading producer of vanadium products. Cash consideration amounted to $216 million, including $10 million of transaction costs. In addition, the Group entered into option agreements with Anglo South Africa Capital (Proprietary) Limited ("Anglo") and Credit Suisse International ("Credit Suisse"), the major shareholders of Highveld, to increase this stake to 79% within the next 24 months should such a decision be made by the Board of directors of Evraz Group S.A. and subject to receipt of all necessary regulatory approvals.

On February 20, 2007, the European Commission approved the proposed acquisition of the controlling interest in Highveld, subject to certain conditions, and the directors resolved to proceed with the purchase transaction at the meeting held on February 26, 2007.

These conditions included divestment commitments in respect of certain business of Highveld (Note 12) and a commitment to maintain and strengthen the existing feedstock supply relationships with Vanady-Tula, Chussovskoy Metallurgical Plant, both located in Russia, and Treibacher (Austria) – the major consumers of the feedstock sold by the Group and Highveld.

On April 26, 2007, the Group obtained the regulatory approvals of the South African competition authorities and the share options became exercisable. As a result, the financial position and results of operations of Highveld were included in the Group's consolidated financial statements beginning April 26, 2007 as the Group effectively exercised control over Highveld's operations since that date. In the period from July 13, 2006 to April 26, 2007, the Group accounted for its investment in Highveld under the equity method (Note 11).

4. Business Combinations (continued)

Highveld Steel and Vanadium Corporation (continued)

The table below sets forth the fair values of Highveld's consolidated identifiable assets, liabilities and contingent liabilities at the date of business combination:

US$ million	**Carrying amounts immediately before the business combination**	**April 26, 2007**
Property, plant and equipment	$ 207	$ 431
Intangible assets	–	419
Other non-current assets	2	2
Inventories	70	81
Accounts and notes receivable	161	168
Cash and cash equivalents	75	75
Assets of disposal groups classified as held for sale (Note 12)	170	295
Total assets	**685**	**1,471**
Deferred income tax liabilities	36	181
Non-current liabilities	42	54
Current liabilities	316	329
Liabilities directly associated with disposal groups classified as held for sale (Note 12)	24	44
Total liabilities	**418**	**608**
Net assets	**$ 267**	**$ 863**

On April 26, 2007, the Group recognised revaluation surplus amounting to $27 million in respect of the change in fair values of identifiable assets, liabilities and contingent liabilities of Highveld allocated to the previously acquired stakes.

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ 75
Cash paid	(254)
Net cash outflow	**$ (179)**

For the period from April 26, 2007 to December 31, 2007, Highveld reported net profit amounting to $101 million.

4. Business Combinations (continued)

Highveld Steel and Vanadium Corporation (continued)

The acquisition of Highveld was achieved in stages. Cost of the business combination at each stage, the fair values of Highveld's identifiable consolidated assets, liabilities and contingent liabilities and goodwill are summarised in the table below:

US$ million	**July 13, 2006** *(Note 11)*	**February 26, 2007** *(Note 11)*	**April 26, 2007**	**Total**
Ownership interest acquired	24.9%	54.1%	0%	79%
Cost of business combination	216	442	–	658
Fair values of Highveld's identifiable consolidated assets, liabilities and contingent liabilities	731	802	863	–
Goodwill	34	8	–	–

Goodwill includes $16 million associated with the disposal group which, subsequent to July 13, 2006, was classified as held for sale (Note 12).

On May 4, 2007, the Group exercised its option and acquired a 29.2% ownership interest in Highveld for cash consideration of $238 million from Anglo. In addition, the Group incurred transaction costs amounting to $2 million.

In accordance with the South African legislation, an acquirer, which purchases 35% of the acquiree's share capital, is obliged to offer to minority shareholders to sell their holdings. Following this requirement, on June 4, 2007, the Group made an offer to acquire the entire share capital of Highveld, other than those shares already held by the Group, at a price of $11.40 per share.

The Group derecognised minority interests in the amount of $181 million representing 21% ownership interest in Highveld and accrued a liability to minority shareholders in the amount of $237 million. The liability was measured at a price of $11.40 per share. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $56 million was charged to accumulated profits. On July 16, 2007, the Group increased the offer price from the South African rands equivalent of $11.40 per share to 93 South African rands ($13.03 at the exchange rate as of June 4, 2007). Upon the increase of the offer price, the Group remeasured the liability to minority shareholders and recorded the increase amounting to $34 million as a loss in gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations for the year ended December 31, 2007.

As a result of this offer, the Group acquired 1,880,750 shares of Highveld (1.91% of the share capital) for 175 million South African rands ($25 million at the exchange rates as of the dates of the transactions). On August 6, 2007, upon the closing of the offer, the Group recognised minority interests in respect of the shares retained by minority shareholders. The difference between the carrying value of minority interests recognised and the liability to minority shareholders, which was derecognised at that date, amounting to $78 million was credited to accumulated profits.

4. Business Combinations (continued)

Highveld Steel and Vanadium Corporation (continued)

On September 28, 2007, the Credit Suisse option for the acquisition of 24.9% ownership interest in Highveld was exercised by the Group for $219 million, comprising $207 million offset with the restricted deposit (Note 13) and a cash consideration of $12 million. As the liability under this put option was initially measured at $202 million, the Group recorded the increase amounting to $17 million as a loss in gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations for the year ended December 31, 2007.

West-Siberian Heat and Power Plant

On May 3, 2007, the Group acquired a 93.35% ownership interest in OAO West-Siberian Heat and Power Plant ("ZapSib Power Plant"), an energy generating company located in Novokuznetsk, the Russian Federation, for cash consideration of 5,945 million roubles ($231 million at the exchange rate as of the date of the transaction). In addition, the Group incurred transaction costs of $1 million. As a result, the financial position and the results of operations of ZapSib Power Plant were included in the Group's consolidated financial statements beginning May 3, 2007.

The fair values of the identifiable assets, liabilities and contingent liabilities as at the date of acquisition were as follows:

US$ million	**May 3, 2007**
Property, plant and equipment	$ 306
Other non-current assets	1
Inventories	3
Accounts and notes receivable	2
Cash	13
Total assets	**325**
Non-current liabilities	1
Deferred income tax liabilities	60
Current liabilities	5
Total liabilities	**66**
Net assets	**$ 259**
Fair value of net assets attributable to 93.35% ownership interest	**$ 242**
Purchase consideration	**$ 232**
Goodwill	**$ –**
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**$ (10)**

4. Business Combinations (continued)

West-Siberian Heat and Power Plant (continued)

In 2007, cash flow on acquisition was as follows:

US$ million		
Net cash acquired with the subsidiary	$	13
Cash paid		(228)
Net cash outflow	**$**	**(215)**

The difference between the cash portion of the purchase consideration ($232 million) and amounts paid on acquisition ($228 million) represents translation difference.

For the period from May 3, 2007 to December 31, 2007, ZapSib Power Plant reported net loss amounting to $9 million.

In accordance with the Russian legislation, an acquirer, which purchases at least 30% of the acquiree's share capital, is obliged to offer to other shareholders to sell their holdings ("obligatory offer"). Following this requirement, on June 4, 2007, the Group made an offer to minority shareholders of ZapSib Power Plant to sell their stakes to the Group at a price of 10.59 roubles per share ($0.41 at the exchange rate as of June 4, 2007). The total purchase consideration for the ownership interests that could be acquired amounts to 427 million Russian roubles ($17 million at the exchange rate as of June 4, 2007). The Group derecognised all minority interests in ZapSib Power Plant amounting to $17 million and accrued a liability to the minority shareholders in the amount of $17 million.

During the offer the Group acquired 4.44% shares of ZapSib Power Plant and became subject to the provisions of the Russian legislation allowing a shareholder owning more than 95% of a company to increase its stake to 100%. On November 12, 2007, the Group started the buy out of minority shares and completed the transaction in January 2008.

Yuzhkuzbassugol

On June 8, 2007, the Group acquired an additional 50% ownership interest in ZAO Yuzhkuzbassugol ("Yuzhkuzbassugol"), the Group's associate, increasing the Group's ownership interest in Yuzhkuzbassugol to 100%. Yuzhkuzbassugol is a vertically integrated group being one of the largest coking coal producers in Russia. Cash consideration amounted to $871 million, including transaction costs of $9 million.

As a result, the financial position and results of operations of Yuzhkuzbassugol were included in the Group's consolidated financial statements beginning June 8, 2007 as the Group effectively exercised control over Yuzhkuzbassugol's operations since that date. In the period from January 1, 2007 to June 8, 2007, the Group accounted for its investment in Yuzhkuzbassugol under the equity method (Note 11).

4. Business Combinations (continued)

Yuzhkuzbassugol (continued)

The table below sets forth the fair values of Yuzhkuzbassugol's consolidated identifiable assets, liabilities and contingent liabilities at date of acquisition of a controlling interest in the entity:

US$ million	**Carrying amounts immediately before the business combination**	**June 8, 2007**
Mineral reserves	$ 1,170	$ 1,661
Other property, plant and equipment	663	856
Investments in associates (Note 11)	154	18
Other non-current assets	45	45
Inventories	35	38
Accounts and notes receivable	97	105
Cash	17	17
Total assets	**2,181**	**2,740**
Non-current liabilities	180	196
Deferred income tax liabilities	298	462
Current liabilities	321	326
Total liabilities	**799**	**984**
Minority interests	**9**	**14**
Net assets	**$ 1,373**	**$ 1,742**
Fair value of net assets attributable to 50% ownership interest		**$ 871**
Purchase consideration		**$ 871**

On June 8, 2007, the Group recognised revaluation surplus amounting to $184 million in respect of the change in fair values of identifiable assets, liabilities and contingent liabilities of Yuzhkuzbassugol allocated to the previously acquired stake.

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ 17
Cash paid	(871)
Net cash outflow	**$ (854)**

For the period from June 8, 2007 to December 31, 2007, Yuzhkuzbassugol reported net loss amounting to $96 million.

4. Business Combinations (continued)

Steel and Mining Businesses in Ukraine

On December 11, 2007, Lanebrook Limited ("Lanebrook"), the ultimate parent of the Group, acquired majority shares in selected production assets in Ukraine which included the following:

- a 99.25% ownership interest in Sukha Balka iron ore mining and processing complex;
- a 95.57% ownership interest in Dnepropetrovsk Iron and Steel Works;
- three coking plants (Bagleykoks – 94.37%, Dneporkoks – 98.65%, and Dneprodzerzhinsk Coke Chemical Plant – 93.86% of shares outstanding).

Lanebrook has acquired these production assets ("Palmrose") on the working capital free and debt free basis. Under the share purchase agreement, the seller had approximately three months (the "Settlement period") to settle the current assets, liabilities and debt that existed at the acquisition date and receive net settlement from Lanebrook. Total consideration for the acquisition of Palmrose amounted to $2,108 million, comprising cash in the amount of $1,060 million paid by the Group on behalf of Lanebrook and 4,195,150 Evraz Group's shares with the fair value at the date of acquisition of $1,048 million.

In December 2007, the Group signed an agreement with Lanebrook to acquire Palmrose. Under that agreement, total consideration for the acquisition of Palmrose from Lanebrook comprised cash in the amount of $1,110 million and 4,195,150 Evraz Group's shares that should have been issued for the settlement of this acquisition.

On April 14, 2008, the Group acquired a 51.4% share in Palmrose for cash consideration of $1,110 million. In June 2008, that agreement was amended increasing the cash portion of the consideration payable to Lanebrook by $18 million.

The Group obtained control over Palmrose on April 14, 2008. The acquisition of 51.4% and 48.6% ownership interests in Palmrose were considered as linked transactions and were accounted for as a single transaction in these financial statements. As a result, on April 14, 2008, the Group effectively acquired 100% ownership interest in Palmrose with a deferred consideration in respect of 48.6% ownership interest. In accordance with the accounting policy (Note 2), the Group accounted for this acquisition by applying the pooling of interests method and presented its consolidated financial statements as if the transfer of controlling interest in the subsidiary had occurred from the date of acquisition of the subsidiary by Lanebrook, which was December 11, 2007.

As a result, the financial position and the results of operations of Palmrose were included in the Group's consolidated financial statements beginning December 11, 2007.

4. Business Combinations (continued)

Steel and Mining Businesses in Ukraine (continued)

The table below sets forth the fair values of Palmrose's consolidated identifiable assets, liabilities and contingent liabilities at the date of its acquisition by the predecessor:

US$ million	**December 11, 2007**
Mineral reserves	$ 429
Other property, plant and equipment	1,307
Receivables from the seller	822
Total assets	**2,558**
Non-current liabilities	57
Deferred income tax liabilities	377
Current liabilities	839
Total liabilities	**1,273**
Minority interests	**40**
Net assets	**$ 1,245**
Purchase consideration	**$ 2,108**
Goodwill	**$ 863**

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiaries	$ –
Cash paid	(1,060)
Net cash outflow	**$ (1,060)**

$68 million paid by the Group to Lanebrook in 2008 was recorded as a distribution to a shareholder in the consolidated statement of cash flows.

The excess of the consideration paid by the Group to its shareholder over the historical cost of net assets transferred to the Group, including the predecessor's goodwill, was charged to accumulated profits and recorded as a distribution to a shareholder in the amount of $18 million and $50 million in the consolidated statements of changes in equity for the years ended December 31, 2008 and 2007, respectively.

4. Business Combinations (continued)

Steel and Mining Businesses in Ukraine (continued)

On September 9, 2008, the remaining 48.6% ownership interest in Palmrose was transferred to the Group in exchange for new shares issued by Evraz Group S.A. The liability to Lanebrook in respect of the 48.6% ownership interest in Palmrose was measured at the fair value of Evraz Group's shares and amounted to $972 million as of December 31, 2007. The change in the fair value of that liability was credited to accumulated profits in the amount of $215 million and $76 million in the consolidated statements of changes in equity for the years ended December 31, 2008 and 2007, respectively.

In addition, in 2008, the Group purchased minority interests in Dnepropetrovsk Iron and Steel Works (0.46%) and Sukha Balka (0.17%) for a total cash consideration of $3 million. The excess of the amounts of consideration over the carrying values of minority interests acquired amounting to $1 million was charged to accumulated profits.

For the period from December 11 to December 31, 2007, the newly acquired Ukrainian businesses reported net loss amounting to $7 million.

In 2009, the Group and Lanebrook Limited signed an amendment agreement under which the purchase price for the acquired businesses has been reduced by $65 million. This reduction in the purchase price was accounted for as a contribution from a shareholder in the consolidated statement of changes in equity.

Claymont Steel

On January 16, 2008, the Group acquired 16,415,722 shares of Claymont Steel Holdings, Inc. ("Claymont Steel") through a tender offer, representing approximately 93.4% of the outstanding ordinary shares of Claymont Steel. Claymont Steel is a plate producer located in the United States.

In accordance with the US legislation, following the acquisition of the controlling interest in Claymont Steel, all the untendered shares were converted into the right to receive $23.50 in cash which is the same price per share paid during the tender offer. The company then merged with the Group's wholly owned subsidiary. Total cash consideration for the acquisition of a 100% ownership interest in Claymont Steel amounted to $420 million, including transaction costs of $7 million.

As a result, the financial position and the results of operations of Claymont Steel were included in the Group's consolidated financial statements beginning January 16, 2008.

4. Business Combinations (continued)

Claymont Steel (continued)

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of Claymont Steel at the date of acquisition:

US$ million	**January 16, 2008**
Property, plant and equipment	$ 161
Intangible assets	40
Other non-current assets	–
Inventories	52
Accounts and notes receivable	44
Cash and cash equivalents	5
Total assets	**302**
Non-current liabilities	136
Deferred income tax liabilities	58
Current liabilities	59
Total liabilities	**253**
Net assets	**$ 49**
Purchase consideration	**$ 420**
Goodwill	**$ 371**

In 2008, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ 5
Cash paid	(420)
Net cash outflow	**$ (415)**

For the period from January 16, 2008 to December 31, 2008, Claymont Steel reported net loss amounting to $4 million.

IPSCO Inc.

In March 2008, the Group entered into an agreement with SSAB, a Swedish steel company, to acquire IPSCO's Canadian plate and pipe business. IPSCO is a leading North American producer of steel plates, as well as pipes for the oil and gas industry.

Under the structure of the transaction, the Group and OAO TMK ("TMK"), the Russian leading tubular player, acquired plate and pipe businesses for $4,211 million (excluding transaction costs and working capital adjustment to purchase consideration paid by TMK, if any) comprising certain Canadian plate and pipe businesses, a US metal scrap company (together – "IPSCO Inc."), and US tubular and pipe businesses. The Group has also entered into a back-to-back agreement with TMK and its affiliates, which consisted of an on-sale of the acquired US tubular and pipe businesses, including 51% in NS Group, to TMK for $1,250 million.

4. Business Combinations (continued)

IPSCO Inc. (continued)

In addition, the Group signed an option agreement that gave it the right to sell and gave TMK the right to buy 49% in NS Group for approximately $511 million plus interest at an annual rate ranging from 10% to 12% accrued from June 12, 2008 to the date when the option is exercised. The put option could be exercised by the Group in respect of the whole stake held by the Group and not earlier than October 22, 2009. The call option could be exercised by TMK in respect of any shareholding in NS Group starting from June 12, 2008.

On June 12, 2008, the acquisition was completed. As a result, the net cost of the acquisition of 100% of IPSCO Inc. for the Group amounted to $2,450 million, including transaction costs of $65 million.

The financial position and the results of operations of IPSCO Inc. were included in the Group's consolidated financial statements beginning June 12, 2008. At December 31, 2008, the acquisition of IPSCO Inc. was accounted for based on provisional values as the Group, at the date of authorisation of issue of the financial statements for the year ended December 31, 2008, did not complete purchase price allocation in accordance with IFRS 3 "Business Combinations".

In 2009, the Group finalised its purchase price allocation on the acquisition of IPSCO Inc. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities at the date of acquisition. The table below sets forth the fair values of IPSCO Inc.'s consolidated identifiable assets, liabilities and contingent liabilities at June 12, 2008:

US$ million	**Provisional fair values**	**Final estimation of fair values**
Property, plant and equipment	$ 726	$ 726
Intangible assets	362	607
Other non-current assets	18	18
Inventories	432	551
Accounts and notes receivable	184	186
Cash	2	2
Total assets	**1,724**	**2,090**
Non-current liabilities	4	4
Deferred income tax liabilities	221	319
Current liabilities	167	169
Total liabilities	**392**	**492**
Net assets	**$ 1,332**	**$ 1,598**
Purchase consideration	**$ 2,450**	**$ 2,450**
Goodwill	**$ 1,118**	**$ 852**

4. Business Combinations (continued)

IPSCO Inc. (continued)

In 2008, cash flow on acquisition was as follows:

US$ million		
Net cash acquired with the subsidiary	$	2
Cash paid		(1,501)
Net cash outflow	**$**	**(1,499)**

$938 million of purchase consideration was paid by a bank on behalf of the Group directly to the seller. Transaction costs amounting to $10 million were paid in 2009. At December 31, 2009, accounts payable include $1 million of unpaid transaction costs.

For the period from June 12 to December 31, 2008, IPSCO Inc. reported net loss amounting to $87 million.

The investment in a 49% ownership interest in NS Group was included in short-term investments caption of the consolidated statement of financial position as of December 31, 2008. In 2009, TMK exercised its call option for a 49% ownership interest in NS Group (Note 18).

Vanady-Tula

On December 20, 2007, the Group signed an option agreement with OOO SGMK-Engineering (the "Seller") in respect of shares of OAO Vanady-Tula ("Vanady-Tula"), a vanadium refinery located in Russia. Under the agreement, the Group had the right to acquire (the call option) and OOO SGMK-Engineering had the right to sell to the Group (the put option) 90.84% of shares of Vanady-Tula for 3,140 million roubles ($108 million at the exchange rate at November 2, 2009, the date of business combination). The options were extended to December 31, 2009. The exercise of the options was conditional upon the approval of the regulatory authorities. To secure the put option, the Group provided the seller with a non-interest bearing deposit in the amount of 3,091 million roubles ($121 million at the exchange rate as of the payment date and $105 million at the exchange rate as of December 31, 2008 – Note 13). The deposit would have been repayable to the Group if neither the call option nor the put option was exercised before their expiration.

During 2008 and 2009, the Group purchased minority shares of Vanady-Tula and immediately before the business combination had a 1.88% ownership interest in the entity. The consideration paid for these shares was $2 million.

On November 2, 2009, the Group obtained the regulatory approvals. The share options became exercisable and economic benefits have been effectively transferred to the Group since that date. As a result, the financial position and results of operations of Vanady-Tula were included in the Group's consolidated financial statements beginning November 2, 2009 as the Group effectively exercised control over the entity's operations since that date.

4. Business Combinations (continued)

Vanady-Tula (continued)

In December 2009, the option agreement was dissolved and the companies entered into a new agreement for the purchase of an 82.96% ownership interest in Vanady-Tula. The purchase consideration amounted to 2,854 million roubles ($95 million at the exchange rate as of the date of the transaction, which was completed on December 15, 2009).

The acquisition of the subsidiary was accounted for based on provisional values as the Group, at the date of authorisation of issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations".

The table below sets forth the provisional fair values of Vanady-Tula's consolidated identifiable assets, liabilities and contingent liabilities at the date of business combination:

US$ million	**November 2, 2009**
Property, plant and equipment	$ 54
Inventories	14
Accounts and notes receivable	16
Total assets	**84**
Deferred income tax liabilities	9
Current liabilities	31
Total liabilities	**40**
Net assets	**$ 44**
Fair value of net assets attributable to 92.72% ownership interest	**41**
Purchase consideration	**$ 110**
Goodwill	**$ 69**

In 2009, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ –
Cash paid	(5)
Net cash outflow	**$ (5)**

At December 31, 2009, the Group's accounts receivable include $12 million due from the seller.

For the period from November 2, 2009 to December 31, 2009, Vanady-Tula reported net profit amounting to $2 million.

4. Business Combinations (continued)

Vanady-Tula (continued)

In accordance with the Russian legislation, an acquirer, which purchases at least 30% of the acquiree's share capital, is obliged to offer to other shareholders to sell their holdings ("obligatory offer"). On December 15, 2009, the date when the Group became the legal owner of the shares under the new purchase agreement, the Group derecognised all minority interests in the entity and accrued a liability to the minority shareholders in the amount of $17 million. This transaction resulted in a $5 million charge to accumulated profits.

On February 18, 2010, the Group made an offer to minority shareholders of Vanady-Tula to sell their stakes to the Group at a price of 3,861.91 roubles per share ($127.69 at the exchange rate as of December 31, 2009). The total purchase consideration for the ownership interests, that could be acquired, amounts to 521 million Russian roubles ($17 million at the exchange rate as of December 31, 2009).

Steel Dealers

On October 15, 2009, the Group acquired 100% in a holding company owning steel dealers throughout Russia (previously known as Carbofer). Purchase consideration amounted to $11 million. The financial position and the results of operations of this holding were included in the Group's consolidated financial statements beginning October 15, 2009. The acquisition was accounted for based on provisional values as the Group, as of the date of authorisation of issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations".

The table below sets forth the provisional fair values of consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

US$ million	**October 15, 2009**
Property, plant and equipment	$ 7
Other non-current assets	7
Inventories	73
Accounts and notes receivable	45
Cash	8
Total assets	**140**
Current liabilities	119
Total liabilities	**119**
Net assets	**$ 21**
Purchase consideration	**$ 11**
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**$ (10)**

4. Business Combinations (continued)

Steel Dealers (continued)

In 2009, cash flow on acquisition was as follows:

US$ million		
Net cash acquired with the subsidiary	$	8
Cash paid		(9)
Net cash outflow	**$**	**(1)**

At December 31, 2009, unpaid purchase consideration was $2 million.

For the period from October 15, 2009 to December 31, 2009, steel dealers reported net loss amounting to $5 million.

Other Acquisitions

On December 20, 2007, the Group acquired 100% in Nikom, a.s., ("Nikom"), a ferrovanadium producer located in the Czech Republic, for cash consideration of $46 million. Goodwill of $40 million arising on the acquisition of Nikom was recorded in the consolidated statement of financial position as of December 31, 2007.

Disclosure of Other Information in Respect of Business Combinations

As the acquired subsidiaries either did not prepare financial statements in accordance with IFRS before the business combinations or applied accounting policies that are significantly different from the Group's accounting policies, it is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

Except for the relevant disclosures in respect of Yuzhkuzbassugol and Highveld, it is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

5. Goodwill

The table below presents movement in the carrying amount of goodwill.

US$ million	Gross amount	Impairment losses	Carrying amount
At December 31, 2006	**$ 112**	**$ –**	**$ 112**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	1,122	–	1,122
Goodwill previously recognised in investments under the equity method (Note 11)	42	–	42
Goodwill allocated to disposal groups classified as held for sale (Note 11)	(16)	–	(16)
Goodwill in respect of subsidiaries acquired from entities under common control (Note 4)	863	–	863
Adjustment to contingent consideration	11	–	11
Translation difference	11	–	11
At December 31, 2007	**2,145**	–	**2,145**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	1,223	–	1,223
Adjustment to contingent consideration	(2)	–	(2)
Impairment	–	(756)	(756)
Palmrose	–	*(466)*	*(466)*
Claymont Steel	–	*(187)*	*(187)*
OSM Tubular – Portland Mill	–	*(103)*	*(103)*
Translation difference	(443)	–	(443)
At December 31, 2008	**2,923**	**(756)**	**2,167**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	69	–	69
Adjustment to contingent consideration	(5)	–	(5)
Impairment	–	(135)	(135)
Palmrose	–	*(100)*	*(100)*
Claymont Steel	–	*(15)*	*(15)*
OSM Tubular – Camrose	–	*(9)*	*(9)*
General Scrap	–	*(4)*	*(4)*
Evraz Inc. N.A. Canada (Surrey)	–	*(7)*	*(7)*
Translation difference	94	21	115
At December 31, 2009	**$ 3,081**	**$ (870)**	**$ 2,211**

5. Goodwill (continued)

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group. The carrying amount of goodwill was allocated among cash generating units as follows at December 31:

US$ million	**2009**	2008	2007
Evraz Inc. N.A. (former Oregon Steel Mills)	**$ 1,155**	$ 1,183	$ 1,082
Oregon Steel Portland Mill	***412***	*412*	*412*
OSM Tubular – Portland Mill	**–**	–	*103*
Rocky Mountain Steel Mills	***410***	*410*	*410*
OSM Tubular – Camrose Mills	***148***	*157*	*157*
Claymont Steel	***169***	*184*	–
General Scrap (was a part of IPSCO at the time of IPSCO acquisition)	***16***	*20*	–
Evraz Inc. N.A. Canada (former IPSCO)	**801**	700	–
Calgary	***220***	*190*	–
Red Deer	***54***	*46*	–
Regina Steel	***376***	*327*	–
Regina Tubular	***130***	*112*	–
Others	***21***	*25*	–
Palmrose	–	99	863
Dnepropetrovsk Iron and Steel Works	–	*24*	*512*
Dneprodzerzhinsk Coke Chemical Plant	–	*27*	*114*
Bagleykoks	–	*32*	*151*
Dneprokoks	–	*16*	*86*
Palini e Bertoli	**82**	80	84
Vanady-Tula	**66**	–	–
Strategic Minerals Corporation	**39**	45	47
Nikom, a.s.	**40**	38	40
Highveld Steel and Vanadium Corporation	**27**	21	28
Evro-Aziatskaya Energy Company	**1**	1	1
	$ 2,211	$ 2,167	$ 2,145

The cash generating units within Evraz Inc. N.A. and Evraz Inc. N.A. Canada represent the smallest identifiable groups of assets, primarily individual mills, that generate cash flows that are largely independent from other assets or groups of assets.

Goodwill was tested for impairment as of December 31, 2009. Events and circumstances that led to recognition of impairment are disclosed in Note 31, *Operating Environment of the Group.*

For the purpose of the goodwill impairment testing the Group assessed the recoverable amount of each cash generating unit to which the goodwill relates. The recoverable amount has been determined based on value in use calculation using cash flows projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash generating units. For mining operations management business plans cover the full life of mines. For the periods not covered by management business plans, cash flow projections have been estimated by extrapolating the respective business plans results using a zero real growth rate.

5. Goodwill (continued)

The key assumptions used by management in value in use calculation are presented in the table below.

	Period of forecast, years	Pre-tax discount rate, %	Commodity	Average price of the commodity per ton in 2010
Evraz Inc. N.A	5	13.05-14.89	steel products	$ 770
Evraz Inc. N.A. Canada	5	12.96-13.37	steel products	$ 898
Palini e Bertoli	5	13.64	steel plates	€ 461
Vanady-Tula	5	15.38	vanadium products	$28,191
Strategic Minerals Corporation	5	15.92-16.10	ferrovanadium products	$ 32,944
Nikom, a.s.	5	14.60	ferrovanadium products	$ 30,206
Highveld Steel and Vanadium Corporation	5	15.92	ferrovanadium products	$ 24,481
			steel products	$ 618

In respect of cash generating units, for which an impairment loss was recognised in 2009, the discount rates used in the previous estimates of value in use were as follows:

	Pre-tax discount rate, %
Palmrose	
Dnepropetrovsk Iron and Steel Works	16.59
Coking plants	16.76 - 17.19
Evraz Inc. N.A.	
Claymont Steel	13.83
OSM Tubular – Camrose	14.95
General Scrap	14.95
Evraz Inc. N.A. Canada	
Surrey	13.57

5. Goodwill (continued)

The calculations of value-in-use are most sensitive to the following assumptions:

Discount Rates

Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rates have been determined using the Capital Asset Pricing Model and analysis of industry peers.

Reasonable changes in discounts rates could lead to further impairment of goodwill at Evraz Inc. N.A. and Evraz Inc. N.A. Canada cash generating units. A 10% increase in the discount rates would lead to an additional impairment of $202 million.

Sales Prices

The prices of the products sold by the Group were estimated using industry research. Average 2010 prices for steel products were assumed to be 6% higher than average 2009 prices. The Group expects that in 2011-2014 the nominal prices will grow on average by 9% and in 2014 and thereafter – by 3%. Reasonable changes in the assumptions for products prices could lead to an additional impairment at Evraz Inc. N.A. cash generating units. If the prices assumed for 2010 and 2011 in the impairment test were 10% lower, this would lead to an additional impairment of $21 million.

Sales Volumes

Management assumed that the sales volumes of steel products would increase on average by 18% during 2010 and would grow evenly during the following five years to reach normal asset capacity thereafter. Reasonable changes in sales volumes could lead to an additional impairment at Evraz Inc. N.A. cash generating units. If the sales volumes were 10% lower than those assumed for 2010 and 2011 in the impairment test, this would lead to an additional impairment of $11 million.

Cost Control Measures

The recoverable amounts of cash generating units are based on the business plans approved by management. The reasonable deviation of cost from these plans could lead to an additional impairment at Evraz Inc. N.A. and Evraz Inc. N.A. Canada cash generating units. If the actual costs were 10% higher than those assumed for 2010 and 2011 in the impairment test, this would lead to an additional impairment of $43 million.

6. Acquisitions of Minority Interests in Subsidiaries

Buy Outs

At July 1, 2006, the Group was the owner of 96.68% shares of West-Siberian Iron and Steel Plant ("ZapSib") and 97.72% shares of Kachkanarsky Mining-and-Processing Integrated Works ("KGOK"). Under the Russian legislation, a shareholder owning 95% of the share capital is obliged to acquire the company's shares in case when the minority shareholders are willing to sell their stakes. On the other hand, such shareholder can initiate a forced disposal of the shares held by minority shareholders. Consequently, the Group obtained a call option and minority shareholders obtained a put option for the minority shares in the subsidiaries. At this date, the Group derecognised minority interests and accrued a liability to minority shareholders in the amount of $106 million. The liability was measured based on the highest price for the shares during the period of six months up to the date of its recognition, as required by the regulations.

In 2007, the liability to minority shareholders of ZapSib and KGOK as of December 31, 2006 was measured by independent experts. The excess of the new valuation over the liability to minority shareholders recognised as of December 31, 2006 amounting to $24 million was charged to accumulated profits in the consolidated statement of changes in equity for the year ended December 31, 2007. In addition, the Group derecognised minority interests in the amount of $3 million in respect of ZapSib's subsidiaries.

In March 2007, the Group made voluntary offers to minority shareholders of Nizhny Tagil Iron and Steel Plant ("NTMK"), Vysokogorsky Mining-and-Processing Integrated Works ("VGOK") and Nakhodka Trade Sea Port ("Nakhodka Port") to sell their stakes to the Group.

At the dates of voluntary offers, the Group derecognised minority interests in NTMK, VGOK and Nakhodka Port in the amount of $103 million and accrued a liability to minority shareholders in the amount of $174 million. The liabilities were measured based on the expected amounts to be paid to minority shareholders being the highest price for the shares during the period of six months up to the date of its recognition. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $71 million was charged to accumulated profits.

US$ million	**Minority interests derecognised**	**Fair value of liability at the date of derecognition**	**Charged to accumulated profits**
NTMK	$ 92	$ 162	$ 70
VGOK	9	9	–
Nakhodka Port	2	3	1
	$ 103	**$ 174**	**$ 71**

6. Acquisitions of Minority Interests in Subsidiaries (continued)

Buy Outs (continued)

In the course of the voluntary offer, the Group acquired minority interests of 1.09%, 0.83% and 1.54% in NTMK, VGOK and Nakhodka Port, respectively, for cash consideration of $37 million, $2 million and $1 million, respectively. As a result, the Group has obtained in each of the above mentioned subsidiaries an ownership interest exceeding 95% of the share capital. Consequently, the Group became subject to the regulations that require a controlling shareholder to acquire the company's shares in case when the minority shareholders are willing to sell their stakes. On the other hand, the Group received the right to require the minority shareholders to sell their stakes.

In August 2007, the Group started the buy out of minority shares of its five Russian subsidiaries (NTMK, ZapSib, KGOK, VGOK and Nakhodka Port). The buy outs were successfully completed in October 2007.

LDPP

In 2007, the Group acquired an additional minority interest of 19.9% in OAO Large Diameter Pipe Plant ("LDPP") for cash consideration of $10 million, which approximates the carrying value of the net assets attributable to the acquired shares.

Highveld

In 2008, the Group acquired an additional minority interest of 4.2% in Highveld (Note 4) for cash consideration of $69 million. The excess of the amounts of consideration over the carrying values of minority interests acquired amounting to $35 million was charged to accumulated profits.

Exercise of Potential Voting Rights

In 2008, the Group exercised options in respect of the interests in Caplink Limited and Velcast Limited, which owned a slab casting workshop and equipment. Total cash consideration amounted to $6 million. The difference between the carrying values of minority interests acquired and the purchase consideration in the amount of $21 million was included in additional paid-in capital and $1 million was charged to accumulated profits.

7. Income and Expenses

Cost of revenues, distribution costs, administrative expenses and social infrastructure maintenance expenses include the following for the years ended December 31:

US$ million		**2009**		2008		2007
Cost of inventories recognised as expense	**$**	**(3,255)**	$	(6,408)	$	(4,892)
Staff costs, including social security taxes		**(1,499)**		(2,154)		(1,532)
Depreciation, depletion and amortisation		**(1,632)**		(1,195)		(749)

7. Income and Expenses (continued)

In 2009, the Group made a reversal of the allowance for net realisable value in the amount of $148 million. In 2008, the amount of a write-down of finished goods to net realisable value together with the allowance for obsolete and slow-moving inventories that were recognised as expense amounted to $314 million. In 2007, these write-downs and allowances were not significant.

The major components of other operating expenses were as follows:

US$ million	**2009**	2008	2007
Idling, reduction and stoppage of production, including termination benefits	**$ (70)**	$ (19)	$ (4)
Restoration works and casualty compensations in connection with accidents	**(1)**	(4)	(20)
Write-off of Mezhegey licence	**–**	(12)	–
Other	**(57)**	(25)	(15)
	$ (128)	$ (60)	$ (39)

In July 2008, the Group won the tender to develop the Mezhegey coal deposit located in Russia. The Group offered $725 million in the tender held by the Russian State Mineral Resources Agency. Due to significant deterioration of economic conditions in the second half of 2008, the Group made a decision not to proceed with the purchase of the licence. In 2008, a prepayment amounting to $12 million, which was used to secure the licence, was written off to other operating expenses. In 2010, a new tender was held by the Russian State Mineral Resources Agency and the Group won the licence to develop the Mezhegey coal deposit for $32 million (Note 32).

Interest expense consisted of the following for the years ended December 31:

US$ million	**2009**	2008	2007
Bank interest	**$ (346)**	$ (392)	$ (285)
Interest on bonds and notes	**(268)**	(221)	(97)
Finance charges payable under finance leases	**(7)**	(7)	(8)
Interest on liabilities relating to employee benefits and expected return on plan assets	**(28)**	(17)	(10)
Discount adjustment on provisions	**(12)**	(9)	(4)
Interest on contingent consideration	**(2)**	(2)	(1)
Other	**(14)**	(7)	(4)
	$ (677)	$ (655)	$ (409)

7. Income and Expenses (continued)

Interest income consisted of the following for the years ended December 31:

US$ million	2009	2008	2007
Interest on bank accounts and deposits	**$ 17**	$ 37	$ 24
Interest on loans receivable	**10**	15	7
Interest on loans receivable from related parties	**6**	–	–
Interest on accounts receivable	**7**	1	9
Other	**–**	4	1
	$ 40	$ 57	$ 41

Gain/(loss) on financial assets and liabilities included the following for the years ended December 31:

US$ million	2009	2008	2007
Gain/(loss) on available-for-sale financial assets (Note 13)	**$ –**	$ (150)	$ –
Gain/(loss) on extinguishment of debts (Note 21)	**103**	80	–
Loss on trading with Raspadskaya shares	**(1)**	(27)	–
Change in the fair value of derivatives (Notes 18 and 26)	**1**	(10)	–
Impairment of financial instrument relating to the transaction with 49% ownership interest in NS Group (Note 18)	**(2)**	(3)	–
Remeasurement of liabilities to minority shareholders at fair value	**–**	–	(72)
Other	**(4)**	(19)	1
	$ 97	$ (129)	$ (71)

Remeasurement of Liabilities to Minority Shareholders at Fair Value

In October 2007, the Group exercised its call option in respect of 25% less one share ownership interest in Palini for €76 million ($107 million at the exchange rate as of the date of the transaction). The change in the fair value of the liability to minority shareholders amounting to $21 million was recorded as a loss within gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2007.

In 2007, in connection with the acquisition of Highveld the Group recognised $51 million on the remeasurement of liabilities to minority shareholders (Note 4).

8. Income Taxes

The Group's income was subject to tax at the following tax rates:

	2009	2008	2007
Russia	**20.00%**	24.00%	24.00%
Canada	**29.00%**	29.00%	–
Cyprus	**10.00%**	10.00%	10.00%
Czech Republic	**20.00%**	21.00%	24.00%
Italy	**31.40%**	31.40%	37.25%
South Africa	**28.00%**	28.00%	29.00%
Switzerland	**12.10%**	10.04%	12.60%
Ukraine	**25.00%**	25.00%	25.00%
USA	**35.00%**	35.00%	35.00%

Ferrotrade Limited (Gibraltar) has a Taxation Exemption Certificate under which it is currently liable to tax at the fixed annual amount of £225. This certificate is valid through 2010.

In November 2008, a reduction of income tax rate from 24% to 20% was announced by the Russian government. The new rate became effective from January 1, 2009. As such, the respective deferred tax assets and liabilities at December 31, 2008 were measured using the announced tax rate.

Major components of income tax expense for the years ended December 31 were as follows:

US$ million	2009	2008	2007
Current income tax expense	**$ (179)**	$ (1,622)	$ (1,064)
Adjustment in respect of income tax of previous years	**(6)**	28	31
Deferred income tax benefit/(expense) relating to origination and reversal of temporary differences	**(1,145)**	302	82
Deferred income tax benefit relating to changes in tax rates	**16**	107	5
Less: deferred income tax recognised directly in other comprehensive income	**1,653**	(7)	–
Income tax benefit/(expense) reported in the consolidated statement of operations	**$ 339**	$ (1,192)	$ (946)

8. Income Taxes (continued)

The major part of income taxes is paid in the Russian Federation. A reconciliation of income tax expense applicable to profit before income tax using the Russian statutory tax rate to income tax expense as reported in the Group's consolidated financial statements for the years ended December 31 is as follows:

US$ million	**2009**	2008	2007
Profit before income tax	**$ (1,600)**	$ 3,051	$ 3,125
At the Russian statutory income tax rate of 20% (2008 and 2007: 24%)	**320**	(732)	(750)
Deferred income tax benefit resulting from reduction in tax rate, net of amount recognised directly in other comprehensive income	**16**	100	5
Adjustment in respect of income tax of previous years	**(6)**	28	31
Effect of non-deductible expenses and other non-temporary differences	**(123)**	(430)	(93)
Effect of the difference in tax rates on dividend income from associates and joint ventures	**–**	23	31
Tax on dividends distributed by the Group's subsidiaries to parent company	**(1)**	(153)	(78)
Effect of the difference in tax rates in countries other than the Russian Federation	**119**	(100)	(37)
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	**11**	43	(43)
Share of profits in joint ventures and associates	**(2)**	25	(12)
Utilisation of previously unrecognised tax losses	**5**	5	–
Benefit arising from early payment of income tax	**–**	6	–
Tax paid on dividends to minorities	**–**	(7)	–
Income tax expense reported in the consolidated statement of operations	**$ 339**	$ (1,192)	$ (946)

In 2008, the effect of non-deductible expenses included $(181) million in respect of impairment of goodwill and $(94) million in respect of non-deductible foreign exchange losses related to Canadian and Luxembourg entities.

8. Income Taxes (continued)

Deferred income tax assets and liabilities and their movements for the years ended December 31 were as follows:

US$ million	2009	Change recognised in statement of operations	Change recognised in other comprehen-sive income	Change due to business combina tions	Translation difference	2008	Change recognised in statement of operations	Change recognised in other comprehen-sive income	Change due to business combina tions	Translation difference	2007
Deferred income tax liabilities:											
Valuation and depreciation of property, plant and equipment	$ 2,577	(349)	1,652	9	(9)	$ 1,274	(221)	(7)	170	(268)	$ 1,600
Valuation and amortisation of intangible assets	297	(47)	–	–	34	310	(39)	–	177	(54)	226
Undistributed earnings of subsidiaries	–	(11)	–	–		11	(43)	–	–	–	54
Other	96	36	–	–	2	58	(85)	–	47	(10)	106
	2,970	(371)	1,652	9	27	1,653	(388)	(7)	394	(332)	1,986
Deferred income tax assets:											
Tax losses available for offset	203	154	–	4	2	43	14	–	10	(4)	23
Accrued liabilities	124	(29)	–	–	6	147	(3)	–	7	(15)	158
Impairment of accounts receivable	22	(3)	–	2	(1)	24	2	–	–	(7)	29
Other	124	31	(1)	1	(1)	94	1	–	–	(15)	108
	473	153	(1)	7	6	308	14	–	17	(41)	318
Net deferred income tax asset	40	(5)	(3)	8	(4)	44	27	–	–	(5)	22
Net deferred income tax liability	$ 2,537	(529)	1,650	10	17	$ 1,389	(375)	(7)	377	(296)	$ 1,690

As of December 31, 2009, 2008 and 2007, deferred income taxes have been provided for in respect of undistributed earnings of the Group's subsidiaries amounting to $nil, $199 million and $1,046 million, respectively, as management intended to dividend these amounts. Management does not intend to distribute other accumulated earnings in the foreseeable future.

At December 31, 2009, the Group has not recognised a deferred tax liability and deferred tax asset in respect of temporary differences of $8,870 million and $2,284 million, respectively (2008: $4,118 million and $2,826 million, respectively, 2007: $3,685 million and $857 million, respectively). These differences are associated with investments in subsidiaries and were not recognised as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

The current tax rate on intra-group dividend income varies from 0% to 10%.

8. Income Taxes (continued)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies, except for the companies registered in Cyprus where group relief can be applied. As of December 31, 2009, the unused tax losses carry forward approximated $2,757 million (2008: $803 million, 2007: $369 million). The Group recognised deferred tax asset of $203 million (2008: $43 million, 2007: $23 million) in respect of unused tax losses. Deferred tax asset in the amount of $463 million (2008: $78 million, 2007: $45 million) has not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Tax losses of $1,873 million (2008: $463 million, 2007: $283 million) for which deferred tax asset was not recognised arose in companies registered in Luxembourg, Cyprus, Russia, Ukraine and Canada. Losses in the amount of $1,870 million (2008: $459 million, 2007: $270 million) are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $3 million (2008: $4 million, 2007: $13 million) will expire during 2016 – 2018.

9. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of December 31:

US$ million	**2009**	2008	2007
Revalued amount or cost:			
Land	**$ 292**	$ 157	$ 147
Buildings and constructions	**13,596**	2,383	2,200
Machinery and equipment	**21,600**	4,971	5,153
Transport and motor vehicles	**446**	430	461
Mining assets	**2,619**	2,603	3,170
Other assets	**77**	98	115
Assets under construction	**538**	691	728
	39,168	11,333	11,974
Accumulated depreciation, depletion and impairment losses:			
Buildings and constructions	**(9,675)**	(570)	(324)
Machinery and equipment	**(13,835)**	(1,218)	(1,161)
Transport and motor vehicles	**(174)**	(133)	(98)
Mining assets	**(488)**	(359)	(237)
Other assets	**(50)**	(35)	(39)
	(24,222)	(2,315)	(1,859)
Government grants:			
Machinery and equipment, net	**(5)**	(6)	(8)
	$ 14,941	$ 9,012	$ 10,107

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $121 million, $145 million and $114 million as of December 31, 2009, 2008 and 2007, respectively.

9. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended December 31, 2009 was as follows:

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2008, cost, net of accumulated depreciation and government grants (as previously reported)	**$ 159**	**$ 1,808**	**$ 3,747**	**$ 296**	**$ 2,244**	**$ 67**	**$ 691**	**$ 9,012**
Adjustments to provisional values	**(2)**	**5**	**–**	**1**	**–**	**(4)**	**–**	**–**
At December 31, 2008 (as adjusted)	**157**	**1,813**	**3,747**	**297**	**2,244**	**63**	**691**	**9,012**
Change in accounting policies: revaluation surplus (Note 2)	**135**	**2,804**	**4,962**	**–**	**–**	**–**	**–**	**7,901**
Change in accounting policies: revaluation deficit (Note 2)	**(21)**	**(315)**	**(266)**	**–**	**–**	**–**	**–**	**(602)**
Reclassifications between categories	**6**	**34**	**(13)**	**(1)**	**6**	**(34)**	**2**	**–**
Additions	**–**	**–**	**10**	**–**	**11**	**–**	**372**	**393**
Assets acquired in business combination	**–**	**31**	**26**	**2**	**–**	**–**	**2**	**61**
Assets put into operation	**3**	**56**	**346**	**24**	**73**	**15**	**(517)**	**–**
Disposals	**(1)**	**(20)**	**(59)**	**(4)**	**(1)**	**(1)**	**(6)**	**(92)**
Depreciation and depletion charge	**–**	**(362)**	**(943)**	**(42)**	**(147)**	**(17)**	**–**	**(1,511)**
Impairment losses recognised in statement of operations	**–**	**(22)**	**(35)**	**(11)**	**(53)**	**(1)**	**(19)**	**(141)**
Impairment losses reversed through statement of operations	**–**	**9**	**21**	**10**	**66**	**1**	**11**	**118**
Impairment losses recognised or reversed through other comprehensive income	**(4)**	**(11)**	**(28)**	**–**	**–**	**–**	**–**	**(43)**
Disposal of assets due to sale of a subsidiary	**–**	**(1)**	**–**	**–**	**(10)**	**–**	**–**	**(11)**
Transfer to/from assets held for sale	**(1)**	**(21)**	**(1)**	**–**	**–**	**(2)**	**–**	**(25)**
Change in site restoration and decommissioning provision	**–**	**5**	**6**	**–**	**3**	**–**	**–**	**14**
Translation difference	**18**	**(79)**	**(13)**	**(3)**	**(61)**	**3**	**2**	**(133)**
At December 31, 2009, revalued amount or cost, net of accumulated depreciation and government grants	**$ 292**	**$ 3,921**	**$ 7,760**	**$ 272**	**$ 2,131**	**$ 27**	**$ 538**	**$ 14,941**
At December 31, 2009, the carrying amount that would have been recognised had the assets been carried under the cost model	**$ 164**	**$ 1,745**	**$ 3,707**	**$ 272**	**$ 2,131**	**$ 27**	**$ 538**	**$ 8,584**

9. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended December 31, 2008 was as follows:

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2007, cost, net of accumulated depreciation and government grants	$ 147	$ 1,876	$ 3,984	$ 363	$ 2,933	$ 76	$ 728	$ 10,107
Reclassifications	–	160	(130)	(18)	(3)	(13)	4	–
Additions	–	1	27	3	32	–	1,135	1,198
Assets acquired in business combination	29	174	630	2	–	15	37	887
Assets put into operation	–	166	671	67	122	11	(1,037)	–
Disposals	(2)	(10)	(26)	(4)	(5)	(1)	(21)	(69)
Depreciation and depletion charge	–	(177)	(631)	(52)	(220)	(22)	–	(1,102)
Impairment losses recognised in statement of operations	–	(16)	(45)	(1)	(53)	–	(2)	(117)
Transfer to assets held for sale	2	1	6	–	–	1	–	10
Change in site restoration provision	–	5	15	–	21	–	–	41
Translation difference	(19)	(367)	(754)	(63)	(583)	(4)	(153)	(1,943)
At December 31, 2008, cost, net of accumulated depreciation and government grants	$ 157	$ 1,813	$ 3,747	$ 297	$ 2,244	$ 63	$ 691	$ 9,012

The movement in property, plant and equipment for the year ended December 31, 2007 was as follows:

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2006, cost, net of accumulated depreciation and government grants	$ 62	$ 1,075	$ 1,497	$ 202	$ 314	$ 31	$ 474	$ 3,655
Reclassifications	(2)	(3)	–	–	–	–	5	–
Additions	–	2	9	12	34	–	665	722
Assets acquired in business combination	88	654	2,359	107	2,530	51	238	6,027
Assets put into operation	–	175	392	72	34	16	(689)	–
Disposals	(6)	(13)	(20)	(7)	(3)	(2)	(4)	(55)
Depreciation and depletion charge	–	(95)	(405)	(37)	(98)	(21)	–	(656)
Impairment losses recognised in statement of operations	–	(1)	(3)	–	(1)	–	(2)	(7)
Disposal of assets due to sale of a subsidiary	–	(2)	–	–	–	–	–	(2)
Transfer to assets held for sale	(1)	(12)	(8)	–	–	–	–	(21)
Translation difference	6	96	163	14	123	1	41	444
At December 31, 2007, cost, net of accumulated depreciation and government grants	$ 147	$ 1,876	$ 3,984	$ 363	$ 2,933	$ 76	$ 728	$ 10,107

9. Property, Plant and Equipment (continued)

Impairment losses were identified in respect of certain items of property, plant and equipment that were recognised as functionally obsolete or as a result of the testing at the level of cash generating units.

The amount of borrowing costs capitalised during the year ended December 31, 2009 was $7 million (2008: $18 million, 2007: $nil). The rate used to determine the amount of borrowing costs eligible for capitalisation was 7%, which is the effective interest rate of the specific borrowings.

10. Intangible Assets Other Than Goodwill

Intangible assets consisted of the following as of December 31:

US$ million	**2009**	2008	2007
Cost:			
Customer relationships	**$ 1,276**	$ 1,117	$ 714
Trade names and trademarks	**31**	28	31
Water rights and environmental permits	**64**	63	63
Patented and unpatented technology	**9**	9	10
Contract terms	**42**	66	66
Other	**46**	56	46
	1,468	1,339	930
Accumulated amortisation:			
Customer relationships	**(307)**	(171)	(87)
Trade names and trademarks	**(19)**	(12)	(6)
Water rights and environmental permits	**(5)**	(3)	(2)
Patented and unpatented technology	**(6)**	(4)	(3)
Contract terms	**(2)**	(8)	–
Other	**(31)**	(33)	(26)
	(370)	(231)	(124)
	$ 1,098	$ 1,108	$ 806

As of December 31, 2009, 2008 and 2007, water rights and environmental permits with a carrying value $56 million had an indefinite useful life.

10. Intangible Assets Other Than Goodwill (continued)

The movement in intangible assets for the year ended December 31, 2009 was as follows:

US$ million	Customer relation-ships	Trade names and trademarks	Water rights and environ-mental permits	Patented and unpatented technology	Contract terms	Other	Total
At December 31, 2008, cost, net of accumulated amortisation (as previously reported)	**$ 722**	**$ 19**	**$ 60**	**$ 5**	**$ 59**	**$ 20**	**$ 885**
Adjustments to provisional values	**224**	**(3)**	**–**	**–**	**(1)**	**3**	**223**
At December 31, 2008, cost, net of accumulated amortisation (as adjusted)	**946**	**16**	**60**	**5**	**58**	**23**	**1,108**
Additions	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Amortisation charge	**(104)**	**(5)**	**(1)**	**(2)**	**(18)**	**(4)**	**(134)**
Emission allowances granted	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Emission allowances used/sold for the period	**–**	**–**	**–**	**–**	**–**	**(11)**	**(11)**
Impairment loss recognised in statement of operations	**(15)**	**–**	**–**	**–**	**–**	**–**	**(15)**
Impairment losses reversed through statement of operations	**8**	**2**	**–**	**–**	**–**	**–**	**10**
Translation difference	**134**	**(1)**	**–**	**–**	**–**	**1**	**134**
At December 31, 2009, cost, net of accumulated amortisation	**$ 969**	**$ 12**	**$ 59**	**$ 3**	**$ 40**	**$ 15**	**$ 1,098**

The movement in intangible assets for the year ended December 31, 2008 was as follows:

US$ million	Customer relation-ships	Trade names and trademarks	Water rights and environ-mental permits	Patented and unpatented technology	Contract terms	Other	Total
At December 31, 2007, cost, net of accumulated amortisation	$ 627	$ 25	$ 61	$ 7	$ 66	$ 20	$ 806
Additions	–	–	–	–	–	2	2
Assets acquired in business combination	613	–	–	–	27	7	647
Amortisation charge	(98)	(6)	(1)	(2)	(9)	(8)	(124)
Emission allowances granted	–	–	–	–	–	12	12
Emission allowances used for the period	–	–	–	–	–	(1)	(1)
Impairment loss recognised in statement of operations	–	(3)	–	–	–	(4)	(7)
Translation difference	(196)	–	–	–	(26)	(5)	(227)
At December 31, 2008, cost, net of accumulated amortisation	$ 946	$ 16	$ 60	$ 5	$ 58	$ 23	$ 1,108

10. Intangible Assets Other Than Goodwill (continued)

The movement in intangible assets for the year ended December 31, 2007 was as follows:

US$ million	Customer relation-ships	Trade names and trademarks	Water rights and environ-mental permits	Patented and unpatented technology	Contract terms	Other	Total
At December 31, 2006, cost, net of accumulated amortisation	$ 6	$ 3	$ 6	$ 9	$ 1	$ 12	$ 37
Additions	–	–	–	–	65	5	70
Assets acquired in business combination	697	28	57	–	–	11	793
Amortisation charge	(87)	(6)	(1)	(2)	–	(6)	(102)
Emission allowances granted	–	–	–	–	–	1	1
Emission allowances used for the period	–	–	–	–	–	(4)	(4)
Impairment loss recognised in statement of operations	–	–	–	–	–	(1)	(1)
Translation difference	11	–	(1)	–	–	2	12
At December 31, 2007, cost, net of accumulated amortisation	$ 627	$ 25	$ 61	$ 7	$ 66	$ 20	$ 806

In 2007, the Group acquired a 51% ownership interest in Frotora Holdings Ltd. (Cyprus). This purchase did not qualify for a business combination as the acquired company does not constitute a business. The company's assets comprised only rights under a long-term lease of land to be used for a construction of a commercial sea port in Ukraine. These rights were valued at $65 million (at the exchange rate as of the date of the purchase) and included in contract terms category of the intangible assets.

11. Investments in Joint Ventures and Associates

The Group accounted for investments in joint ventures and associates under the equity method.

The movement in investments in joint ventures and associates was as follows:

US$ million	Corber	Yuzhkuz-bassugol	Highveld	Streamcore	Kazankov-skaya	Other associates	Total
Investment at December 31, 2006	**$ 577**	**$ 679**	**$ 231**	**$ –**	$ –	**$ 7**	**$ 1,494**
Additional investments	–	–	442	–	–	–	442
Share of profit/(loss)	82	(10)	20	–	(5)	1	88
Dividends paid	(120)	–	(15)	–	–	(1)	(136)
Assets acquired in business combination (Note 4)	–	–	–	–	19	2	21
Acquisition of controlling interests (Note 4)	–	(682)	(686)	–	–	(5)	(1,373)
Translation difference	34	13	8	–	1	–	56
Investment at December 31, 2007	**573**	–	–	–	**15**	**4**	**592**
Share of profit/(loss)	212	–	–	–	(14)	–	198
Dividends paid	(95)	–	–	–	–	–	(95)
Return of capital to a shareholder	(35)	–	–	–	–	–	(35)
Assets acquired in business combination (Note 4)	–	–	–	–	–	7	7
Translation difference	(114)	–	–	–	(1)	(1)	(116)
Investment at December 31, 2008	**541**	–	–	–	–	**10**	**551**
Additional investments	–	–	–	42	–	13	55
Share of profit/(loss)	30	–	–	–	–	(1)	29
Surplus on revaluation of property, plant and equipment	66	–	–	–	–	–	66
Disposal of investments	–	–	–	–	–	(1)	(1)
Translation difference	(15)	–	–	2	–	–	(13)
Investment at December 31, 2009	**$ 622**	**$** –	**$** –	**$ 44**	**$** –	**$ 21**	**$ 687**

Share of profit/(loss) of joint ventures and associates comprised the following:

US$ million	2009	2008	2007
Share of profit/(loss), net	$ 29	$ 198	$ 88
Losses recognised in excess of the Group's investment in the associate (Note 13)	(37)	(4)	–
Share of profits/(losses) of joint ventures and associates recognised in the consolidated statement of operations	**$ (8)**	**$ 194**	**$ 88**

11. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited

Corber Enterprises Limited ("Corber") is a joint venture established in 2004 for the purpose of exercising joint control over economic activities of Raspadskaya Mining Group. The Group has 50% share in the joint venture, i.e. effectively owns 40% in OAO Raspadskaya.

The table below sets forth Corber's assets and liabilities as of December 31:

US$ million	2009	2008	2007
Mineral reserves	$ 864	$ 935	$ 1,163
Other property, plant and equipment	904	643	587
Other non-current assets	38	5	10
Inventories	44	56	51
Accounts and notes receivable	335	268	245
Cash	24	73	84
Total assets	**2,209**	**1,980**	**2,140**
Non-current liabilities	325	333	328
Deferred income tax liabilities	218	188	297
Current liabilities	111	102	107
Total liabilities	**654**	**623**	**732**
Minority interests	**316**	**277**	**260**
Net assets	**$ 1,239**	**$ 1,080**	**$ 1,148**

The table below sets forth Corber's income and expenses:

US$ million	2009	2008	2007
Revenue	$ 497	$ 1,200	$ 784
Cost of revenue	(286)	(362)	(374)
Other expenses, including income taxes	(140)	(311)	(194)
Net profit	**$ 71**	**$ 527**	**$ 216**
Attributable to:			
Equity holders of the parent entity	$ 57	$ 420	$ 170
Minority interests	14	107	46
Net profit	**$ 71**	**$ 527**	**$ 216**
50% of unrealised profits on transactions with the joint venture	1	2	(3)
Group's share of profits of the joint venture	**$ 30**	**$ 212**	**$ 82**

11. Investments in Joint Ventures and Associates (continued)

Yuzhkuzbassugol

On December 30, 2005, the Group acquired a 50% ownership interest in ZAO Coal Company Yuzhkuzbassugol ("Yuzhkuzbassugol") for cash consideration of $675 million payable to Crondale Overseas Limited ("Crondale"), an entity under common control with the Group. The Group determined that its ownership interest in Yuzhkuzbassugol represents the purchase of an associate and accounted for the investment under the equity method.

The table below sets forth Yuzhkuzbassugol's income and expenses till the date when the entity became a subsidiary of the Group (Note 4):

US$ million		**Period from January 1 to June 8, 2007**		**Year ended December 31, 2006**
Revenue	$	258	$	595
Cost of revenue		(194)		(482)
Other expenses, including income taxes		(84)		(170)
Net loss	**$**	**(20)**	**$**	**(57)**
Attributable to:				
Equity holders of the parent entity	$	(20)	$	(54)
Minority interests		–		(3)
Net loss	**$**	**(20)**	**$**	**(57)**
Group's share of loss of the associate	**$**	**(10)**	**$**	**(28)**

Kazankovskaya

In 2007, assets acquired in business combination included investment in ZAO Kazankovskaya ("Kazankovskaya"), a coal mining company and an associate of Yuzhkuzbassugol (Note 4). The Group owns 50% in Kazankovskaya.

The table below sets forth the fair values of Kazankovskaya's identifiable assets, liabilities and contingent liabilities at the date of acquisition of Yuzhkuzbassugol:

US$ million		**June 8, 2007**
Mineral reserves	$	69
Other property, plant and equipment		59
Inventories		1
Accounts receivable		13
Other current assets		2
Total assets		**144**
Non-current liabilities		83
Deferred income tax liabilities		13
Current liabilities		11
Total liabilities		**107**
Net assets	**$**	**37**

11. Investments in Joint Ventures and Associates (continued)

Kazankovskaya (continued)

The table below sets forth Kazankovskaya's assets and liabilities as of December 31:

US$ million	2009	2008	2007
Mineral reserves	$ –	$ 38	$ 72
Other property, plant and equipment	21	46	59
Inventories	2	2	1
Accounts receivable	1	1	8
Other current assets	1	1	3
Total assets	**25**	**88**	**143**
Non-current liabilities	48	83	92
Deferred income tax liabilities	8	–	10
Current liabilities	15	13	11
Total liabilities	**71**	**96**	**113**
Net assets/(liabilities)	**$ (46)**	**$ (8)**	**$ 30**

The table below sets forth Kazankovskaya's income and expenses for the periods from acquisition of the controlling interest in Yuzhkuzbassugol:

US$ million	2009	2008	Period from June 8 to December 31, 2007
Revenue	$ 15	$ 15	$ 7
Cost of revenue	(26)	(24)	(11)
Other expenses, including income taxes	(55)	(27)	(5)
Net loss	**$ (66)**	**$ (36)**	**$ (9)**
Group's share of loss of the associate	**$ (33)**	**$ (18)**	**$ (5)**
including: share of loss allocated against loan receivable from Kazankovskaya (Note 13)	(33)	(4)	–

11. Investments in Joint Ventures and Associates (continued)

Highveld Steel and Vanadium Corporation

On July 13, 2006, the Group acquired a 24.9% ownership interest in Highveld (Note 4). The Group determined that its ownership interest in Highveld represents an investment in an associate and accounted for it under the equity method.

On February 26, 2007, when the Board of directors of the Company approved the acquisition transaction, the completion of the acquisition of controlling interest in Highveld became probable and the Group recognised liabilities to Anglo and Credit Suisse under the option agreements (Note 4) in the amount of $442 million.

As a result, taking into account the eventual exercise of potential voting rights under the option agreements concluded by the Group with Anglo and Credit Suisse in 2006 in respect of an additional 54.1% ownership interest in Highveld, under which the exercise price for put and call options was fixed and adjusted for dividends to be distributed by Highveld to Anglo and Credit Suisse, the Group, in substance, obtained access to the economic benefits associated with that additional ownership interest. Consequently, the Group accounted for a 79% ownership interest in the associate under the equity method beginning February 26, 2007.

The fair values of identifiable assets, liabilities and contingent liabilities as of the date of the increase in the beneficial interest in Highveld were as follows:

US$ million	**February 26, 2007**
Property, plant and equipment	$ 413
Intangible assets	385
Other non-current assets	2
Inventories	71
Accounts and notes receivable	184
Cash and cash equivalents	58
Assets of disposal groups classified as held for sale	287
Total assets	**1,400**
Non-current liabilities	55
Deferred income tax liabilities	169
Current liabilities	335
Liabilities directly associated with disposal groups classified as held for sale	39
Total liabilities	**598**
Net assets	**$ 802**
Fair value of net assets attributable to 54.1% beneficial ownership interest	**$ 434**
Purchase consideration consisting of a liability under the option agreements	**$ 442**
Goodwill	**$ 8**

11. Investments in Joint Ventures and Associates (continued)

Highveld Steel and Vanadium Corporation (continued)

The Group classified assets, including goodwill, and liabilities of the businesses to be disposed of in accordance with the resolution of the European Commission as disposal groups held for sale (Note 12).

The table below sets forth Highveld's income and expenses for the periods from its acquisition till the date when the entity became a subsidiary of the Group:

US$ million	**Period from January 1 to April 26, 2007**	**Period from July 13 to December 31, 2006**
Revenue	$ 351	$ 481
Cost of revenue	(276)	(376)
Other expenses, including income taxes	(42)	(37)
Net profit	**$ 33**	**$ 68**
Group's share of profits of the associate	**$ 20**	**$ 17**

Streamcore

In 2009, the Group acquired a 50% interest in Streamcore, a joint venture established for the purpose of exercising joint control over facilities for scrap procurement and processing in Siberia, Russia. Cash consideration amounted to $42 million.

The table below sets forth the fair values of Streamcore's identifiable assets, liabilities and contingent liabilities at the date of acquisition:

US$ million	**September 4, 2009**
Property, plant and equipment	$ 59
Inventories	1
Accounts receivable	11
Total assets	**71**
Deferred income tax liabilities	5
Current liabilities	5
Total liabilities	**10**
Net assets	**$ 61**

11. Investments in Joint Ventures and Associates (continued)

Streamcore (continued)

The table below sets forth Streamcore's assets and liabilities as of December 31:

US$ million		2009
Property, plant and equipment	$	59
Inventories		–
Accounts receivable		15
Total assets		**74**
Non-current liabilities		2
Deferred income tax liabilities		5
Current liabilities		3
Total liabilities		**10**
Net assets	**$**	**64**

The table below sets forth Streamcore's income and expenses from the date of acquisition of interest in the joint venture:

US$ million		**Period from September 4 to December 31, 2009**
Revenue	$	5
Cost of revenue		(4)
Other expenses, including income taxes		(1)
Net profit	**$**	**–**
Group's share of profit of the joint venture	**$**	**–**

12. Disposal Groups Held for Sale

The major classes of assets and liabilities of the disposal groups measured at the lower of carrying amount and fair value less costs to sell were as follows as of December 31:

US$ million	**2009**	2008	2007
Land	**$ 1**	$ –	$ 1
Other property, plant and equipment	**12**	7	139
Goodwill	–	–	15
Other non-current assets	–	–	–
Current assets	–	–	56
Assets classified as held for sale	**13**	7	211
Liabilities directly associated with assets classified as held for sale	**1**	–	39
Net assets classified as held for sale	**$ 12**	$ 7	$ 172

The table below demonstrates the carrying values of assets and liabilities, at the dates of disposal, of the subsidiaries and other business units disposed of during 2007-2009.

US$ million	**2009**	2008	2007
Property, plant and equipment	**$ 30**	$ 91	$ 74
Goodwill	–	13	–
Other non-current assets	–	–	8
Inventory	**3**	35	–
Accounts and notes receivable	**7**	33	20
Assets held for sale acquired in business combinations	–	36	137
Total assets	**40**	208	239
Deferred income tax liabilities	–	10	–
Current liabilities	**14**	12	7
Total liabilities	**14**	22	7
Net assets	**$ 26**	$ 186	$ 232

Cash flows on disposal of subsidiaries and other business units were as follows:

US$ million	**2009**	2008	2007
Net cash disposed of with subsidiaries	**$ –**	$ –	$ –
Transaction costs	–	(7)	(3)
Cash received	**28**	168	226
Net cash inflow	**$ 28**	**$ 161**	**$ 223**

At December 31, 2008 and 2007, receivables in respect of the sold assets in the amount of $10 million and $16 million, respectively, were included in accounts receivable and receivables from related parties, respectively. At December 31, 2009, the Group owed $5 million in respect of the disposed business units.

12. Disposal Groups Held for Sale (continued)

The disposal groups sold during 2007-2009 are described below.

OAO Nerungriugol

At December 31, 2006, assets held for sale were mostly represented by OAO Nerungriugol, a subsidiary sold in April 2007. In 2007, the Group received a disposal consideration amounting to $84 million.

Highveld's Business Units

The assets held for sale at the date of acquisition of ownership interests in Highveld (Notes 4 and 11) included two divisions of Highveld (Transalloys, producing manganese alloys, and Rand Carbide, producing ferrosilicon and various carbonaceous products). Both divisions were included in the steel segment of the Group's operations. Transalloys division was sold in July 2007 for cash consideration of $139 million, resulting in a loss of $11 million. Rand Carbide was sold in February 2008 for cash consideration of $39 million, which approximated the carrying value of the disposed assets.

In addition, in 2007, for the purpose of acquisition of Highveld (Note 4), the Group committed to divest Highveld's vanadium extraction, vanadium oxides and vanadium chemicals plants located at the Vanchem site in Witbank, Republic of South Africa (collectively referred to as the Vanchem operations) along with an equity interest or a portion of the Mapoch iron and vanadium ore mine which guarantees supply of ore and slag to Vanchem operations. The divestment package also included a ferrovanadium smelter located on the site of Highveld steel facility and Highveld's 50% shareholding in SAJV, a joint venture between Highveld and two Japanese partners which own another ferrovanadium smelter at the same site. At December 31, 2007, the assets and liabilities of these business units were classified as assets and liabilities of disposal groups held for sale (Notes 4 and 11). The Highveld divestment package was included in the vanadium segment of the Group's operations.

On April 21, 2008, Highveld concluded agreements with an associated company of Duferco Group for the sale of the above mentioned vanadium production facilities, together with the 50% shareholding in SAJV, and a 35% non-dividend equity interest in Mapochs Mine (Pty) Ltd. The selling price was $110 million (at the exchange rate as of the date of disposal), transaction costs amounted to $10 million, including $3 million paid in 2007. On August 21, 2008, all regulatory consents were obtained, and the disposal was effected on August 29, 2008. In 2008, the Group recognised a loss of $45 million representing the difference between the estimated fair value less costs to sell of the disposal group as of December 31, 2007 and actual proceeds.

Mine 12

On June 1, 2009, the Group entered into a contractual agreement to sell a 100% ownership interest in Mine 12, the coal mine located in Russia, for cash consideration of $2 million. Under the terms of the agreement, control over Mine 12 was transferred to the purchaser at the date of the agreement and the Group ceased to consolidate Mine 12 from that date. In July 2009, the regulatory approval for the acquisition of Mine 12 was received and the transaction was completed.

12. Disposal Groups Held for Sale (continued)

Mine 12 (continued)

Loss from the sale of Mine 12 in the amount of $9 million was included in the consolidated statement of operations for the year ended December 31, 2009.

Other Disposal Groups Held for Sale

Other disposal groups held for sale included a few small subsidiaries involved in non-core activities (construction business, trading activity and recreational services) and other non-current assets.

13. Other Non-Current Assets

Non-Current Financial Assets

US$ million	**2009**	**2008**	**2007**
Investments in Delong Holdings Limited	**$ 43**	$ 23	$ –
Investments in Cape Lambert Iron Ore	**–**	10	–
Restricted deposits at banks	**18**	2	5
Loans issued to related parties (Note 29)	**–**	38	46
Loans receivable (Note 29)	**4**	5	12
Trade and other receivables (Note 29)	**1**	40	27
Other	**–**	–	3
	$ 66	$ 118	$ 93

Other Non-Current Assets

US$ million	**2009**	**2008**	**2007**
Deposit to secure put option for the shares of OAO Vanady-Tula (Note 4)	**$ 12**	$ 105	$ 126
Prepayment for a contribution to a newly established joint venture	**–**	28	–
Prepaids for purchases of minority interests	**8**	–	–
Long-term input VAT	**59**	2	2
Defined benefit plan asset (Note 23)	**15**	4	–
Fees for future purchases under a long-term contract	**12**	–	–
Other	**22**	21	19
	$ 128	$ 160	$ 147

13. Other Non-Current Assets (continued)

Investments in Delong Holdings Limited

On February 18, 2008, the Group entered into a share purchase agreement to acquire up to approximately 51.05% of the issued share capital of Delong Holdings Limited ("Delong"), a flat steel producer, headquartered in Beijing (the People's Republic of China – "China"), over an agreed period of time. This transaction was subject to anti-trust clearance by the regulatory authorities of China.

The share purchase agreement entered into between the Group, Best Decade and the shareholders of Best Decade included an initial sale to the Group of 10.01% of the issued share capital of Delong (the "Initial Sale") at 3.9459 Singapore dollar (S$) per share (the "Offer Price") or S$211 million ($150 million at the exchange rate as of the date of the transaction). This transaction was completed on February 28, 2008.

Best Decade also granted the Group a call option to acquire an additional 32.08% of the issued share capital of Delong. The Group granted Best Decade a put option with respect to 32.08% of the issued share capital of Delong, exercisable during the same period. The call option and put option were subject to the satisfaction of certain conditions, including obtaining antitrust approval and clearance from Ministry of Commerce and State Administration of Industry and Commerce of China. Both the call option and the put option have a strike price equal to the offer price of S$3.9459 per share. Total consideration under call and put option was S$677 million ($469 million at the exchange rate as of December 31, 2008).

Initially, the options were exercisable within six months after February 18, 2008, subsequently they were extended to August 18, 2009.

In addition, the beneficial shareholders of Best Decade have agreed to sell in the future approximately 8.96% of the issued share capital of Delong to the Group at the offer price when certain restrictions in place due to existing financing arrangements are released. The purchase price of additional shares was estimated at S$3.9459 per share or S$189 million ($131 million at the exchange rate as of December 31, 2008).

The investments in Delong were classified as available-for-sale financial assets and measured at fair value based on market quotations. The change in the fair value of these shares was initially recorded in equity. At December 31, 2008, the Group assessed the recoverability of these financial assets and considered them as impaired due to a significant and prolonged decline in the fair value of the investments. The cumulative loss of $129 million, being the difference between the acquisition cost and fair value of the shares at the reporting date, was recognised in gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations for the year ended December 31, 2008, within gain/(loss) on available-for-sale financial assets (Note 7). The foreign exchange gain amounted to $2 million.

In addition, the put option agreement for the shares of Delong was considered as onerous contract, in which the unavoidable costs of meeting the obligations exceed the economic benefits expected to be received under it. The Group did not recognise any provision for onerous contract, because the probability of the exercise of the put option was assessed as remote.

13. Other Non-Current Assets (continued)

Investments in Delong Holdings Limited (continued)

On August 18, 2009, the call and the put options under the agreement to acquire shares of Delong lapsed and ceased to have any further effect.

In 2009, the Group exercised the swap contract for the shares of Delong and used the proceeds to acquire approximately 5.47% of Delong shares for cash consideration of S$31 million ($22 million at the exchange rate as of the date of the transaction). The loss of $7 million, being the difference between the acquisition cost and fair value of the shares at the reporting date, was recognised in gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations, within gain/(loss) on available-for-sale financial assets (Note 7).

Investments in Cape Lambert Iron Ore

In March – June 2008, the Group purchased quoted shares and options to acquire quoted shares of Cape Lambert Iron Ore, an Australian mining company, for a total purchase consideration of $19 million. The Group recognised a gain of $5 million, representing the change in the fair value of options, in gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations, within change in the fair value of derivatives (Note 7). In July 2008, the Group additionally paid $15 million and, thereby, converted all of the options into shares. As of December 31, 2008, investments in Cape Lambert Iron Ore represented a 13.65% ownership interest in the entity.

The shares of Cape Lambert Iron Ore were classified as available-for-sale financial assets and measured at fair value based on market quotations. The change in the fair value of these shares was initially recorded in equity. At December 31, 2008, the Group assessed the recoverability of these financial assets and considered them as impaired due to a significant and prolonged decline in the fair value of the investments. The cumulative loss of $21 million, being the difference between the acquisition cost and fair value of the shares at the reporting date, was recognised in gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations for the year ended December 31, 2008, within gain/(loss) on available-for-sale financial assets (Note 7). The foreign exchange loss amounted to $8 million.

In 2009, the shares of Cape Lambert Iron Ore were sold for cash consideration of $17 million. The gain in the amount of $7 million was recognised in gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations, within gain/(loss) on available-for-sale financial assets (Note 7).

Loans Issued to Related Parties

Amounts receivable from related parties represent rouble-denominated loans granted by Yuzhkuzbassugol to Kazankovskaya (Note 11) in 2004 – 2005. The loans bore interest of 10% per annum and mature in 2013. In 2009, the interest rate was reduced to 0.1%. In 2009 and 2008, the Group wrote off $37 million and $4 million in respect of this loan. These amounts were included in share of profits/(losses) of joint ventures and associates caption of the consolidated statement of operations.

14. Inventories

Inventories consisted of the following as of December 31:

US$ million	2009	2008	2007
Raw materials and spare parts:			
– at cost	**$ 659**	$ 974	$ 429
– at net realisable value	**77**	145	332
	736	1,119	761
Work-in-progress:			
– at cost	**264**	376	210
– at net realisable value	**112**	156	–
	376	532	210
Finished goods:			
– at cost	**544**	496	648
– at net realisable value	**230**	269	–
	774	765	648
	$ 1,886	$ 2,416	$ 1,619

As of December 31, 2009, 2008 and 2007, the net realisable value allowance was $161 million, $318 million and $12 million, respectively.

As of December 31, 2009, 2008 and 2007, certain items of inventory with an approximate carrying amount of $81 million, $648 million and $415 million, respectively, were pledged to banks as collateral against loans provided to the Group (Note 21).

15. Trade and Other Receivables

Trade and other receivables consisted of the following as of December 31:

US$ million	2009	2008	2007
Trade accounts receivable	**$ 931**	$ 1,365	$ 1,156
Other receivables	**160**	90	723
	1,091	1,455	1,879
Allowance for doubtful accounts	**(90)**	(86)	(77)
	$ 1,001	$ 1,369	$ 1,802

Ageing analysis and movement in allowance for doubtful accounts are provided in Note 29.

16. Related Party Disclosures

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Amounts owed by/to related parties at December 31 were as follows:

	Amounts due from related parties			**Amounts due to related parties**		
US$ million	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Corber	**$ –**	$ –	$ –	**$ –**	$ –	$ 70
Kazankovskaya	**14**	10	7	**1**	1	7
Lanebrook Limited	**53**	81	–	**–**	–	1,022
Marens	**2**	2	31	**–**	–	–
Raspadsky Ugol	**1**	1	–	**73**	56	24
SEAR-MF	**–**	–	–	**–**	–	19
Yuzhny GOK	**22**	37	–	**154**	231	–
Other entities	**17**	9	24	**7**	34	62
	109	140	62	**235**	322	1,204
Less: allowance for doubtful accounts	**(2)**	(3)	(2)	**–**	–	–
	$ 107	$ 137	$ 60	**$ 235**	$ 322	$ 1,204

Transactions with related parties were as follows for the years ended December 31:

	Sales to related parties			**Purchases from related parties**		
US$ million	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Evrazmetall-Centre	**$ –**	$ –	$ 144	**$ –**	$ –	$ –
Evrazmetall-Chernozemie	**–**	–	65	**–**	–	–
Evrazmetall-Povolzhie	**–**	–	65	**–**	–	–
Evrazmetall-Severo-Zapad	**–**	–	46	**–**	–	–
Evrazmetall-Sibir	**–**	–	137	**–**	–	–
Evrazmetall-Ural	**–**	–	157	**–**	–	–
Interlock Security Services	**1**	1	–	**27**	32	5
Kazankovskaya	**5**	–	–	**15**	–	–
Raspadsky Ugol	**11**	–	–	**107**	354	192
Yuzhkuzbassugol	**–**	–	1	**–**	–	121
Yuzhny GOK	**6**	57	–	**34**	631	–
Other entities	**8**	19	17	**18**	46	51
	$ 31	$ 77	$ 632	**$ 201**	$ 1,063	$ 369

In addition to the disclosures pesented in this note, the balances and transactions with related parties are disclosed in Notes 4, 11 and 13.

16. Related Party Disclosures (continued)

Corber is the Group's joint venture (Note 11). At December 31, 2007, amounts due to Corber represented advances received from the entity in respect of dividends to be declared for 2007.

OOO Evrazmetall-Centre, OOO Evrazmetall-Sibir, OOO Evrazmetall-Ural, OOO Evrazmetall-Povolzhie, OOO Evrazmetall-Severo-Zapad, OOO Evrazmetall-Chernozemie were the entities under control of an ultimate principal shareholder of the Group and purchased steel products from the Group. In 2007, the Group sold approximately 5% of volume of steel products to these entities. The transactions were made on terms equivalent to those that prevail in arm's length transactions. In December 2007, the ultimate principal shareholder of the Group sold its ownership interests in these companies and they ceased to be the related parties to the Group. In October 2009, the Group acquired these entities (Note 4 – *Steel Dealers*).

Interlock Security Services is a group of entities controlled by a member of the key management personnel. The entities provide security services to the Russian subsidiaries of the Group.

Kazankovskaya is an associate of the Group (Note 11). In 2009, the Group purchased coal from the entity and sold mining equipment and inventory to Kazankovskaya.

Lanebrook Limited is a controlling shareholder of the Company. The amounts receivable from Lanebrook Limited represent overpayments for the acquired working capital of the Ukrainian businesses (Note 4). In addition, in 2008, the Group acquired a 1% ownership interest in Yuzhny GOK for cash consideration of $38 million (Note 18). As part of the transaction, the Group signed a put option agreement that gives the Group the right to sell these shares back to Lanebrook Limited for the same amount. The put option expires on December 31, 2010.

Marens is an entity under control of ultimate principal shareholders of the Group. In 2007, the Group granted a short-term interest-bearing loan to Marens for financing the construction of the office building. In 2008, the loan was repaid to the Group, the outstanding balances represent the unpaid interest.

OOO Raspadsky Ugol ("Raspadsky Ugol"), a subsidiary of the Group's joint venture, sells coal to the Group. Raspadsky Ugol represents approximately 18% of volume of the Group's coal purchases. The coal was sold at prevailing market prices at the dates of transactions. In 2009, the Group sold steel products and renderred services to Raspadsky Ugol.

ZAO SEAR-MF ("SEAR-MF") is an entity under control of an ultimate principal shareholder of the Group. The accounts payable to SEAR-MF represented zero-interest loans to Yuzhkuzbassugol, the Group's subsidiary, which were settled in 2008.

16. Related Party Disclosures (continued)

Yuzhkuzbassugol, the major coal supplier, was the Group's associate. The Group sold coal to processing mills of Yuzhkuzbassugol. The transactions were made at prevailing market prices at the dates of transactions. In 2007, Yuzhkuzbassugol became the Group's subsidiary (Note 4).

Yuzhny GOK, the ore mining and processing plant, is an associate of Lanebrook Limited. The Group sold steel products to Yuzhny GOK and purchased iron ore from the entity. The transactions are based on market prices.

Compensation to Key Management Personnel

Key management personnel include the following positions within the Group:

- directors of Evraz Group S.A.,
- top managers of major subsidiaries.

In 2009, 2008 and 2007, key management personnel totalled 58, 60 and 48 persons, respectively. Total compensation to key management personnel were included in general and administrative expenses in the consolidated statement of operations and consisted of the following:

US$ million		**2009**		2008		2007
Salary	**$**	**18**	$	22	$	25
Performance bonuses		**10**		29		20
Social security taxes		**1**		1		1
Share-based payments (Note 24)		**3**		18		3
Termination benefits		**–**		–		10
Other benefits		**1**		1		–
	$	**33**	$	71	$	59

17. Other Taxes Recoverable

Taxes recoverable consisted of the following as of December 31:

US$ million		**2009**		2008		2007
Input VAT	**$**	**173**	$	257	$	209
Other taxes		**85**		140		142
	$	**258**	$	397	$	351

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is fully recoverable within one year.

18. Other Current Assets

Other current assets included the following as of December 31:

US$ million		2009		2008		2007
Financial instrument relating to the transaction with a 49% ownership interest in NS Group (Note 4)	**$**	–	$	508	$	–
Investments in Yuzhny GOK (Note 16)		**38**		38		–
Bank deposits		**22**		25		25
Restricted deposits at banks		**59**		–		–
Financial assets at fair value through profit or loss (Note 13)		–		18		–
Other short-term investments		**1**		–		–
	$	**120**	$	589	$	25

Financial Instrument Relating to the Transaction with a 49% Ownership Interest in NS Group

This financial instrument represented investment amounting to $511 million in a 49% ownership interest in NS Group (Note 4) which was sold on January 30, 2009 for cash consideration of $508 million. The Group recognised an impairment loss of $3 million, which was included in gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations for the year ended December 31, 2008 (Note 7). Transaction costs paid in 2009 amounted to $2 million (Note 7).

Financial Assets at Fair Value through Profit or Loss

In 2009, the Group recognised $7 million gain on swaps for the shares of Delong and Cape Lambert Iron Ore, which was included in gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations, within change in the fair value of derivatives.

19. Cash and Cash Equivalents

Cash and cash equivalents, mainly consisting of cash at banks, were denominated in the following currencies as of December 31:

US$ million		2009		2008		2007
US dollar	**$**	**304**	$	536	$	72
Russian rouble		**170**		124		55
South African rand		**110**		177		105
Euro		**75**		45		83
Canadian dollar		**14**		27		–
Ukrainian hryvnia		**1**		12		–
Czech koruna		**1**		7		10
Other		–		2		2
	$	**675**	$	930	$	327

20. Equity

Share Capital

Number of shares	**2009**	**2008**	**2007**
Authorised			
Ordinary shares of €2 each	**257,204,326**	157,204,326	157,204,326
Issued and fully paid			
Ordinary shares of €2 each	**145,957,121**	122,504,803	118,309,653

Shareholders of Evraz Group are entitled to standard rights provided under the laws of Luxembourg to shareholders of stock companies ("société anonyme"). These rights comprise the right to vote at the shareholders meetings and the right to receive dividends.

Acquisition of the Ukrainian Businesses

On September 9, 2008, the Company issued 4,195,150 shares with par value of €2 each to settle the remaining liability for the acquisition of Palmrose (Note 4). Share premium on this issue, being the difference between the fair value of the shares measured based on market quotations at that date and nominal value of the issued shares, amounted to $746 million. Transaction costs were $1 million.

Scrip Dividends

On January 30, 2009, the Extraordinary General Meeting approved the modification of the method of payment of the 2008 interim dividends: euro equivalent of the outstanding dividends of $2.25 per share could be either exchanged for new shares of Evraz Group S.A. or paid in cash to the shareholders who voted against or abstained from voting.

The voluntary partial scrip dividend alternative was voted for in respect of 97,553,473 shares, representing 79.62% of the Company's share capital, entitling the holders to subscribe to 9,755,347 new shares issued at a price of $22.50 per share. The new shares are ranked pari passu with the existing ordinary shares of Evraz Group S.A. The Company's major shareholder, Lanebrook Limited, subscribed to 9,193,477 shares.

Share-based Payment Transactions

In 2007, the participants exercised share options granted under the Company's Incentive Plan 2005 (Note 24). The Company issued 810,047 shares with par value of €2 each and received $35 million in cash from the Plan's participants. Share premium of $33 million arising on the transaction was included in additional paid-in capital.

Starting from May 23, 2007, the Group made a decision to cease the issuance of new shares under the share options plans. Since that date the Group acquired its own shares (in the form of global depositary receipts) on the open market for the grantees or repurchased the share options after vesting.

20. Equity (continued)

Share-based Payment Transactions (continued)

In 2009, 2008 and 2007, 234,813, 275,994 and 243,872 share options, respectively, were repurchased after vesting. The cash spent on repurchase of vested options, amounting to $3 million, $77 million and $21 million in 2009, 2008 and 2007, respectively, was charged to accumulated profits.

Treasury Shares

During 2009, 2008 and 2007, the Group purchased 67,569, 1,037,498 and 55,656 treasury shares, respectively, for $5 million, $197 million and $8 million, respectively, and sold 135,000, 970,604 and 55,119 treasury shares, respectively, including 27,902, 253,104 and 55,119 shares, respectively, that were sold to the plan participants at exercise prices determined in the Incentive Plans. The excess of the purchase cost of treasury shares over the proceeds from their sale, amounting to $6 million, $107 million and $6 million in 2009, 2008 and 2007, respectively, was charged to accumulated profits. As of December 31, 2008 and 2007, the Group had 67,431 and 537 treasury shares, respectively.

Convertible Bonds and Equity Offerings

On July 13, 2009, Evraz Group S.A. completed the offering of $600 million unsecured convertible bonds (the “Convertible Bonds Offering”) and $300 million equity in the form of global depository receipts (“GDRs”) listed on the London Stock Exchange, representing ordinary shares of Evraz Group S.A. (the “Equity Offering”).

The bonds were issued at 100% of their principal amount. They bear interest of 7.25% per annum payable on a quarterly basis and mature on July 13, 2014.

The conversion can be exercised at the option of bondholders on any date during the period from September 11, 2009 till July 6, 2014. The bonds will be convertible into GDRs at an initial conversion price of $21.20 per GDR. The conversion price represents a 28% premium to the equity offering placement price of $16.50 per GDR, which is the reference price for the convertible bonds. Lanebrook, the Company’s parent, and its affiliate, subscribed for $200 million of the bonds.

The Group can early redeem the bonds at their principal amount plus accrued interest if 15% or less of the bonds remain outstanding.

In the equity offering, on July 13, 2009, 6,060,608 new shares were issued as GDRs at an issue price of $16.50 per GDR. The newly issued shares represented approximately 4.4% of the Company’s issued share capital after the issue.

The Company granted to Goldman Sachs and Morgan Stanley (the “Joint Bookrunners”) in the convertible bonds offering an over-allotment option to subscribe to additional bonds for up to $50 million, which was exercised in full on July 27, 2009 and resulted in an increase in the aggregate principal amount of the bonds to $650 million.

20. Equity (continued)

Convertible Bonds and Equity Offerings (continued)

The Company granted to the Joint Bookrunners in the equity offering an over-allotment option to subscribe to up to 909,090 additional GDRs, represented by 303,030 additional new shares, corresponding to additional gross proceeds of $15 million. This option was exercised in full on July 27, 2009. Transaction costs relating to the bonds and equity offerings amounted to $10 million and $5 million, respectively.

The Group considered that the convertible bonds represent a financial instrument that creates a financial liability and grants an option to the holders of the instrument to convert it into an equity instrument of the Company. The Group recognised the liability and equity components separately in its statement of financial position.

The Group determined the carrying amount of the liability component by measuring the fair value of a similar liability that does not have an associated equity component. The fair value of this liability was calculated based on cash flows discounted at the Group's market rate of interest (without a conversion option) at the date of the convertible bonds offering (13.26%). The carrying amount of the equity instrument represented by the option to convert the instrument into ordinary shares was then determined by deducting the fair value of the financial liability from the fair value of the compound financial instrument as a whole. Transaction costs relating to the convertible bonds offering were allocated between liability and equity components on a pro rata basis. As a result, the equity component of the convertible bonds amounting to $133 million was included in equity.

Increase of Authorised Share Capital

On July 31, 2009, Evraz Group S.A. increased its authorised share capital by 100,000,000 shares with par value of €2 each. In addition, in connection with the issue of convertible bonds, the shareholders resolved to extend the authority of the Board of Directors to issue new shares for another five years as well as the right of the Company to acquire up to 10% of its own shares.

Shares Lending Transactions

In order to facilitate the issuance of the convertible bonds, Morgan Stanley offered to certain institutional investors an opportunity to borrow ordinary shares of Evraz Group S.A., represented by GDRs, during the term of the bonds by means of a loan of GDRs beneficially owned by Lanebrook (the "Borrowed GDRs").

On August 4, 2009, the Board of Directors approved the issue of the new ordinary shares to Lanebrook in the amount equal to the number of shares underlying the borrowed GDRs. The Group effected a novation of the shares lending arrangements, whereby the Company was substituted for Lanebrook as a lender of the borrowed GDRs. As a result, on August 12, 2009, 7,333,333 new shares were issued to Lanebrook in exchange for the right to receive 7,333,333 shares lended under the shares lending transactions. These transactions had no impact on equity, as the Group's net assets did not change as a result of these transactions.

20. Equity (continued)

Earnings per Share

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the potential dilutive ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2009	2008	2007
Weighted average number of ordinary shares for basic earnings per share	**134,457,386**	123,495,726	119,363,489
Effect of dilution: share options	**–**	435,504	903,146
Weighted average number of ordinary shares adjusted for the effect of dilution	**134,457,386**	123,931,230	120,266,635
Profit/(loss) for the year attributable to equity holders of the parent, US$ million	**$ (1,251)**	$ 1,797	$ 2,103
Basic earnings/(losses) per share	**$ (9.30)**	$ 14.55	$ 17.62
Diluted earnings/(losses) per share	**$ (9.30)**	$ 14.50	$ 17.49

The weighted average number of ordinary shares for 2008 and 2007 includes the shares that were issued as part of the cost of a business combination (Note 4). When calculating earnings per share, it was assumed that the shares were issued on the date of acquisition of the Ukrainian businesses (December 11, 2007), since this is the date from which the results of the newly acquired entities were recognised in the consolidated statement of operations.

The fair value of shares issued as a scrip alternative on January 30, 2009 exceeded the cash alternative, thus giving rise to a bonus element in the issue of shares. The per share figures for all the periods presented have been restated to include a bonus element of 1,045,216 shares in the calculation of basic earnings per share from the beginning of the earliest period presented.

In 2007 and 2008, share options granted to participants of the Group's Incentive Plans (Note 24) had a dilutive effect. In 2009, the Group reported net loss. Consequently, the options were antidilutive.

In 2009, the convertible bonds were antidilutive as the interest (net of tax) per ordinary share obtainable on conversion exceeded basic earnings per share. 10,220,126 contingently issuable shares on conversion of the bonds could potentially dilute basic earnings per share in the future.

20. Equity (continued)

Earnings per Share (continued)

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these consolidated financial statements.

Dividends

Dividends declared by Evraz Group S.A. were as follows:

	Date of declaration	To holders registered at	Dividends declared, US$ million	US$ per share
Final for 2006	20/06/2007	20/06/2007	390	3.30
Interim for 2007	04/10/2007	19/10/2007	568	4.80
Final for 2007	15/05/2008	14/05/2008	497	4.20
Interim for 2008	29/08/2008	18/09/2008	1,011	8.25

The shareholders meeting held May 15, 2009 resolved not to declare final dividends for 2008. No interim dividends were declared during 2009.

Interim dividends for 2008 include $2 million in respect of treasury shares.

The final dividends for 2006 were distributed from accumulated profits to the extent that distributable amounts were available as of December 31, 2006. Distributable profits were determined based on separate financial statements of Evraz Group S.A. prepared in accordance with the statutory requirements. The amount of $283 million representing the excess of declared dividends over the Company's distributable accumulated profits as of December 31, 2006 reduced additional paid-in capital in 2007.

In addition, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends in 2009, 2008 and 2007 was $1 million, $80 million and $40 million, respectively.

Legal Reserve

According to the Luxembourg Law, the Company is required to create a legal reserve of 10% of share capital per the Luxembourg statutory accounts by annual appropriations which should be at least 5% of the annual net profit per statutory financial statements. The legal reserve can be used only in case of a bankruptcy.

20. Equity (continued)

Other Movements in Equity

Acquisitions of Minority Interests in Subsidiaries

In 2008, the Group acquired minority interests in certain subsidiaries (Note 6). The excess of acquired minority interests over the consideration amounting to $21 million was recorded as additional paid-in capital and the excess of consideration over the carrying value of minority interests amounting to $37 million was charged to accumulated profits. The purchase consideration for the minority interests acquired in 2007 (Note 6) approximated the carrying value of the net assets attributable to the acquired shares.

Derecognition of Minority Interests in Subsidiaries

In 2009, the Group derecognised minority interests in Vanady-Tula resulting in a $5 million charge to accumulated profits (Note 4).

21. Loans and Borrowings

Short-term and long-term loans and borrowings were as follows as of December 31:

US$ million	**2009**	2008	2007
Bank loans	**$ 4,605**	$ 7,163	$ 5,748
8.875 per cent notes due 2013	**1,156**	1,245	–
7.25 per cent convertible bonds due 2014 (Note 20)	**650**	–	–
8.25 per cent notes due 2015	**577**	725	750
9.5 per cent notes due 2018	**509**	560	–
10.875 per cent notes due 2009	**–**	300	300
13.5 per cent bonds due 2014	**661**	–	–
Unamortised debt issue costs	**(196)**	(94)	(82)
Difference between the nominal amount and liability component of convertible bonds (Note 20)	**(126)**	–	–
Interest payable	**87**	87	40
	$ 7,923	$ 9,986	$ 6,756

As of December 31, 2009, 2008 and 2007, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $411 million, $2,495 million and $1,260 million, respectively, and long-term loans and borrowings in the amount of $7,747 million, $7,498 million and $5,538 million, respectively, including the current portion of long-term liabilities of $1,498 million, $1,346 million and $804 million, respectively.

21. Loans and Borrowings (continued)

The average effective annual interest rates were as follows at December 31:

	Long-term borrowings			Short-term borrowings		
	2009	**2008**	**2007**	**2009**	**2008**	**2007**
US dollar	**7.30%**	6.56%	7.9%	**4.18%**	6.40%	6.2%
Russian rouble	**13.49%**	–	9.1%	**13.25%**	16.50%	8.0%
Euro	**5.11%**	5.54%	5.9%	**1.46%**	6.06%	5.5%
Czech koruna	–	–	–	**3.38%**	3.49%	–
Ukrainian hryvnia	–	–	–	–	–	13.4%
Canadian dollar	–	–	7.3%	–	–	–
South African rand	–	–	–	–	–	12.5%

The liabilities are denominated in the following currencies:

US$ million	**2009**	2008	2007
US dollar	**$ 7,233**	$ 9,345	$ 6,200
Russian rouble	**701**	364	182
Euro	**297**	348	311
Czech koruna	**14**	23	–
Ukrainian hryvnia	–	–	140
Canadian dollar	–	–	5
Unamortised debt issue costs	**(196)**	(94)	(82)
Difference between the nominal amount and liability component of convertible bonds (Note 20)	**(126)**	–	–
	$ 7,923	$ 9,986	$ 6,756

Covenants Reset

Some of the loan agreements and terms and conditions of guaranteed notes provide for certain covenants in respect of Evraz Group S.A. and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

In November 2009, the lenders under certain bank facilities approved the requested amendments to the agreements, which included a reset of the financial covenants. The total principal amount of these borrowings at December 31, 2009 was $2,895 million. As a result, the financial covenant ratios tested on the Group's consolidated numbers were loosened, with no testing for the year 2009; all financial covenant ratios that were tested on the consolidated numbers of Mastercroft Limited were replaced with the new ratios tested on the Group's consolidated numbers; new restrictions on capital expenditure, acquisitions and loans to third parties were established; a number of exemptions were introduced to the debt incurrence covenants, where applicable, allowing the Group to refinance its current debt maturities in the ordinary course.

In December 2009, the Group received the consent of the holders of its notes due in 2013, 2015 and 2018 totalling $2,242 million to amend the terms of certain covenants in the notes. The financial covenant ratios of the notes were subsequently amended in a manner similar to the amendments to the bank facilities.

21. Loans and Borrowings (continued)

Covenants Reset (continued)

In connection with the covenants reset, the Group incurred transaction costs comprising consent fees and legal fees amounting to $114 million, which will be amortised during the period of the borrowings. At December 31, 2009, the unpaid transaction costs were $29 million.

Covenants Compliance During 2009

A financial ratio maintenance covenant for the testing period ending June 30, 2009, applying under a syndicated loan agreement of one of the Group's subsidiaries, could have been breached when tested, in accordance with that loan agreement, following the issuance of the subsidiary's interim financial statements in November 2009. However, no event of default has occurred under the loan agreement, because that subsidiary obtained the syndicate's consent to reset the covenant levels commencing with the testing period ended June 30, 2009. In August 2009, the loan agreement was amended to implement that consent. The amendments include an additional pledge of the borrower's receivables and a guarantee of Evraz Group S.A. in respect of the loan.

Pledged Assets

The Group pledged its rights under some export contracts as collateral under the loan agreements. All proceeds from sales of steel pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

At December 31, 2009, 2008 and 2007, the Group had equipment with a carrying value of $11 million, $1,131 million and $121 million, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged inventory with a carrying value of $81 million, $648 million and $415 million as of December 31, 2009, 2008 and 2007, respectively. At December 31, 2009, 100% less one share of West-Siberian Iron & Steel Plant were pledged as collateral under bank loans. This subsidiary represents 15% of the consolidated assets and 9% of the consolidated revenues of the Group. At December 31, 2009, the net assets (including intra-group balances) of West-Siberian Iron & Steel Plant were $3,162 million. In addition, at the end of the reporting period, 50% less 1 share of Kachkanarsky Mining-and-Processing Integrated Works were pledged as collateral under an unutilised bank loan.

Issue of Notes and Bonds

In August and September 2004, EvrazSecurities issued guaranteed notes amounting to $300 million. The notes bore interest of 10.875% per annum payable semi-annually and matured on August 3, 2009. In August 2009, the Group repaid all its liabilities under these notes.

In November 2005, Evraz Group S.A. issued notes amounting to $750 million. The notes bear interest of 8.25% per annum payable semi-annually and mature on November 10, 2015. Mastercroft Limited unconditionally guaranteed the due and punctual payments of all amounts in respect of the notes.

21. Loans and Borrowings (continued)

Issue of Notes and Bonds (continued)

On April 24 and May 27, 2008, Evraz Group S.A. issued notes for the total amount of $1,300 million due in 2013 and notes for the total amount of $700 million due in 2018. The notes due in 2013 bear semi-annual coupon at the annual rate of 8.875% and must be redeemed at their principal amount on April 24, 2013. The notes due in 2018 bear semi-annual coupon at the annual rate of 9.5% and must be redeemed at their principal amount on April 24, 2018. The proceeds from the issue of the notes were used for financing a portion of the cost of the acquisition of IPSCO Inc. (Note 4).

In August 2008, the Group repaid the liabilities of Claymont Steel (Note 4) under the bonds with the nominal value of $105 million due in February 2015 at a premium of 14.75%. This premium together with the transaction costs, amounting to $19 million, was recorded in loss on extinguishment of debts in the consolidated statement of operations for the year ended December 31, 2008.

In 2009, the Group issued convertible bonds in the amount of $650 million, which bear interest of 7.25% per annum and mature on July 13, 2014 (Note 20).

In 2009, the Group issued rouble-denominated bonds in the total amount of 20,000 million Russian roubles, which bear interest of 13.50% per annum and mature on October 16, 2014. The currency and interest rate risk exposures of this transaction were partially economically hedged (Note 26).

Repurchase of Notes and Bonds

In 2008, the Group re-purchased notes due 2013, 2015 and 2018 with the nominal amount of $220 million for cash consideration of $121 million. As a result, the Group recognised a gain on extinguishment of debts in the amount of $99 million within gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations for the year ended December 31, 2008.

In 2009, the Group re-purchased notes due 2009, 2013, 2015 and 2018 with the nominal amount of $417 million for cash consideration of $302 million. As a result, the Group recognised a gain on extinguishment of debts in the amount of $115 million within gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations for the year ended December 31, 2009.

Loans from the Russian State Banks

In 2008, the Group signed loan agreements for $1,807 million with Vnesheconombank ("VEB") and 10,000 million Russian roubles ($340 million as of December 31, 2008) with VTB. The facilities matured in one year from the dates of disbursement. The interest rates were set at one year LIBOR plus 5% per annum (VEB) and 16.50% per annum (VTB). In 2008, the Group utilised $1,342 million under these loan agreements and $805 million were disbursed in 2009. These facilities were used for refinancing of short-term loans.

21. Loans and Borrowings (continued)

Loans from the Russian State Banks (continued)

In December 2009, the Group fully repaid its liabilities under $800 million loan from VEB and 10,000 million roubles loan from VTB.

In November 2009, the maturity of the VEB loan facility in the total amount of $1,007 million was extended for another twelve months. Consequently, the VEB tranches totalling $805 million have been classified as non-current liabilities in the consolidated statement of financial position as of December 31, 2009. Subsequent to the reporting date, the agreement with VEB has been further amended (Note 32).

Unamortised Debt Issue Costs

Unamortised debt issue costs represent agent commission and transaction costs paid by the Group in relation to the arrangement and reset of loans and notes.

Unutilised Borrowing Facilities

The Group had the following unutilised borrowing facilities as of December 31:

US$ million	**2009**	**2008**	**2007**
Unutilised borrowing facilities	**$ 1,345**	$ 1,679	$ 1,015

22. Finance Lease Liabilities

The Group has several lease agreements under which it has an option to acquire the leased assets at the end of lease term ranging from 2 to 13 years. The estimated remaining useful life of leased assets varies from 1 to 36 years. The leases were accounted for as finance leases in the consolidated financial statements. The carrying value of the leased assets was as follows as at December 31:

US$ million	**2009**	**2008**	**2007**
Buildings and constructions	**$ 6**	$ –	$ –
Machinery and equipment	**31**	16	17
Transport and motor vehicles	**101**	73	93
Assets under construction	**10**	–	–
	$ 148	$ 89	$ 110

The leased assets are included in property, plant and equipment in the consolidated statement of financial position (Note 9).

22. Finance Lease Liabilities (continued)

Future minimum lease payments were as follows at December 31:

US$ million	2009		2008		2007	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Not later than one year	**$ 24**	**$ 17**	$ 20	$ 15	$ 22	$ 15
Later than one year and not later than five years	**65**	**51**	41	34	57	46
Later than five years	**7**	**7**	8	6	9	8
	96	**75**	69	55	88	69
Less: amounts representing finance charges	**(21)**	**–**	(14)	–	(19)	–
	$ 75	**$ 75**	$ 55	$ 55	$ 69	$ 69

In the years ended December 31, 2009, 2008 and 2007, the average interest rates under the finance lease liabilities were 10.0%, 10.0% and 9.6%.

23. Employee Benefits

Russian Plans

In 2007-2009, the Russian subsidiaries of the Group provided regular lifetime pension payments and lump-sum amounts payable at the retirement date. These benefits generally depend on years of service, level of remuneration and amount of pension payment under the collective bargaining agreements. Other post-employment benefits consist of various compensations and certain non-cash benefits. The Group funds the benefits when the amounts of benefits fall due for payment.

In 2006, the Group started the process of changing the system of post-employment benefits at its certain Russian subsidiaries. At certain subsidiaries, the lifetime pension payments have been cancelled for employees retiring after January 1, 2009 and lump-sum amounts payable at the retirement date were stopped during 2009. These benefits have been replaced by new defined benefit plans under which the contributions have to be made to a separately administered non-state pension fund. Under the new plan, the Group matches 100% of the employees' contributions to the fund up to 4% of their monthly salary. The Group's contributions become payable at the participants' retirement dates.

In 2009, the Group realised a staff optimisation programme. The Group paid $22 million as termination benefits to approximately 10,000 employees discharged as a result of the staff optimisation measures. The termination payments were recognised as expense and included in other operating expense caption of the consolidated statement of operations for the year ended December 31, 2009.

Defined contribution plans represent payments made by the Group to the Russian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits.

23. Employee Benefits (continued)

Ukrainian Plans

The Ukrainian subsidiaries make regular contributions to the State Pension Fund thereby partially compensating preferential pensions paid by the fund to employees who worked under harmful and hard conditions. The amount of such pension depends on years of service and salary.

The Ukrainian enterprises gradually increase these compensations and in 2012 they will compensate 100% of preferential pensions. In addition, employees receive lump-sum payments on retirement under collective bargaining agreements. These benefits are based on years of service and level of compensation. All these payments are considered as defined benefit plans.

USA and Canadian Plans

The Group's subsidiaries in the USA and Canada have non-contributory defined benefit pension plans, post-retirement healthcare and life insurance benefit plans and supplemental retirement plans that cover all eligible employees. Benefits are based on pensionable years of service, pensionable compensation, or a combination of both depending on the individual plan. Certain employees that were hired after specified dates are no longer eligible to participate in the defined benefit plans. Those employees are instead enrolled in a defined contribution plan and receive a contribution funded by the Group's subsidiaries equal to 2-3% of annual wages. The new defined contribution plan is funded annually, and participants' benefits vest after three years of service. The subsidiaries also offer qualified Thrift (401(k)) plans to all of their eligible employees.

Other Plans

Defined benefit pension plans and a defined contribution plan are maintained by the subsidiaries located in South Africa, Italy and the Czech Republic.

Defined Contribution Plans

The Group's expenses under defined contribution plans were as follows:

US$ million	**2009**	**2008**	**2007**
Expense under defined contribution plans	**$ 187**	$ 283	$ 220

Defined Benefit Plans

The Russian, Ukrainian and the Other defined benefit plans are mostly unfunded and the USA and Canadian plans are partially funded.

23. Employee Benefits (continued)

The components of net benefit expense recognised in the consolidated statement of operations for the years ended December 31, 2009, 2008 and 2007 and amounts recognised in the consolidated statement of financial position as of December 31, 2009, 2008 and 2007 for the defined benefit plans were as follows:

Net benefit expense (recognised in cost of sales and general and administrative expenses)

Year ended December 31, 2009

US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
Current service cost	**$ (5)**	**$ (6)**	**$ (13)**	**$ (1)**	**$ (25)**
Interest cost on benefit obligation	**(11)**	**(7)**	**(33)**	**(2)**	**(53)**
Expected return on plan assets	**–**	**–**	**25**	**–**	**25**
Net actuarial gains/(losses) recognised in the year	**–**	**(1)**	**(2)**	**(1)**	**(4)**
Past service cost	**1**	**(2)**	**(1)**	**–**	**(2)**
Minimum funding requirements	**–**	**–**	**7**	**–**	**7**
Curtailment gain/(loss)	**1**	**–**	**(1)**	**–**	**–**
Net benefit expense	**$ (14)**	**$ (16)**	**$ (18)**	**$ (4)**	**$ (52)**

Year ended December 31, 2008

US$ million	Russian Plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
Current service cost	$ (8)	$ (4)	$ (11)	$ (1)	$ (24)
Interest cost on benefit obligation	(11)	(4)	(24)	(3)	(42)
Expected return on plan assets	–	–	25	–	25
Net actuarial gains/(losses) recognised in the year	(2)	–	(5)	1	(6)
Past service cost	1	(11)	–	–	(10)
Minimum funding requirements	–	–	(8)	–	(8)
Curtailment gain	13	–	–	–	13
Net benefit expense	$ (7)	$ (19)	$ (23)	$ (3)	$ (52)

Year ended December 31, 2007

US$ million	Russian Plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
Current service cost	$ (5)	$ –	$ (8)	$ (1)	$ (14)
Interest cost on benefit obligation	(9)	–	(15)	(1)	(25)
Expected return on plan assets	–	–	15	–	15
Net actuarial gains/(losses) recognised in the year	(1)	–	–	–	(1)
Past service cost	1	–	–	–	1
Net benefit expense	$ (14)	$ –	$ (8)	$ (2)	$ (24)

23. Employee Benefits (continued)

Actual return on plan assets was as follows:

US$ million	2009	2008	2007
Actual return on plan assets	**$ 66**	$ (101)	$ 19
including:			
USA & Canadian plans	**65**	(101)	18
Russian plans	**1**	–	1

Benefit liability

December 31, 2009

US$ million	**Russian Plans**	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Benefit obligation	**$ 173**	**$ 72**	**$ 562**	**$ 20**	**$ 827**
Plan assets	**(1)**	**–**	**(403)**	**–**	**(404)**
	172	**72**	**159**	**20**	**423**
Unrecognised net actuarial gains/ (losses)	**(55)**	**(4)**	**(74)**	**–**	**(133)**
Unrecognised past service cost	**14**	**(12)**	**–**	**–**	**2**
Benefit asset	**–**	**–**	**15**	**–**	**15**
Benefit liability	**$ 131**	**$ 56**	**$ 100**	**$ 20**	**$ 307**

December 31, 2008

US$ million	**Russian Plans**	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Benefit obligation	$ 150	$ 72	$ 475	$ 20	$ 717
Plan assets	(1)	–	(316)	–	(317)
	149	72	159	20	400
Unrecognised net actuarial gains/ (losses)	(31)	(12)	(67)	(5)	(115)
Unrecognised past service cost	18	(15)	–	–	3
Benefit asset	–	–	4	–	4
Benefit liability	$ 136	$ 45	$ 96	$ 15	$ 292

December 31, 2007

US$ million	**Russian plans**	**Ukrainian plans**	**USA & Canadian Plans**	**Other plans**	**Total**
Benefit obligation	$ 183	$ 56	$ 275	$ 21	$ 535
Plan assets	(2)	–	(199)	–	(201)
	181	56	76	21	334
Unrecognised net actuarial gains/ (losses)	(24)	–	18	(3)	(9)
Unrecognised past service cost	22	–	–	–	22
Benefit liability	$ 179	$ 56	$ 94	$ 18	$ 347

23. Employee Benefits (continued)

Movements in benefit obligation

US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
At December 31, 2006	**$ 89**	$ –	**$ 36**	**$ 6**	**$ 131**
Interest cost on benefit obligation	9	–	15	1	25
Current service cost	5	–	8	1	14
Change in liability due to business combinations	70	56	235	14	375
Benefits paid	(12)	–	(13)	(1)	(26)
Actuarial (gains)/losses on benefit obligation	11	–	(13)	3	1
Curtailment gain	1	–	–	–	1
Translation difference	9	–	7	(2)	14
At December 31, 2007	**182**	**56**	**275**	**22**	**535**
Interest cost on benefit obligation	11	4	24	3	42
Current service cost	8	4	11	1	24
Past service cost	(1)	33	–	–	32
Change in liability due to business combinations	–	–	229	–	229
Benefits paid	(21)	(5)	(21)	(2)	(49)
Actuarial (gains)/losses on benefit obligation	13	17	(35)	2	(3)
Curtailment gain	(14)	–	–	–	(14)
Translation difference	(28)	(37)	(8)	(6)	(79)
At December 31, 2008	**150**	**72**	**475**	**20**	**717**
Interest cost on benefit obligation	11	7	33	2	53
Current service cost	5	6	13	1	25
Benefits paid	(12)	(5)	(43)	(2)	(62)
Actuarial (gains)/losses on benefit obligation	29	(6)	46	(5)	64
Curtailment gain	(5)	–	–	–	(5)
Disposal of subsidiaries	(2)	–	–	–	(2)
Translation difference	(3)	(2)	38	4	37
At December 31, 2009	**$ 173**	**$ 72**	**$ 562**	**$ 20**	**$ 827**

The amount of contributions expected to be paid to the defined benefit plans during 2010 approximates $52 million.

23. Employee Benefits (continued)

Changes in the fair value of plan assets

US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
At December 31, 2006	**$ 1**	**$ –**	**$ 23**	**$ –**	**$ 24**
Change in plan assets due to business combinations	–	–	153	–	153
Expected return on plan assets	–	–	15	–	15
Contributions of employer	13	–	13	1	27
Benefits paid	(12)	–	(13)	(1)	(26)
Actuarial gains/(losses) on plan assets	–	–	4	–	4
Translation difference	–	–	4	–	4
At December 31, 2007	**2**	**–**	**199**	**–**	**201**
Change in plan assets due to business combinations	–	–	235	–	235
Expected return on plan assets	–	–	25	–	25
Contributions of employer	21	5	17	2	45
Benefits paid	(21)	(5)	(21)	(2)	(49)
Actuarial gains/(losses) on plan assets	–	–	(125)	–	(125)
Minimum funding requirements	–	–	(8)	–	(8)
Curtailment gain	(1)	–	–	–	(1)
Translation difference	–	–	(6)	–	(6)
At December 31, 2008	**1**	**–**	**316**	**–**	**317**
Expected return on plan assets	–	–	25	–	25
Contributions of employer	11	5	24	2	42
Benefits paid	(12)	(5)	(43)	(2)	(62)
Actuarial gains/(losses) on plan assets	1	–	40	–	41
Minimum funding requirements	–	–	7	–	7
Translation difference	–	–	34	–	34
At December 31, 2009	**$ 1**	**$ –**	**$ 403**	**$ –**	**$ 404**

The major categories of plan assets as a percentage of total plan assets were as follows at December 31:

	2009	2008	2007
USA & Canadian plans:			
Equity funds and investment trusts	**86%**	76%	58%
Corporate bonds and notes	**9%**	11%	22%
Shares	**0%**	4%	8%
Property	**3%**	4%	9%
Cash	**2%**	5%	3%

23. Employee Benefits (continued)

The following table is a summary of the present value of the benefit obligation, fair value of the plan assets and experience adjustments for the current year and previous four annual periods.

US$ million	**2009**	2008	2007	2006	2005
Defined benefit obligation	**$ 827**	$ 717	$ 535	$ 131	$ 81
Plan assets	**404**	325	201	24	–
(Deficit)/surplus	**(423)**	(392)	(334)	(107)	(81)
Experience adjustments on plan liabilities	**54**	(38)	(18)	11	–
Experience adjustments on plan assets	**24**	16	5	–	–

The principal assumptions used in determining pension obligations for the Group's plans are shown below:

	2009				**2008**				**2007**			
	Russian Plans	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**	**Russian Plans**	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**	**Russian Plans**	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**
Discount rate	**10%**	**12.4%**	**5.5-9.3%**	**4.2-9.5%**	8.5%	10.85%	5.75-7.5%	4.3%	6.8%	8%	5.0-6.4%	4.7-8.3%
Expected rate of return on assets	**12%**	**–**	**1.3-8.5%**	**–**	12%	–	6.75-8.5%	–	12%	–	7.8-8.5%	–
Future benefits increases	**8%**	**–**	**3%**	**3-10%**	6%	7-10%	0-7.75%	3.9%	5%	–	0%	0-3%
Future salary increase	**8%**	**9%**	**3-7.5%**	**6.3-7.5%**	6%	10%	3-4%	3.2%	5%	5%	3-4%	3-5%
Healthcare costs increase rate	**–**	**–**	**8-10%**	**–**	–	–	8-10%	–	–	–	7-10%	–

The expected long-term rate of return on defined benefit pension plan assets represents the weighted-average asset return for each forecasted asset class return over several market cycles.

A one percentage point change in the assumed rate of increase in healthcare costs would have insignificant effects on the Group's current service cost and the defined benefit obligation.

24. Share-based Payments

On April 25, 2005 and September 5, 2006, the Group adopted Incentive Plans under which certain members of the Board of Directors, senior executives and employees ("participants") could acquire shares of the Company. The exercise price of the options granted on June 15, 2005 under the Incentive Plan 2005 was fixed at $27.75 and $43.5 per share. Share options granted on September 5, 2006 under the Incentive Plan 2006 could be exercised for $65.37 per share.

The vesting dates under Plan 2005 were determined by the reference to the grant date (June 15, 2005) and became vested on the first, second and third anniversary of the grant date. Under Plan 2006, the vesting date for each tranche was the date falling 15 days after the date when the Board of directors decides to announce annual results. The actual vesting dates were as follows:

	Incentive Plan 2006	Incentive Plan 2005
December 15, 2005	–	63,685
June 15, 2006	–	555,170
May 11, 2007	99,282	–
June 15, 2007	–	750,000
April 15, 2008	148,904	–
June 15, 2008	–	1,250,000
May 15, 2009	248,183	–
	496,369	**2,618,855**

The plans were administrated by the Board of Directors of the Company. The Board of Directors had the right to accelerate vesting of the grant. In general, in the event of a participant's employment termination, all options granted to that participant, whether vested or not, expired on termination date. Under Plan 2005, unless otherwise determined by the Board of directors, all options which were not vested on the grantee's termination date became vested and remained exercisable within the period of one year. The options which were vested on the grantee's termination date remained exercisable and expired automatically as of the date of expiration.

In 2007, the Board of Directors made a decision to cease the issuance of new shares under the share options plans. Starting from May 23, 2007, the Group acquired its own shares in the form of global depositary receipts ("GDR") on the open market for the grantees or repurchases the share options after vesting.

On April 21, 2008, the Board of Directors resolved to delay the exercise of 17.5% of the options under Incentive Plan 2005. The participants received the right to claim indemnification from the Company of the difference between the market price at the date of exercise and the price of $100 per GDR. In addition, the participants had the right to receive dividends in respect of the extended portion and the right to vote under these GDRs.

24. Share-based Payments (continued)

This modification of Incentive Plan 2005 was treated as a cash-settled award. At December 31, 2008, the liability in respect of that award was $33 million.

In 2008 and 2006, the vesting date of the share options held by certain participants resigned from the Group was accelerated.

There have been no other modifications or cancellations to the plans during 2007 – 2009.

The Group accounted for its share options at fair value pursuant to the requirements of IFRS 2 "Share-based Payment". The weighted average fair value of options granted during 2006 and 2005 was $14.15 and $10.88 per share, respectively. The fair value of options under the extended portion was $272.34 per share. The fair value of these options was estimated at the date of grant using the Black-Scholes-Merton option pricing models with the following inputs, including assumptions:

	Incentive Plan 2006	**Incentive Plan 2005**
Dividend yield (%)	4 – 6	6 – 8
Expected volatility (%)	45.37	55.00
Risk-free interest rates (%)	5.42 – 5.47	4.36 – 4.59
Expected life of options (years)	0.7 – 2.7	0.5 – 3
Market prices of the shares at the grant dates	$66.06	$42.90

The liability under cash-settled award was measured using the following assumptions:

	December 31, 2008
Dividend yield (%)	n/a
Expected volatility (%)	84.10
Risk-free interest rates (%)	2.59
Expected life of options (years)	0.3
Market prices of the shares at the reporting date	$25.32

24. Share-based Payments (continued)

The industry average volatility has been used for valuation of the share options granted in 2005, while for the share options granted in 2006 the historical volatility has been taken. The expected volatility reflects the assumption that it is indicative of future trends which may not necessarily be the actual outcome.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the years.

	2009 No.	2009 WAEP	2008 No.	2008 WAEP	2007 No.	2007 WAEP
Outstanding at January 1	**370,340**	**$ 50.71**	**933,284**	**$ 48.72**	**2,266,580**	**$ 48.29**
Forfeited during the year	(107,625)	48.30	(33,846)	45.13	(224,258)	65.37
Exercised during the year:	(262,715)	51.70	(529,098)	47.55	(1,109,038)	44.48
by issue of shares	–		–		*(810,047)*	
by purchase of shares on the open market	*(27,902)*		*(253,104)*		*(55,119)*	
by repurchase of vested share options	*(234,813)*		*(275,994)*		*(243,872)*	
Outstanding at December 31	**–**	**$ –**	**370,340**	**$ 50.71**	**933,284**	**$ 48.72**
Vested at December 31	–	$ –	92,751	$ 45.96	176,842	$ 45.00
Exercisable at December 31	–	–	5,029	43.50	42,619	44.02

The weighted average share price at the dates of exercise was $67.29, $310.22 and $111.33 in 2009, 2008 and 2007, respectively.

The weighted average remaining contractual life of the share options outstanding as at December 31, 2008 and 2007 was 0.30 and 0.54 years, respectively.

In the years ended December 31, 2009, 2008 and 2007, compensation expense, arising from the share option plans, was as follows:

US$ million	**2009**	**2008**	**2007**
Expense arising from equity-settled share-based payment transactions	**$ –**	$ 2	$ 5
Expense arising from cash-settled share-based payment transactions	**6**	33	–
	$ 6	$ 35	$ 5

In 2009, the Group paid $35 million in respect of the cash-settled share-based compensations, $4 million were unpaid at December 31, 2009.

25. Provisions

In the years ended December 31, 2009, 2008 and 2007, the movement in provisions was as follows:

US$ million	Site restoration and decom-missioning costs	Legal claims	Other provisions	Total
At December 31, 2006	**$ 38**	**$ 3**	**$ 6**	**$ 47**
Additional provisions	7	10	14	31
Increase from passage of time	4	–	–	4
Change in provisions due to business combinations	82	13	50	145
Utilised in the year	(2)	(2)	(25)	(29)
Unused amounts reversed	–	(9)	(7)	(16)
Translation difference	5	–	–	5
At December 31, 2007	**134**	**15**	**38**	**187**
Additional provisions	47	6	30	83
Increase from passage of time	9	–	–	9
Effect of change in the discount rate	(10)	–	–	(10)
Effect of changes in estimated costs and timing	11	–	(1)	10
Utilised in the year	(5)	(3)	(9)	(17)
Unused amounts reversed	–	(13)	(3)	(16)
Translation difference	(26)	(1)	(3)	(30)
At December 31, 2008	**160**	**4**	**52**	**216**
Additional provisions	15	7	28	50
Increase from passage of time	12	–	–	12
Effect of changes in estimated costs and timing	(1)	–	–	(1)
Utilised in the year	(6)	(3)	(59)	(68)
Unused amounts reversed	–	(2)	(6)	(8)
Translation difference	10	–	–	10
At December 31, 2009	**$ 190**	**$ 6**	**$ 15**	**$ 211**

Site Restoration Costs

Under the legislation, mining companies and steel mills have obligations to restore mining sites and contaminated land. The respective liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate ranging from 8.00% to 13.00% (2008: from 6.85% to 11.90%, 2007: from 6.85% to 8.50%).

26. Other Long-Term Liabilities

Other long-term liabilities consisted of the following as of December 31:

US$ million		**2009**		2008		2007
Contingent consideration payable	**$**	**31**	$	34	$	34
Dividends payable under cumulative preference shares of a subsidiary to a related party		**14**		14		14
Employee income participation plans and compensations		**7**		16		15
Tax liabilities		**18**		18		13
Restructured liabilities assumed in business combination		–		–		127
Derivatives not designated as hedging instruments (Note 21)		**6**		–		–
Other liabilities		**18**		7		7
		94		89		210
Less: current portion (Note 27)		**(26)**		(31)		(155)
	$	**68**	$	58	$	55

Derivatives Not Designated As Hedging Instruments

In 2009, the Group issued rouble-denominated bonds in the total amount of 20,000 million Russian roubles, which bear interest of 13.50% per annum (Note 21). To manage some of the transaction exposures, the Group concluded swap contracts under which it agreed to deliver $325 million at an interest rate of 7.50% per annum in exchange for 9,441 million roubles of the principal amount plus the accrued interest, and $50 million at an interest rate of 7.90% per annum in exchange for 1,450 million roubles of the principal amount plus the accrued interest. The exchange will be made on the same dates as the payments under the bonds. These swap contracts were not designated as cash flow or fair value hedge. The Group accounted for these derivatives at fair value which was determined using valuation techniques. The change in fair value of the derivatives amounting to $(6) million was recognised within gain/(loss) on financial assets and liabilities in the consolidated statement of operations for the year ended December 31, 2009 (Note 7).

Contingent Consideration Payable

Contingent consideration represents additional payments for the acquisition of Stratcor in 2006. The payments depend on the deviation of the average prices for vanadium pentoxide from certain levels and the amounts payable for each year are limited to maximum amounts. In 2010, the Group paid $16 million in respect of this liability.

27. Trade and Other Payables

Trade and other payables consisted of the following as of December 31:

US$ million	2009	2008	2007
Trade accounts payable	**$ 780**	$ 1,094	$ 729
Promissory notes with current maturities	**–**	5	4
Accrued payroll	**176**	208	201
Termination benefits	**1**	2	–
Other long-term obligations with current maturities (Note 26)	**26**	31	155
Other payables	**86**	139	153
	$ 1,069	$ 1,479	$ 1,242

Maturity profile of the accounts payable is shown in Note 29.

28. Other Taxes Payable

Taxes payable were mainly denominated in roubles and consisted of the following as of December 31:

US$ million	2009	2008	2007
VAT	**$ 67**	$ 72	$ 113
Social insurance taxes	**29**	31	39
Property tax	**16**	15	15
Land tax	**5**	9	10
Personal income tax	**10**	10	13
Other taxes, fines and penalties	**13**	17	19
	$ 140	$ 154	$ 209

29. Financial Risk Management Objectives and Policies

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

To manage credit risk related to cash, the Group maintains its available cash, mainly in US dollars, in reputable international banks and major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group's trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities. The major customer is Russian Railways (4.5% of total sales).

29. Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

Some part of the Group's sales is made on terms of letter of credit. In addition, the Group requires prepayments from certain customers. The Group does not require collateral in respect of trade and other receivables, except when a customer asks for a payment period which is longer than normal terms. In this case, the Group requires bank guarantees or other liquid collateral. The Group developed standard payment terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers.

Certain of the Group's long-standing Russian customers for auxiliary products, such as heat and electricity, represent municipal enterprises and governmental organisations that experience financial difficulties. The significant part of doubtful debts allowance consists of receivables from such customers. The Group has no practical ability to terminate the supply to these customers and negotiates with regional and municipal authorities the terms of recovery of these receivables.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below.

US$ million		**2009**		2008		2007
Restricted deposits at banks	**$**	**77**	$	2	$	5
Financial instruments included in other non-current assets		**–**		–		3
Long-term and short-term investments		**104**		622		25
Trade and other receivables		**1,002**		1,409		1,829
Loans receivable		**5**		113		60
Receivables from related parties		**107**		156		88
Cash and cash equivalents		**675**		930		327
	$	**1,970**	$	3,232	$	2,337

Receivables from related parties in the table above do not include prepayments in the amount of $nil, $19 million and $18 million as of December 31, 2009, 2008 and 2007, respectively.

The ageing analysis of trade and other receivables, loans receivable and receivables from related parties is presented in the table below.

US$ million	**2009**				2008				2007			
	Gross amount		**Impairment**		**Gross amount**		**Impairment**		**Gross amount**		**Impairment**	
Not past due	**$**	**842**	**$**	**(1)**	$	1,035	$	(8)	$	1,834	$	(3)
Past due		**364**		**(91)**		736		(85)		222		(76)
Less than six months		**187**		**(5)**		500		(13)		133		(4)
between six months and one year		**28**		**(8)**		166		(7)		16		(4)
over one year		**149**		**(78)**		70		(65)		73		(68)
	$	**1,206**	**$**	**(92)**	$	1,771	$	(93)	$	2,056	$	(79)

29. Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

In the years ended December 31, 2009, 2008 and 2007, the movement in allowance for doubtful accounts was as follows:

US$ million	2009	2008	2007
At January 1	**$ 93**	$ 79	$ 59
Charge for the year	**40**	35	15
Utilised	**(40)**	(7)	–
Translation difference	**(1)**	(14)	5
At December 31	**$ 92**	$ 93	$ 79

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group prepares the rolling 12-month financial plan which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities as they arise. In 2008, in response to the global financial crisis, the Group introduced a daily monitoring of cash proceeds and payments. The Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs. The Group's objective is to refinance its short-term debt by long-term borrowings.

The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, incluing interest payments.

29. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended December 31, 2009

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ 5	$ 25	$ 273	$ 930	$ 2,488	$ 1,091	$ 4,812
Interest	–	32	384	374	841	217	1,848
Finance lease liabilities	–	1	2	3	7	5	18
Financial instruments included in long-term liabilities	17	–	1	7	28	25	78
Total fixed-rate debt	22	58	660	1,314	3,364	1,338	6,756
Variable-rate debt							
Loans and borrowings							
Principal	242	229	1,135	904	795	41	3,346
Interest	–	30	103	69	42	5	249
Finance lease liabilities	–	5	16	22	32	3	78
Total variable-rate debt	242	264	1,254	995	869	49	3,673
Non-interest bearing debt							
Financial instruments included in other liabilities	5	–	–	–	–	–	5
Trade and other payables	196	647	23	–	–	–	866
Payables to related parties	112	62	14	–	–	–	188
Amounts payable under put options for shares of subsidiaries	17	–	–	–	–	–	17
Dividends payable	13	–	–	–	–	–	13
Total non-interest bearing debt	343	709	37	–	–	–	1,089
	$ 607	$ 1,031	$ 1,951	$ 2,309	$ 4,233	$ 1,387	$ 11,518

29. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended December 31, 2008

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ 8	$ 61	$ 1,727	$ 120	$ 1,333	$ 1,338	$ 4,587
Interest	–	54	357	239	633	366	1,649
Finance lease liabilities	–	2	3	3	7	8	23
Financial instruments included in long-term liabilities	1	–	16	4	13	29	63
Total fixed-rate debt	9	117	2,103	366	1,986	1,741	6,322
Variable-rate debt							
Loans and borrowings							
Principal	414	627	1,004	1,445	1,907	9	5,406
Interest	–	59	146	121	131	–	457
Finance lease liabilities	–	4	11	11	20	–	46
Total variable-rate debt	414	690	1,161	1,577	2,058	9	5,909
Non-interest bearing debt							
Financial instruments included in long-term liabilities	6	–	–	–	–	–	6
Trade and other payables	519	670	49	–	–	–	1,238
Payables to related parties	104	56	24	–	–	–	184
Dividends payable	320	–	–	–	–	–	320
Total non-interest bearing debt	949	726	73	–	–	–	1,748
	$ 1,372	$ 1,533	$ 3,337	$ 1,943	$ 4,044	$ 1,750	$ 13,979

29. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended December 31, 2007

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ –	$ 42	$ 268	$ 412	$ 176	$ 792	$ 1,690
Interest	–	23	108	110	202	191	634
Finance lease liabilities	–	1	4	4	8	8	25
Financial instruments included in long-term liabilities	–	–	15	1	13	32	61
Total fixed-rate debt	–	66	395	527	399	1,023	2,410
Variable-rate debt							
Loans and borrowings							
Principal	–	398	1,356	947	2,393	14	5,108
Interest	–	84	235	190	234	1	744
Finance lease liabilities	–	4	13	15	30	1	63
Total variable-rate debt	–	486	1,604	1,152	2,657	16	5,915
Non-interest bearing debt							
Financial instruments included in long-term liabilities	6	127	–	1	–	–	134
Trade and other payables	145	695	46	–	–	–	886
Payables to related parties	76	68	2	–	–	–	146
Amounts payable under put options for shares of subsidiaries	6	–	–	–	–	–	6
Dividends payable	96	–	–	–	–	–	96
Total non-interest bearing debt	329	890	48	1	–	–	1,268
	$ 329	$ 1,442	$ 2,047	$ 1,680	$ 3,056	$ 1,039	$ 9,593

Payables to related parties in the tables above do not include advances received in the amount of $47 million, $138 million and $86 million as of December 31, 2009, 2008 and 2007, respectively. In addition, payables to related parties in the table as of December 31, 2007 do not include a liability to Lanebrook in respect of the 48.6% ownership interest in Palmrose, which was settled by the issue of shares (Note 20).

29. Financial Risk Management Objectives and Policies (continued)

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on risk.

Interest Rate Risk

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities, such as finance lease liabilities and other obligations.

The Group incurs interest rate risk on liabilities with variable interest rate. The Group's treasury function performs analysis of current interest rates. In case of changes in market fixed or variable rates management may consider refinancing of a particular debt on more favourable terms. Due to the ongoing world liquidity crisis the Group has a limited ability to negotiate interest rates.

The Group does not have any financial assets with variable interest rate.

Fair Value Sensitivity Analysis for Fixed Rate Instruments

The Group does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Group's profits.

The Group does not account for any fixed rate financial assets as assets available for sale. Therefore, a change in interest rates at the reporting date would not affect the Group's equity.

Cash Flow Sensitivity Analysis for Variable Rate Instruments

Based on the analysis of exposure during the years presented, reasonably possible changes in floating interest rates at the reporting date would have changed profit before tax ("PBT") by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

29. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Interest Rate Risk (continued)

Cash Flow Sensitivity Analysis for Variable Rate Instruments (continued)

In estimating reasonably possible changes for 2007 the Group assessed the volatility of interest rates during the three years preceding the end of the reporting periods. In 2008 and 2009, the Group assessed reasonably possible changes based on the volatility of interest rates during the reporting periods.

	2009		2008		2007	
	Basis points	Effect on PBT	Basis points	Effect on PBT	Basis points	Effect on PBT
		US$ millions		*US$ millions*		*US$ millions*
Liabilities denominated in US dollars						
Decrease in LIBOR	**(25)**	**$ 8**	(53)	$ 24	(125)	$ 24
Increase in LIBOR	**100**	**(30)**	53	(24)	75	(14)
Decrease in Prime rate	**–**	**–**	(106)	4	–	–
Increase in Prime rate	**–**	**–**	106	(4)	–	–
Decrease in Federal Funds Rate	**–**	**–**	(33)	1	–	–
Increase in Federal Funds Rate	**–**	**–**	33	(1)	–	–
Liabilities denominated in euro						
Decrease in EURIBOR	**(25)**	**1**	(30)	1	(150)	3
Increase in EURIBOR	**100**	**$ (2)**	30	$ (1)	75	$ (1)

Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily are denominated are US dollars and euro.

The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is secured from currency risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

29. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Currency Risk (continued)

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

US$ million	2009	2008	2007
USD/RUB	**$ 1,732**	$ 967	$ 430
EUR/RUB	**(297)**	(390)	(313)
EUR/USD	**108**	180	193
CAD/USD	**1,281**	1,611	–
EUR/CZK	**22**	48	71
USD/CZK	**(154)**	(216)	(102)
USD/ZAR	**41**	(7)	36
EUR/ZAR	**43**	–	–
USD/UAH	**(88)**	(203)	–
RUB/UAH	**(15)**	12	–

Sensitivity Analysis

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating reasonably possible changes for 2007 the Group assessed the volatility of foreign exchange rates during the three years preceding the end of the reporting periods. In 2008 and 2009, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during the reporting periods.

	2009		2008		2007	
	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT
	%	*US$ millions*	*%*	*US$ millions*	*%*	*US$ millions*
USD/RUB	**(15.65)**	**(271)**	(8.98)	(87)	(5.80)	(25)
	15.65	**271**	8.98	87	4.20	18
EUR/RUB	**(12.18)**	**36**	(8.63)	34	(5.45)	17
	12.18	**(36)**	8.63	(34)	3.25	(10)
EUR/USD	**(12.96)**	**(14)**	(14.32)	(26)	(7.35)	(14)
	12.96	**14**	14.32	26	7.35	14
CAD/USD	**(14.02)**	**(180)**	(15.44)	(249)	–	–
	14.02	**180**	15.44	249	–	–
EUR/CZK	**(10.28)**	**(2)**	(10.61)	(5)	(4.10)	(3)
	10.28	**2**	10.61	5	4.10	3
USD/CZK	**(18.52)**	**29**	(18.52)	40	(9.40)	10
	18.52	**(29)**	18.52	(40)	9.40	(10)
USD/ZAR	**(21.41)**	**(9)**	(28.52)	2	(17.70)	(6)
	21.41	**9**	28.52	(2)	13.00	5
EUR/ZAR	**(17.74)**	**(8)**	–	–	–	–
	17.74	**8**	–	–	–	–
USD/UAH	**(31.30)**	**28**	(11.77)	24	–	–
	31.30	**(28)**	11.77	(24)	–	–
RUB/UAH	**(13.53)**	**2**	(14.73)	(2)	–	–
	13.53	**(2)**	14.73	2	–	–

29. Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data (unobservable inputs).

The carrying amounts of financial instruments, such as cash, short-term and long-term investments, short-term accounts receivable and payable, short-term loans receivable and payable and promissory notes, approximate their fair value.

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

US$ million	**2009**	**Level 1**	**Level 2**
Assets measured at fair value			
Available for sale financial assets	**43**	43	–
Liabilities measured at fair value			
Derivatives not designated as hedging instruments	**6**	–	6

During the reporting period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

29. Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

The following table shows financial instruments which carrying amounts differ from fair values.

US$ million	2009		2008		2007	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Long-term fixed-rate bank loans	**$ 1,234**	**$ 1,197**	$ 369	$ 354	$ 436	$ 423
Long-term variable-rate bank loans	**2,894**	**2,847**	4,253	3,819	3,998	3,910
8.875 per cent notes due 2013	**1,132**	**1,155**	1,260	668	–	–
7.25 per cent convertible bonds due 2014	**528**	**624**	–	–	–	–
8.25 per cent notes due 2015	**551**	**554**	718	374	742	747
9.5 per cent notes due 2018	**497**	**508**	567	284	–	–
10.875 per cent notes due 2009	**–**	**–**	314	302	314	316
13.5 per cent bonds due 2014	**674**	**667**	–	–	–	–
	$ 7,510	**$ 7,552**	$ 7,481	$ 5,801	$ 5,490	$ 5,396

The fair value of the non-convertible bonds and notes was determined based on market quotations. The fair value of convertible bonds and long-term bank loans was calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rates of interest at the reporting dates. The discount rates used for valuation of financial instruments were as follows:

Currency in which financial instruments are denominated	**2009**	**2008**	**2007**
USD	**8.6 – 9.5%**	10.0 – 16.8%	7.7%
EUR	**7.0%**	6.6%	6.5%
RUB	**16.0%**	23.0%	9.1%

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators. In addition, the Group and certain of its subsidiaries are subject to externally imposed capital requirements (loans and bonds covenants) which are used for capital monitoring. There were no changes in the objectives, policies and processes during 2009.

Capital includes equity attributable to the equity holders of the parent entity. Revaluation surplus which is included in capital is not subject to capital management because of its nature (Notes 4 and 9).

29. Financial Risk Management Objectives and Policies (continued)

Capital Management (continued)

The Group manages its capital structure and makes adjustments to it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments. The capital requirements imposed by certain loan agreements include the following:

- consolidated equity less goodwill should be at least $2,000 million.

30. Non-cash Transactions

Investing and financing transactions that did not require the use of cash or cash equivalents were as follows in the years ended December 31:

US$ million	**2009**	2008	2007
Liabilities for purchases of property, plant and equipment	**$ 49**	$ 124	$ 50
Liabilities for purchases of shares in subsidiaries and other entities	**1**	15	38
Issue of shares to settle the liability for the acquisition of the Ukrainian businesses (Note 4)	**–**	757	–
Loans provided in the form of payments by banks for the subsidiaries acquired by the Group (Note 4)	**–**	938	–
Refinancing of a bridge loan	**–**	–	1,535
Offset of restricted deposit with amounts payable to Credit Suisse for the purchase of 24.9% of Highveld's shares (Note 4)	**–**	–	207
Offset of loan receivable with amounts payable for the purchase of non-current assets	**–**	–	13
Offset of income tax receivable/(payable) against other taxes	**18**	(52)	–

31. Commitments and Contingencies

Operating Environment of the Group

The Group is one of the largest steel producers globally and is the largest steel producer in Russia. Its major subsidiaries are located in Russia, Ukraine, the European Union, the USA, Canada and the Republic of South Africa.

Russia and Ukraine are considered to be developing markets with higher economic and political risks. The Russian and Ukrainian economies are characterised by relatively high inflation and the existence of currency controls, which cause the national currency to be illiquid outside of the countries. Russia and Ukraine continue to implement economic reforms and the development of legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian and Ukrainian economies is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by governments. The developing economies are vulnerable to market downturns and economic slowdowns elsewhere in the world.

The ongoing global financial crisis resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia and Ukraine. The volatile global economic climate is having significant negative effects on the Group's business in North America and Europe.

The Group sells its products to shipping, pipe-making, railway transportation, construction, oil and gas industries, all of which have reported substantially lower customer demand due to the financial crisis and the slowing global economy. In addition to slackening demand by the end customers, some of the Group's customers are experiencing difficulty in obtaining credit, which has further reduced their purchases from the Group even beyond that resulting from the decline in their sales. The duration of the crisis and the recovery of these industries will have a significant impact on the Group.

The worldwide financial crisis may result in a further reduction of the available credit facilities as well as substantially higher interest rates. The reduced cash from operations and the reduced availability of credit may increase the cost, delay the timing of, or reduce planned capital expenditures.

While the stabilisation measures aimed at providing liquidity and supporting debt refinancing have been introduced by the governments, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. The unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

31. Commitments and Contingencies (continued)

Taxation

Russian and Ukrainian 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 are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities, which were identified by management at the end of the reporting period as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these financial statements could be up to approximately $38 million.

Contractual Commitments

At December 31, 2009, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of $324 million.

Social Commitments

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group's assets are located. In 2010, the Group plans to spend approximately $94 million under these programmes.

Environmental Protection

In the course of the Group's operations, the Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management believes that any pending environmental claims or proceedings will not have a material adverse effect on its financial position and results of operations.

The Group has a constructive obligation to reduce environmental pollutions and contaminations in the future in accordance with environmental protection programmes. In the period from 2010 to 2014, the Group is committed to spend approximately $167 million under this programme.

31. Commitments and Contingencies (continued)

Legal Proceedings

The Group has been and continues to be the subject of legal proceedings, none of which has had, individually or in aggregate, a significant effect on the Group's operations or financial position.

The Group, together with several other corporations and individuals, was named as a defendant in a civil action related to bankruptcy proceedings at KGOK that occurred between 1999 and 2003, prior to the Group's acquisition of KGOK and the alleged conversion and violations of the United States Racketeer Influenced and Corrupt Organisations Act ("RICO"). This law suit was filed in November 2004 in the United States District Court for the District of Delaware (the "District Court"). The plaintiffs seek damages in excess of $500 million.

On April 26, 2005, the plaintiffs filed another suit with the Delaware Chancery Court (the "Chancery Court") against the same defendants, including the Group, based on the same factual allegations. However, in October 2005, the Chancery Court granted the defendant's motion to stay the action pending the developments of the litigation between the parties in the District Court. In April 2006, the District Court dismissed the claim based on a decision that the plaintiffs' claim arises from the conduct of business in Russia and, therefore, the Russian jurisdiction is an adequate forum for the plaintiffs' claim, however, the District Court did not issue an injunction sought by the defendants that would bar plaintiffs from pursuing any additional litigations in the United States. Upon getting such a decision in the District Court, the plaintiffs filed an appeal on that decision and the defendants cross-appealed on the injunction issue. The plaintiffs made another attempt to continue the proceeding in the Chancery Court, which was not upheld: in August 2006 the Chancery Court has issued his opinion denying the plaintiffs' motion to lift the stay. In May 2007, the plaintiffs' appeal was dismissed.

During 2008 the plaintiffs wrote to the Delaware District Court concerning the English High Court decision held that litigation of a dispute between two other defendants in the Delaware District Court action (Messrs. Chernoi and Deripaska) should proceed in England because of the risk that Russian courts would not provide an adequate forum for that litigation. In their letter, the plaintiffs asked the Delaware District Court to postpone its decision on the injunction issue, and suggested that the English High Court's judgment may have some impact on the matters already decided by the Delaware District Court and affirmed by the Court of Appeals. In September 2008, the Delaware District Court denied the plaintiffs' request for related discovery, holding that it would be irrelevant to the pending injunction motion.

On May 13, 2009, the District Court rendered its decision, granting the defendants' motion and issuing a permanent injunction barring the plaintiffs from pursuing their claims in any other courts of the United States, including the pending action in the Chancery Court.

31. Commitments and Contingencies (continued)

Legal Proceedings (continued)

The plaintiffs have appealed the May 13, 2009 decision of the District Court to the United States Court of Appeals for the Third Circuit. The appeal was briefed, and oral argument took place on January 25, 2010. The court reserved its decision.

In March 2010, the Court of Appeals for the Third Circuit issued a judgment, affirming the order of the Delaware District Court that enjoined the plaintiffs from further litigation of their KGOK-related claims in the United States.

As a result, the plaintiffs are unable to proceed with their action in the Delaware Court of Chancery or any new action in the United States based on the same allegations.

Consequently, management believes that the ultimate resolution of the lawsuit will not have a significant impact on the financial position of the Group. Therefore, no provision is recognised in the financial statements in respect of this case.

Stratcor, the Group's subsidiary, together with IBM Corporation, Anglo American Plc., Gold Fields Ltd., UBS AG and some other companies, was named as a defendant in an action filed in 2004. Plaintiffs alleged that the defendants engaged in a conspiracy with the Apartheid-era government of South Africa in violation of international law and participated in genocide, expropriation and other wrongful acts. Plaintiffs sought unspecified compensatory damages and exemplary damages of $10,000 million. The Group's potential losses under this litigation were limited to the net assets of Stratcor. On March 9, 2009, the court dismissed that action based upon the plaintiffs' failure to prosecute the case. There have been no further proceedings since that time, and the plaintiffs have not sought to have the action reinstated or sought relief from the court's order.

32. Subsequent Events

Borrowings

Subsequent to December 31, 2009, the Group signed short-term bank loan agreements for $90 million.

Issue of Rouble-Denominated Bonds

In March 2010, the Group issued rouble-denominated bonds in the total amount of 15,000 million Russian roubles ($506 million at the exchange rate as of March 26, 2010), which bear interest of 9.25% per annum and mature in March 2013.

32. Subsequent Events (continued)

VEB Loan Amendment

In January 2010, Evraz Group S.A. signed an amendment to the loan agreement with VEB for $1,007 million (Note 21). Under the revised agreement, the extension of the four tranches was cancelled, thus resulting in a reclassification of $805 million into current liabilities. At the maturity dates, the Company is going to conclude with VEB separate agreements for the extension of each tranch. The interest rate will be fixed at one year LIBOR defined on two business days preceding the date of the extension agreement plus 5%.

Licence for Mezhegey Coal Deposit

In March 2010, the Group won the tender to develop the Mezhegey coal deposit located in East Siberia, Russia. The Group offered 950 million roubles (approximately $32 million) in the tender held by the Russian State Mineral Resources Agency.

The Mezhegey coal deposit is a world class coking coal deposit with estimated category A+B+C1 reserves of 213.5 million tonnes of hard coking coal (grade Zh under Russian classification). Detailed plans for the development of the Mezhegey deposit will be prepared in due course.