Open Joint Stock Company Magnitogorsk Iron & Steel Works and Subsidiaries

Independent Auditors' Review Report

Unaudited Condensed Consolidated Interim Financial Statements

For the Nine Months Ended 30 September 2008

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008

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

Management is responsible for the preparation of the unaudited condensed consolidated interim financial statements that present fairly the consolidated financial position of the Group at 30 September 2008 and the results of its operations, changes in equity and cash flows for the nine months then ended, in compliance with International Accounting Standard 34 "Interim Financial Reporting".

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

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

Management, within its competencies, is also responsible for:

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

The unaudited condensed consolidated interim financial statements for the nine months ended 30 September 2008 were approved on 3 December 2008 by:

O. V. Fedonin
Vice-President Finance

M. A. Zhemchueva
Chief Accountant

3 December 2008
Magnitogorsk, Russia

Deloitte.

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INDEPENDENT AUDITORS' REVIEW REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders of OJSC Magnitogorsk Iron & Steel Works:

Introduction

We have reviewed the accompanying condensed consolidated interim financial statements of Open Joint Stock Company Magnitogorsk Iron & Steel Works and its subsidiaries (the "Group"), which comprise the condensed consolidated interim balance sheet at 30 September 2008 and the related condensed consolidated interim statements of income, changes in equity and cash flows for the nine-month period then ended and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Deloitte + Touche

3 December 2008
Moscow, Russia

UNAUDITED CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE THREE AND NINE MONTHS ENDED 30 SEPTEMBER 2008

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

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2008	**2007**	**2008**	**2007**
REVENUE		3,529	2,150	9,182	6,150
COST OF SALES		(2,290)	(1,498)	(6,205)	(4,231)
GROSS PROFIT		**1,239**	**652**	**2,977**	**1,919**
General and administrative expenses		(155)	(115)	(401)	(323)
Selling and distribution expenses		(155)	(143)	(531)	(399)
Other operating (expenses)/income, net		(141)	11	(212)	(23)
OPERATING PROFIT		**788**	**405**	**1,833**	**1,174**
Share of results of associates	7	32	(4)	36	-
Finance income		17	46	80	90
Finance costs		(14)	(27)	(56)	(64)
Foreign exchange (loss)/gain, net		(4)	100	26	131
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition		4	-	4	20
Change in net assets attributable to minority participants		-	(3)	(3)	(5)
Other income		16	1	38	12
Other expenses		(24)	(32)	(73)	(70)
PROFIT BEFORE INCOME TAX		**815**	**486**	**1,885**	**1,288**
INCOME TAX		(148)	(84)	(402)	(247)
PROFIT FOR THE PERIOD		**667**	**402**	**1,483**	**1,041**
Attributable to:					
Shareholders of the parent company		665	402	1,487	1,045
Minority interest		2	-	(4)	(4)
		667	**402**	**1,483**	**1,041**
BASIC AND DILUTED EARNINGS PER SHARE (U.S. Dollars)		0.060	0.036	0.133	0.098
Weighted average number of ordinary shares outstanding (in thousands)		11,169,681	11,170,898	11,169,891	10,716,915

The notes on pages 9 to 52 are an integral part of these unaudited condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM BALANCE SHEET AT 30 SEPTEMBER 2008
(In millions of U.S. Dollars)

	Notes	30 September 2008	31 December 2007
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	6	11,016	10,409
Goodwill		37	35
Other intangible assets		38	46
Investments in associates	7	286	30
Deferred tax assets		102	39
Investments in securities and other financial assets	8	650	1,051
Other assets		24	4
Total non-current assets		12,153	11,614
CURRENT ASSETS:			
Inventories		1,276	963
Trade and other receivables		1,349	1,023
Investments in securities and other financial assets	8	565	1,744
Income tax receivable		15	43
Other taxes receivable		360	244
Cash and cash equivalents	9	985	256
Total current assets		4,550	4,273
TOTAL ASSETS		**16,703**	**15,887**
EQUITY AND LIABILITIES			
EQUITY:			
Share capital	10	386	386
Treasury shares	10	(5)	(1)
Share premium		1,107	1,105
Investments revaluation reserve		294	614
Translation reserve		(359)	-
Retained earnings		10,606	9,530
Equity attributable to shareholders of the parent company		12,029	11,634
Minority interest		185	152
Total equity		12,214	11,786
NON-CURRENT LIABILITIES:			
Long-term borrowings	11	240	200
Obligations under finance leases		18	31
Retirement benefit obligations		36	33
Deferred tax liabilities		1,715	1,885
Total non-current liabilities		2,009	2,149
CURRENT LIABILITIES:			
Trade and other payables		1,217	686
Short-term borrowings and current portion of long-term borrowings	12	1,201	1,198
Net assets attributable to minority participants		39	37
Current portion of obligations under finance leases		19	27
Current portion of retirement benefit obligations		4	4
Total current liabilities		2,480	1,952
TOTAL EQUITY AND LIABILITIES		**16,703**	**15,887**

The notes on pages 9 to 52 are an integral part of these unaudited condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008
(In millions of U.S. Dollars)

	Notes	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Translation reserve	Retained earnings	Equity attributable to shareholders of the parent company	Minority interest	Total equity
BALANCE AT 1 JANUARY 2008		**386**	**(1)**	**1,105**	**614**	**-**	**9,530**	**11,634**	**152**	**11,786**
Loss on available-for-sale investments		-	-	-	(421)	-	-	**(421)**	-	**(421)**
Translation of foreign operations		-	-	-	-	1	-	**1**	1	**2**
Effect of translation to presentation currency		-	-	-	-	(360)	-	**(360)**	(5)	**(365)**
Related income tax		-	-	-	101	-	-	**101**	-	**101**
Net income recognised directly in equity		-	-	-	(320)	(359)	-	**(679)**	(4)	**(683)**
Profit for the period		-	-	-	-	-	1,487	**1,487**	(4)	**1,483**
Total recognised income and expense		-	-	-	-	-	1,487	**1,487**	(4)	**1,483**
Buy-back of issued ordinary shares		-	(12)	-	-	-	-	**(12)**	-	**(12)**
Issuance of ordinary shares from treasury shares		-	8	3	-	-	-	**11**	-	**11**
Net increase in minority interest due to additional share issue by subsidiary and acquisition of subsidiary		-	-	-	-	-	-	**-**	43	**43**
Net decrease in minority interest due to increase of Group's share in subsidiaries									(1)	**(1)**
Dividends	10	-	-	-	-	-	(411)	**(411)**	(1)	**(412)**
Related income tax		-	-	(1)	-	-	-	**(1)**	-	**(1)**
BALANCE AT 30 SEPTEMBER 2008		**386**	**(5)**	**1,107**	**294**	**(359)**	**10,606**	**12,029**	**185**	**12,214**

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008 (CONTINUED)
(In millions of U.S. Dollars)

	Notes	Share capital	Treasury shares	Share premium	Investments revaluation reserve	Retained earnings	Equity attributable to share-holders of the parent company	Minority interest	Total equity
BALANCE AT 1 JANUARY 2007		**363**	**(85)**	**254**	**18**	**8,751**	**9,301**	**48**	**9,349**
Gain on available-for-sale investments		-	-	-	431	-	**431**	-	**431**
Related income tax		-	-	-	(104)	-	**(104)**	-	**(104)**
Net income recognised directly in equity		-	-	-	327	-	**327**	-	**327**
Profit for the period		-	-	-	-	1,045	**1,045**	(4)	**1,041**
Total recognised income and expense		-	-	-	-	1,045	**1,045**	(4)	**1,041**
Share issue		40	-	937	-	-	**977**	-	**977**
Buy-back of issued ordinary shares		-	(49)	-	-	-	**(49)**	-	**(49)**
Issuance of ordinary shares from treasury shares		-	8	23	-	-	**31**	-	**31**
Net increase in minority interest due to acquisitions of subsidiaries		-	-	-	-	-	**-**	106	**106**
Dividends	10	-	-	-	-	(529)	**(529)**	-	**(529)**
Related income tax		-	-	(5)	-	-	**(5)**	-	**(5)**
BALANCE AT 30 SEPTEMBER 2007		**403**	**(126)**	**1,209**	**345**	**9,267**	**11,098**	**150**	**11,248**

The notes on pages 9 to 52 are an integral part of these unaudited condensed consolidated interim financial statements.

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008
(In millions of U.S. Dollars)

	Notes	Nine months ended 30 September 2008	Nine months ended 30 September 2007
OPERATING ACTIVITIES:			
Profit for the period		1,483	1,041
Adjustments to profit for the period:			
Income tax		402	247
Depreciation and amortization		732	639
Finance costs		56	64
Loss on disposal of property, plant and equipment		72	86
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition		(4)	(20)
Change in allowance for doubtful accounts receivable		-	(4)
Loss/(gain) on disposal and revaluation of trading securities		152	(10)
Gain on disposal of associate		-	(23)
Finance income		(80)	(90)
Foreign exchange (gain)/loss, net		(26)	-
Share of results of associates		(36)	-
Total effect of adjustments to profit for the period		1,268	889
Increase in trade and other receivables		(525)	(253)
Increase in inventories		(313)	(142)
Increase in investments classified as trading securities		(11)	(25)
Increase in trade and other payables		325	117
Cash generated from operations		2,227	1,627
Interest paid		(60)	(46)
Income tax paid		(440)	(376)
Net cash generated by operating activities		1,727	1,205
INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1,658)	(765)
Purchase of intangible assets		(13)	(10)
Proceeds from sale of property, plant and equipment		25	22
Acquisition of subsidiaries, net of cash acquired	5	(3)	(43)
Acquisition of associates	7	(234)	(2)
Proceeds from disposal of associate		-	70
Interest received		150	48
Loans provided to related parties	13	(206)	(75)
Loans repaid by related parties	13	78	59
Purchase of securities and other financial assets		(70)	(89)
Proceeds from sale of securities and other financial assets		19	24
Net change in bank deposits		1,180	(1,055)
Net cash used in investing activities		(732)	(1,816)

OPEN JOINT STOCK COMPANY
MAGNITOGORSK IRON & STEEL WORKS AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2008 (CONTINUED)
(In millions of U.S. Dollars)

	Notes	Nine months ended 30 September	
		2008	**2007**
FINANCING ACTIVITIES:			
Proceeds from borrowings		2,593	1,373
Repayments of borrowings		(2,540)	(1,200)
Net increase in bank overdrafts		10	-
Proceeds of share issue, net of issuance costs		-	977
Proceeds from capital transactions of subsidiaries		41	-
Buy-back of issued ordinary shares		(12)	(49)
Proceeds from issuance of ordinary shares from treasury shares		11	26
Principal payments of obligations under finance leases		(23)	(26)
Dividends paid to:			
- equity holders of the parent		(309)	(459)
- minority interests		(1)	-
Net cash (used in)/generated by financing activities		(230)	642
NET INCREASE IN CASH AND CASH EQUIVALENTS		765	31
CASH AND CASH EQUIVALENTS, beginning of period		256	338
Effect of translation to presentation currency		(36)	-
CASH AND CASH EQUIVALENTS, end of period		**985**	**369**

The notes on pages 9 to 52 are an integral part of these unaudited condensed consolidated interim financial statements.

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

1. GENERAL INFORMATION

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

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

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

Shareholding structure of the Parent Company

At 30 September 2008 and 31 December 2007, the shareholding structure of the Parent Company was as follows:

	30 September 2008		31 December 2007	
Shareholder	**Number of shares, thousands**	**% held**	**Number of shares, thousands**	**% held**
Mintha Holding	5,168,708	46.3	5,168,708	46.3
Fulnek Enterprises Ltd.	4,582,346	41.0	4,582,346	41.0
The Bank of New York International Nominees	1,035,726	9.3	1,062,007	9.5
Other shareholders	387,550	3.4	361,269	3.2
Total	**11,174,330**	**100.0**	**11,174,330**	**100.0**

The ultimate controlling shareholder of the Parent Company is Mr. Viktor F. Rashnikov.

At 30 September 2008 and 31 December 2007, the Group's principal subsidiaries were as follows:

		Effective % held at	
Subsidiary by country of incorporation	**Nature of business**	**30 September 2008**	**31 December 2007**
Russian Federation			
OJSC Metizno-Kalibrovochny Zavod "MMK-Metiz"	Production of metal hardware products	85.88	85.88
LLC IK RFC	Investing activities	100.00	100.00
CJSC Stroitelny Fond	Renting services	100.00	100.00
CJSC Stroitelny Komplex	Construction	100.00	100.00

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

		Effective % held at	
Subsidiary by country of incorporation	**Nature of business**	**30 September 2008**	**31 December 2007**
CJSC Ogneupor	Production of refractory materials	99.50	99.50
CJSC Mekhanoremontny Komplex	Maintenance of metallurgical equipment	100.00	100.00
CJSC Mechanoremont	Renting services	98.93	98.93
OJSC MTSOZ	Production of cement and refractory materials	98.89	98.89
LLC Bakalskoe Rudoupravlenie	Mining	51.00	51.00
Switzerland			
MMK Steel Trade AG	Trading activities	100.00	100.00
MMK Trading AG	Trading activities	99.60	99.60
MMK Finance SA	Financing activities	96.77	96.77
Turkey			
MMK Atakas Metalurji	Construction of metal plant	50.00	50.00

The effective ownerships indicated in the table above are also the nominal holdings, except for CJSC Ogneupor (54.72% is held by the Parent Company and 45.28% by OJSC MTSOZ at 30 September 2008 and 31 December 2007).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

The unaudited condensed consolidated interim financial statements for the nine months ended 30 September 2008 have been prepared for the first time using accounting policies consistent with IFRS and in accordance with IAS 34 "Interim Financial Reporting" ("IAS 34") and IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). The unaudited condensed consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements. The Group's financial statements for the year ending December 31, 2008 will be the first annual consolidated financial statements that comply with IFRS.

The accounting policies set out below have been applied in preparing the unaudited condensed consolidated interim financial statements for the nine month period ended 30 September 2008, the comparative information presented in these financial statements, and in the preparation of the opening IFRS balance sheet at 1 January 2007 (as disclosed in Note 17), the Group's date of transition.

Basis of preparation

The unaudited condensed consolidated interim financial statements of the Group are prepared on the historical cost basis except for the revaluation of property, plant and equipment in accordance with IAS 16 "Property, Plant and Equipment" and certain financial instruments which are reported in accordance with IAS 39 "Financial Instruments: Recognition and Measurement".

The principal accounting policies are set out below.

Basis of consolidation

Subsidiaries

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

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

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

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

Associates

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

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

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

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

Special purpose entities

Special purpose entities ("SPE") are those undertakings that are created to satisfy specific business needs of the Group and the Group has the right to the majority of the benefits of the SPE, or is exposed to risks associated with activities of the SPE.

SPEs are consolidated in the same manner as subsidiaries when the substance of the relationship indicates that the SPE is controlled by the Group.

Net assets attributable to minority participants

The Group controls certain Limited Liability Companies ("LLC"). Non-controlling participants ("minority participants") in such LLC's have a right to request (at any time) redemption of their interest in the respective LLC in cash. The obligations of respective LLC to redeem those minority interests result in financial liabilities, amount of which is conditional upon the minority participants exercise its right. The management of the Group regularly performs assessment of potential liabilities based upon the carrying value of net assets attributable to minority participants in the respective LLC determined in accordance with Russian Accounting Standards and IFRS and the greater amount calculated using two approaches (usually amount determined under IFRS) is recorded as liability and presented in these unaudited condensed consolidated interim financial statements as Net assets attributable to minority participants. Any changes in net assets attributable to participants during period are recognised in the consolidated income statement as Change in net assets attributable to minority participants.

Functional and presentation currency

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

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

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

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

The translation into presentation currency is made as follows:

- All assets and liabilities, both monetary and non-monetary, are translated at closing exchange rates at the dates of each consolidated balance sheet presented;

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

- All items included in the consolidated shareholders' equity, other than net income, are translated at historical exchange rates;
- All income and expenses in each consolidated income statement are translated at exchange rates in effect when the transactions occur. For those transactions that occur evenly over the period an average exchange rate for the period is applied;
- Resulting exchange differences are included in the statement of changes in equity as "Effect of translation to presentation currency"; and
- In the consolidated statement of cash flows, cash balances at the beginning and end of each period presented are translated at exchange rates at the respective dates of the beginning and end of each period. All cash flows are translated at exchange rates in effect when the cash flows occur. For those cash flows that occur evenly over the period an average exchange rate for the period is applied. Resulting exchange differences are presented separately from cash flows from operating, investing and financing activities as "Effect of translation to presentation currency".

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

	30 September 2008	31 December 2007	30 September 2007
Russian Rouble/US Dollar			
Period-end rates	25.25	24.55	24.95
Average for the period	24.03	25.58	25.87
New Turkish Lira/US Dollar			
Period-end rates	1.24	1.17	1.22
Average for the period	1.21	1.31	1.35

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

Foreign currency transactions

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

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combination", are recognized at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, "Non Current Assets Held for Sale and Discontinued Operations", which are recognized and measured at fair value less costs to sell.

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

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

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

Goodwill

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

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

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

Revenue recognition

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

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

Borrowing costs

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

Income taxes

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

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

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

Current tax

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

Deferred income tax

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

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

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

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

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

Property, plant and equipment

Owned assets

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

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

No revaluations were performed subsequent to 1 January 2007.

Capitalized costs include major expenditures on improvements and replacements that extend the useful lives of the assets or increase their revenue generating capacity.

Repair and maintenance expenditures that do not meet the above criteria for capitalization are recognized in the consolidated income statement in the period in which they are incurred.

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

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

Depreciation

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

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

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

Leased assets

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

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

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

Mineral licenses

Mineral licenses to develop mineral reserves and resources are stated at historical cost less accumulated depreciation. Mineral licenses are presented as a separate component of property, plant and equipment in the consolidated balance sheet.

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

Intangible assets, excluding goodwill

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

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

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

Inventories

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

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

Net realizable value represents the estimated selling price for inventories less estimated costs to completion and selling costs. Where the net realizable value is lower than costs, an allowance for obsolete and slow-moving inventory is recognized.

Value-added taxes

Value-added taxes (“VAT”) related to sales are payable to the tax authorities upon issuance of invoices to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions that are not reclaimable as of the balance sheet dates is recorded as VAT receivable in the consolidated financial statements.

Financial instruments

Financial assets and financial liabilities are recognised in the Group’s balance sheet when the Group becomes a party to the contractual provisions of the instrument.

A financial instrument or a portion of a financial instrument is derecognized, when the Group loses its contractual rights or extinguishes the obligation associated with such an instrument. On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in consolidated income statement. On derecognition of a financial liability the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid is included in consolidated income statement.

Effective interest method

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

Financial Assets

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

Investments

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

Investments are classified into the following categories:

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

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

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

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

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

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

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

When a decline in fair value of an available-for-sale investment has been recognised directly in equity and there is objective evidence that investment is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in consolidated income statement even though the investment has not been derecognised.
Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at management's estimate of fair value.

Loans receivable

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

Trade and other receivables

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

Cash and cash equivalents

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

Financial liabilities

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

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

Trade and other payables

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

Bank loans and other non-bank borrowings

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

Financial guarantee contracts

Financial guarantee contracts are measured initially as a liability at their fair values and are subsequently measured at the higher of the amount of the current obligation under the contract, as determined in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, and the amount initially recognised less cumulative amortisation recognised in accordance with revenue recognition policies set out above.

Derivative financial instruments

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

All derivatives are recorded as either assets or liabilities at their fair values in the consolidated balance sheets and subsequently remeasured at their respective fair values at each balance sheet date.

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

Employee benefit obligations

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

Defined contribution plans

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

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

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

Restricted cash

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

Defined benefit plans

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

Provisions

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

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

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

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

Dividends declared

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

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

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

3. ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

In accordance with IFRS 1 the Group is required to develop and apply accounting policies in the preparation of its condensed consolidated interim financial statements for the interim period covered by its first IFRS financial statements based on IFRS effective at the reporting date of its first complete set of the consolidated financial statements, prepared in accordance with IFRS (i.e. for the year ending 31 December 2008). Accordingly, in the nine-month period ended 30 September 2008 the Group has adopted all IFRS and Interpretations issued by IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2007 and 2008.

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

New or revised IFRS and Interpretations issued by IFRIC	Effective for annual periods beginning on or after
IAS:	
IAS 1 "Presentation of Financial Statements" – amendment	1 January 2009
IAS 16 "Property, Plant and Equipment" – amendment	1 January 2009
IAS 19 "Employee Benefits" – amendment	1 January 2009
IAS 20 "Government Grants and Disclosure of Government Assistance" – amendment	1 January 2009
IAS 23 "Borrowing Costs" – amendment	1 January 2009
IAS 27 "Consolidated and Separate Financial Statements" – Consequential amendments arising from amendments to IAS 1	1 July 2009
IAS 28 "Investments in Associates" – Consequential amendments arising from amendments to IFRS 3	1 July 2009
IAS 31 "Interests in Joint Ventures" – Consequential amendments arising from amendments to IAS 27	1 July 2009
IAS 32 "Financial Instruments: Presentation" – amendment	1 July 2009
IAS 36 "Impairment of Assets" – amendment	1 January 2009
IAS 38 "Intangible Assets" – amendment	1 January 2009
IAS 39 "Financial Instruments: Recognition and Measurement" – amendment	1 January 2009
IAS 39 "Financial Instruments: Recognition and Measurement" – amendment	1 July 2009
IAS 40 "Investment Property" – amendment	1 January 2009
IAS 41 "Agriculture" – amendment	1 January 2009

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

New or revised IFRS and Interpretations issued by IFRIC	Effective for annual periods beginning on or after
IFRS:	
IFRS 1 "First-time Adoption of International Financial Reporting Standards" – Amendment relating to cost of an investment on first-time adoption	1 January 2009
IFRS 2 "Share-based Payment" – amendment	1 January 2009
IFRS 3 "Business Combinations" – Comprehensive revision on applying the acquisition method	1 July 2009
IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" – amendment	1 July 2009
IFRS 8 "Operating Segments"	1 January 2009
Interpretations issued by IFRIC:	
IFRIC 13 "Customer Loyalty Programmes"	1 July 2008
IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"	1 January 2009
IFRIC 15 "Agreements for the Construction of Real Estate"	1 January 2009
IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"	1 October 2008
IFRIC 17 "Distributions of Non-cash Assets to Owners"	1 July 2009

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.
The development of certain estimates involve the use of assumptions and are dependent on projected cash flows. In recent months a number of major economies around the world have experienced volatile capital and credit markets. As a consequence, the Group's customers and suppliers may be impacted by reduced liquidity and higher costs of funding, which may in turn require adjustments to management's estimates of projected cash flows and assumptions applied.

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

- Trade and other receivables ;
- Obsolete and slow-moving raw materials and spare parts;
- Useful economic lives and residual values of property, plant and equipment;
- Impairment of assets; and
- Taxation.

Trade and other receivables

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

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

Obsolete and slow-moving raw materials and spare parts

The Group creates an allowance for obsolete and slow-moving raw materials and spare parts.
In addition, certain finished goods of the Group are carried at net realisable value. 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 balance sheet date to the extent that such events confirm conditions existing at the end of the period. Any changes in the estimate may impact, either adverse or positive, could impact the amount and timing of any additional allowances for inventory that may be required.

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

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

The factors that could affect the estimation on non-current assets' life and its residual value include the following:

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

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

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

Impairment of assets

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

Taxation

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

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

5. ACQUISITION OF SUBSIDIARIES

2008 Acquisitions

LLC Uralsibtrade

At 24 June 2008, the Group acquired a 80% share in LLC Uralsibtrade, a trading company located in the Russian Federation, for a cash consideration of USD 2 thousand. The excess of the Group's share in the fair value of net assets acquired over the cost of acquisition in amount of USD 4 million has been included in the consolidated income statement.

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

2007 Acquisitions

OJSC Bashmetalloptorg

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

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

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

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

At the date of acquisition, OJSC Bashmetalloptorg did not prepare consolidated financial statements in accordance with IFRS. Thus, it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and they were not presented in these unaudited condensed consolidated interim financial statements.

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

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

LLC UK RFTs-Kapital

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

LLC Bakalskoe Rudoupravlenie

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

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

	Fair value
ASSETS	
Property, plant and equipment	86
Inventories	2
Trade and other receivables	1
	89
LIABILITIES	
Borrowings	5
Trade and other payables	3
Deferred tax liabilities	20
	28
Net assets at the date of acquisition	61
Less: share of net assets attributable to minority participants	(29)
Group's share on net assets acquired	32
Add: Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	(17)
Cost of acquisition	**15**

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

At the date of acquisition, LLC Bakalskoe Rudoupravlenie did not prepare consolidated financial statements in accordance with IFRS. Thus, it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and they were not presented in these unaudited condensed consolidated interim financial statements.

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

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

MMK Atakas Metalurji

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

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

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

At the date of acquisition, MMK Atakas Metalurji did not prepare consolidated financial statements in accordance with IFRS. Thus, it was not practicable to determine the carrying amounts of the acquired assets, liabilities and contingent liabilities in accordance with IFRS immediately before the acquisition, and they were not presented in these unaudited condensed consolidated interim financial statements.

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

CJSC Interkos-IV

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

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

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

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

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

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

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

6. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Mineral licenses	Machinery and equipment	Transportation equipment	Fixtures and fittings	Assets under construction	Total
Cost							
At 1 January 2007	**2,322**	**24**	**6,760**	**217**	**99**	**410**	**9,832**
Additions	85	-	65	24	17	1,146	1,337
Transfers	93	-	246	4	18	(361)	-
Acquisitions through business combinations (Note 5)	174	6	37	4	-	-	221
Disposals	(24)	-	(78)	(9)	(3)	(35)	(149)
At 31 December 2007	**2,650**	**30**	**7,030**	**240**	**131**	**1,160**	**11,241**
Additions	38	-	269	26	14	1,405	1,752
Transfers	202	-	304	3	34	(543)	-
Disposals	(11)	-	(108)	(10)	(3)	(9)	(141)
Effect of translation to presentation currency	(84)	(1)	(220)	(8)	(6)	(74)	(393)
At 30 September 2008	**2,795**	**29**	**7,275**	**251**	**170**	**1,939**	**12,459**
Depreciation							
At 1 January 2007	-	-	-	-	-	-	-
Charge for the year	(197)	(1)	(594)	(35)	(16)	-	(843)
Disposals	1	-	8	1	1	-	11
At 31 December 2007	**(196)**	**(1)**	**(586)**	**(34)**	**(15)**	**-**	**(832)**
Charge for the year	(160)	(1)	(506)	(27)	(13)	-	(707)
Disposals	3	-	33	4	2	-	42
Effect of translation to presentation currency	13	1	38	2	-	-	54
At 30 September 2008	**(340)**	**(1)**	**(1,021)**	**(55)**	**(26)**	**-**	**(1,443)**
Carrying amount							
At 31 December 2007	**2,454**	**29**	**6,444**	**206**	**116**	**1,160**	**10,409**
At 30 September 2008	**2,455**	**28**	**6,254**	**196**	**144**	**1,939**	**11,016**

At 30 September 2008 and 31 December 2007, property, plant and equipment with carrying amount of USD 15 million and USD 4 million, respectively, were pledged as security for certain long-term and short-term borrowings (Notes 11 and 12).

Capital commitments are disclosed in Note 16.

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

7. INVESTMENTS IN ASSOCIATES

At 30 September 2008 and 31 December 2007, the Group's investments in associates comprised the following:

		Investment carrying amount		Ownership and voting interest, %	
Associate	**Registered in**	**30 September 2008**	**31 December 2007**	**30 September 2008**	**31 December 2007**
Onarbay Enterprises Ltd	Cyprus	253	-	50%	-
CJSC Kazankovskaya Mine	Russia	18	26	50%	50%
LLC MMK Trans	Russia	15	4	50%	50%
		286	**30**		

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

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

	30 September 2008	**31 December 2007**
Total assets	2,217	248
Total liabilities	(1,338)	(253)
Net assets	879	(5)
Group's share of net assets of associates	**363**	**(2)**

	Three months ended 30 September		Nine months ended 30 September	
	2008	**2007**	**2008**	**2007**
Total revenue	630	30	1,706	86
Total profit for the year	76	(7)	87	-
Group's share of profit of associates	**32**	**(4)**	**36**	**-**

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

8. INVESTMENTS IN SECURITIES AND OTHER FINANCIAL ASSETS

	30 September 2008	31 December 2007
Non-current		
Available-for-sale investments, at fair value		
Listed equity securities	593	993
Loans and receivables, at amortized cost		
Long-term loans	56	57
Long-term accounts receivable	1	1
Total non-current	**650**	**1,051**
Current		
Held-to-maturity investments, at amortized cost		
Promissory notes receivable	6	1
Loans and receivables, at amortized cost		
Short-term deposits	121	1,279
Short-term loans	199	72
Financial assets, at fair value through profit or loss		
Trading equity securities	190	321
Trading debt securities	36	59
Share in mutual investment fund	11	12
Currency option and forward contracts	2	-
Total current	**565**	**1,744**

Non-current listed equity securities classified as available for sale represent investments in equity securities of a foreign entity, where the Group has less than a 20% equity interest and no significant influence. At 30 September 2008 and 31 December 2007, investments revaluation reserve resulting from unrealized holding gains on these securities was USD 294 million and USD 614 million, respectively, net of related income tax effect of USD 92 million and USD 193 million, respectively.

At 30 September 2008 and 31 December 2007, the weighted average interest rates on short-term bank deposits with maturities at the reporting date exceeding ninety days were 14.00% and 9.82%, respectively.

At 30 September 2008, a short-term deposit of USD 95 million maturing in September 2009 was placed in a Russian bank, which at the date of these unaudited condensed consolidated interim financial statements is subject to financial restructuring following a change in shareholders. Management of the Group have no reason to believe the deposit will not be paid in full on maturity.

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

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

Net (loss)/gain on revaluation and sale of trading securities for the nine months ended 30 September 2008 and 2007 were USD (152) million and USD 10 million, respectively. Those results are included in other operating expenses/income in the condensed consolidated interim income statement.

9. CASH AND CASH EQUIVALENTS

	30 September 2008	31 December 2007
Cash in banks, RUB	254	98
Cash in banks, USD	289	63
Cash in banks, EURO	50	14
Cash in banks, TRY	-	10
Bank deposits, RUB	135	2
Bank deposits, USD	4	3
Bank promissory notes, RUB	253	66
Total	**985**	**256**

At 30 September 2008 and 31 December 2007, the weighted average interest rates on bank deposits with original maturities less than ninety days were 10.22% and 10.80%, respectively.

At 30 September 2008 and 31 December 2007, the weighted average interest rates on bank promissory notes were 9.79 % and 7.81 %, respectively.

10. SHARE CAPITAL

Common stock

	30 September 2008	31 December 2007
Issued and fully paid common shares with a par value of RUB 1 each (in thousands)	11,174,330	11,174,330

Treasury stock

At 30 September 2008 and 31 December 2007, the Group held 6,338 thousand and 4,457 thousand, respectively, issued common shares of the Parent Company as treasury stock.

All treasury stock is recorded at cost.

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

Shareholders' voting rights

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

Dividends

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

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

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

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

11. LONG-TERM BORROWINGS

	Type of Interest Rate	Annual interest rate (actual as of 30 September 2008)	30 September 2008	31 December 2007
Secured loans, RUB	Fixed	12%	4	5
Unsecured loans, USD	Floating	5%	132	145
Unsecured loans, USD	Fixed	6%	43	13
Unsecured loans, RUB	Fixed	11%	57	22
Unsecured loans, EUR	Fixed	7%	3	5
Unsecured loans, RUB	Floating	9%	1	10
Total			**240**	**200**

Credit facilities

The most significant bank financing comprised credit line facilities from certain Russian and foreign banks. At 30 September 2008 and 31 December 2007, the total unused element of all credit facilities was USD 891 million and USD 94 million, respectively.

The information provided below refers to total long-term borrowings, including current portion, identified in Note 12.

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

Corporate bonds

In October 2003, MMK Finance S.A., a wholly-owned subsidiary of the Group, issued on the Luxembourg Stock Exchange USD 300 million of 8% notes at an issue price of 98.99 percent. The notes are fully, unconditionally and irrevocably guaranteed by the Parent Company. Interest payments on the notes are due semi-annually in equal installments on 21 April and 21 October of each year. The notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers or consolidations, limitations on liens and dispositions of assets and limitations on transactions with affiliates. For the nine months ended 30 September 2008 and 2007, interest expenses on these notes amounted to USD 18 million. The notes and outstanding interest payable were repaid in October, 2008.

Loans

During nine month period ended 30 September 2008, foreign banks provided USD-denominated loans, bearing interest at 5.75%, LIBOR+1.80% (5.73% at 30 September 2008) and LIBOR+0.11% (4.09% at 30 September 2008) per annum, repayable from 2011 to 2017. The commitment fees on these loans are from 0.06% to 0.10% per annum on the undrawn facilities. At 30 September 2008, the outstanding balance of these loans was USD 75 million.

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

- The ratio of consolidated debt to consolidated EBITDA should not exceed 3.5:1;
- The ratio of consolidated EBITDA to consolidated debt service should not be less than 3:1; and
- The ratio of consolidated debt to consolidated equity should not exceed 1:1.

At 30 September 2008 and 31 December 2007, the Group was in compliance with its debt covenants.

At 30 September 2008 and 31 December 2007, long-term loans were secured by the Group's property, plant and equipment with a net carrying amount of USD 7 million and USD 2 million, respectively, and inventory of nil and USD 2 million, respectively.

Debt repayment schedule

Year ended 30 September,	
2009 (presented as current portion of long-term borrowings, Note 12)	623
2010	113
2011	83
2012	20
2013 and thereafter	24
Total	**863**

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

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

	Type of interest rate	Annual interest rate (actual as of 30 September 2008)	30 September 2008	31 December 2007
Short-term borrowings:				
Secured loans, USD	Floating	5%	354	495
Secured loans, EUR	Floating	5%	80	62
Secured loans, RUB	Fixed	12%	21	125
Unsecured loans, RUB	Floating	-	-	12
Unsecured loans, RUB	Fixed	12%	104	16
Unsecured bank overdrafts, RUB	Floating	15%	12	-
Unsecured bank overdrafts, RUB	Fixed	14%	7	9
			578	719
Current portion of long-term borrowings:				
Unsecured corporate bonds, USD	Fixed	9%	310	303
Secured loans, RUB	Fixed	14%	1	1
Unsecured loans, USD	Floating	5%	100	118
Unsecured loans, RUB	Floating	9%	13	12
Unsecured loans, RUB	Fixed	10%	62	38
Unsecured loans, USD	Fixed	6%	134	4
Unsecured loans, EUR	Fixed	7%	3	3
			623	479
Total			**1,201**	**1,198**

The weighted average interest rate of the RUB-denominated short-term borrowings at 30 September 2008 and 31 December 2007 was 11% and 8%, respectively. The weighted average interest rate of the USD-denominated short-term borrowings at 30 September 2008 and 31 December 2007 was 7%. The weighted average interest rate of EUR-denominated short-term borrowings at 30 September 2008 and 31 December 2007 was 5% and 6%, respectively.

At 30 September 2008 and 31 December 2007, short-term borrowings were secured by the Group's property, plant and equipment with a net carrying amount of USD 8 million and USD 2 million, respectively, and inventory of USD 30 million and USD 6 million, respectively.

The following is repayment schedule of short-term borrowings and current portion of long-term borrowings:

	30 September 2008	31 December 2007
Due in:		
1 month	441	278
1-3 months	453	462
3 months to 1 year	307	458
Total	**1,201**	**1,198**

13. RELATED PARTIES

Transactions and balances outstanding with related parties

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

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

Issuance of guarantees in favor of related parties is disclosed in Note 16.

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

CJSC Profit

CJSC Profit, a company affiliated with the Group’s controlling shareholders, purchases scrap metal from third parties and Group entities, reprocesses it and sells reprocessed scrap metal to the Group.

LLC MEK

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

OJSC CUB

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

LLC MMK Trans

LLC MMK Trans, the Group’s affiliate, provides transportation and forwarding services to the Group.

OJSC SKM

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

CJSC Kazankovskaya Mine

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

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

CJSC SKM-Invest

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

OJSC Belon

OJSC Belon, the Group's affiliate, a coal-producer, located in the Russian Federation, supplies coal to the Group.

Details of transactions with and balances between the Group and related parties at 30 September 2008 and 31 December 2007 and for the nine and three months ended 30 September 2008 and 2007 are disclosed below.

	Three months ended 30 September		Nine months ended 30 September	
Transactions	**2008**	**2007**	**2008**	**2007**
Revenue				
CJSC Profit	82	35	279	160
LLC MMK Trans	3	-	3	-
LLC MEK	1	-	2	-
Total	86	35	284	160
Purchases				
CJSC Profit	568	385	1,590	928
OJSC Belon	148	-	252	-
LLC MEK	50	-	137	-
LLC MMK Trans	9	7	24	20
Total	755	392	2,003	948
Loans provided				
CJSC Profit	154	75	206	75
Loans repaid				
CJSC Profit	-	-	78	59
Bank charges				
OJSC CUB	2	-	6	2
Bank loans and overdrafts obtained				
OJSC CUB	33	30	81	62
Bank loans and overdrafts repaid				
OJSC CUB	27	29	65	59
Insurance payments				
OJSC SKM	-	8	7	23
Lease payments				
CJSC SKM-Invest	-	4	6	13

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

Balances	**30 September 2008**	**31 December 2007**
Cash and cash equivalents		
OJSC CUB	163	115
Loans and overdraft facilities		
OJSC CUB	23	8
Loans provided		
CJSC Profit	196	78
CJSC Kazankovskaya Mine	47	45
Total	243	123
Accounts receivable		
LLC MMK Trans	4	6
CJSC Profit	3	1
LLC MEK	1	-
Total	8	7
Accounts payable		
CJSC Profit	138	8
OJSC Belon	38	-
LLC MMK Trans	7	3
LLC MEK	3	-
OJSC SKM	-	2
Total	186	13
Lease payable		
CJSC SKM-Invest	-	22

The amounts outstanding are unsecured and will be settled in cash. No provision has been made for doubtful debts in respect of the amounts owed by related parties.

Remuneration of the Group's key management personnel

Key management personnel of the Group receive only short-term employment benefits.
For the nine month ended 30 September 2008 and 2007, key management personnel received as compensation USD 32 million and USD 13 million, respectively.

14. RISK MANAGEMENT ACTIVITIES

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due.
The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations.

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

Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group.

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

Foreign currency risk

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

At 30 September 2008 and 31 December 2007, the carrying amounts of the Group's USD-denominated assets and liabilities were as follows:

	30 September 2008	31 December 2007
Assets		
Cash and cash equivalents	293	66
Loans	-	60
Trade receivables	182	304
Total assets	**475**	**430**
Liabilities		
Trade payables	(38)	(16)
Borrowings	(1,073)	(1,078)
Total liabilities	**(1,111)**	**(1,094)**
Total net position	**(636)**	**(664)**

At 30 September 2008 and 31 December 2007, the carrying amounts of the Group's EUR-denominated assets and liabilities were as follows:

	30 September 2008	31 December 2007
Assets		
Cash and cash equivalents	50	14
Trade receivables	111	16
Total assets	**161**	**30**
Liabilities		
Trade payables	(47)	(20)
Borrowings	(86)	(70)
Total liabilities	**(133)**	**(90)**
Total net position	**28**	**(60)**

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

The table below details the Group's sensitivity to a depreciation of the RUB against USD and EUR by 10%. The analysis was applied to monetary items at the balance sheet dates denominated in USD or EUR.

	30 September 2008	31 December 2007
Loss – USD	(58)	(60)
Gain/(loss) – EUR	3	(6)

Interest rate risk

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

The table below details the Group's annualized sensitivity to change of floating rates (LIBOR, Mosprime) by 1%. The analysis was applied to borrowings based on the assumptions that amount of liability outstanding at the balance sheet date was outstanding for the whole annual period.

	30 September 2008	31 December 2007
Profit or loss	7	9

15. CAPITAL MANAGEMENT

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

The capital structure of the Group consists of debt (Notes 11 and 12), share capital (Note 10) and retained earnings.

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

There were no significant changes in the Group's approach to capital management during the nine months ended 30 September 2008.

16. COMMITMENTS AND CONTINGENCIES

Commitments for expenditure

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

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

At 30 September 2008, the Group executed non-binding purchase agreements of approximately USD 20,497 million to acquire in future periods through 2008 – 2017 property, plant and equipment, coking coal, zinc, aluminium, iron ore and natural gas (at 31 December 2007 – USD 16,689 million). Penalties are payable or receivable under these agreements in certain circumstances and where supply terms are not adhered to. Management does not expect such conditions to result in a loss to the Group.

In 2007, the Group executed a non-binding framework purchase agreement with its related party, CJSC Profit, to acquire in future periods through 2007 – 2011 scrap metal. The volume and prices are determined monthly in accordance with market conditions.

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

Issued guarantees

At 30 September 2008 and 31 December 2007, the Group has provided financial guarantees for loans obtained by certain related parties of the Group. The amounts related to the Group's financial guarantees were as follows:

	30 September 2008	31 December 2007
Non-current		
Related parties	180	145
Third parties	129	76
	309	**221**
Current		
Related parties	7	40
Third parties	1	8
	8	**48**
Total	**317**	**269**

The Group's estimated maximum exposure to credit risk in the event of non-performance by other parties to these financial guarantees is represented by the contractual amounts disclosed above.

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

At 30 September 2008 and 31 December 2007, the Group did not have any contractual commitments to extend financial guarantees, credit or other assistance.

Taxation contingencies in the Russian Federation

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

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

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

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

Russian Federation risk

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

Recent volatility in global and Russian financial markets

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

17. EXPLANATION OF THE GROUP'S TRANSITION TO IFRS

The Group's financial statements for the year ending 31 December 2008 will be the first annual consolidated financial statements that comply with IFRS. These interim results have been prepared in accordance with the significant accounting policies described in Note 2. The Group has applied IFRS 1, "First-time Adoption of International Financial Reporting Standards" in preparing these interim results.

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

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

The following reconciliations present a summary of the effects of the differences between IFRS and US GAAP on the Group’s total equity and profit for the financial period for periods previously reported under US GAAP following the date of transition to IFRS. Further differences may arise from accounting standards and pronouncements that the IASB could issue in the future and which the Group may elect to early adopt in its first IFRS Consolidated Financial Statements for the year ending 31 December 2008.

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

Reconciliation of the balance sheet

	Notes	US GAAP*	Effect of transition to IFRS	IFRS	US GAAP*	Effect of transition to IFRS	IFRS	US GAAP*	Effect of transition to IFRS	IFRS
			1 January 2007			30 September 2007			31 December 2007	
ASSETS										
NON-CURRENT ASSETS:										
Property, plant and equipment	(a)(b)	2,817	7,068	9,885	3,416	6,706	10,122	3,879	6,530	10,409
Goodwill	(b)	2	-	2	55	(35)	20	65	(30)	35
Other intangible assets		43	-	43	43	-	43	46	-	46
Investments in associates		84	-	84	39	-	39	30	-	30
Deferred tax assets	(c)	29	13	42	46	6	52	29	10	39
Investments in securities and other financial assets		301	-	301	804	-	804	1,051	-	1,051
Other assets		5	-	5	6	-	6	4	-	4
Total non-current assets		3,281	7,081	10,362	4,409	6,677	11,086	5,104	6,510	11,614
CURRENT ASSETS:										
Inventories	(a)	578	-	578	752	19	771	946	17	963
Trade and other receivables		641	-	641	1,026	-	1,026	1,023	-	1,023
Investments in securities and other financial assets		624	-	624	1,751	-	1,751	1,744	-	1,744
Income tax receivable	(c)	36	(17)	19	36	(19)	17	65	(22)	43
Other taxes receivable		191	-	191	101	-	101	244	-	244
Cash and cash equivalents		338	-	338	369	-	369	256	-	256
Total current assets		2,408	(17)	2,391	4,035	-	4,035	4,278	(5)	4,273
TOTAL ASSETS		**5,689**	**7,064**	**12,753**	**8,444**	**6,677**	**15,121**	**9,382**	**6,505**	**15,887**

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

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

	Notes	US GAAP*	Effect of transition to IFRS	IFRS	US GAAP*	Effect of transition to IFRS	IFRS	US GAAP*	Effect of transition to IFRS	IFRS
			1 January 2007			30 September 2007			31 December 2007	
EQUITY AND LIABILITIES										
EQUITY:										
Share capital		363	-	363	403	-	403	386	-	386
Treasury shares		(85)	-	(85)	(126)	-	(126)	(1)	-	(1)
Share premium		254	-	254	1,209	-	1,209	1,105	-	1,105
Investments revaluation reserve		18	-	18	345	-	345	614	-	614
Retained earnings	(e)	3,477	5,274	8,751	4,341	4,926	9,267	4,720	4,810	9,530
Equity attributable to shareholders of the parent company		4,027	5,274	9,301	6,172	4,926	11,098	6,824	4,810	11,634
Minority interest	(d)	12	36	48	81	69	150	87	65	152
Total equity		4,039	5,310	9,349	6,253	4,995	11,248	6,911	4,875	11,786
NON-CURRENT LIABILITIES:										
Long-term borrowings		577	-	577	523	-	523	200	-	200
Obligations under finance leases		29	-	29	33	2	35	30	1	31
Retirement benefit obligations		27	-	27	31	-	31	33	-	33
Deferred tax liabilities	(c)	61	1,752	1,813	198	1,642	1,840	294	1,591	1,885
Total non-current liabilities		694	1,752	2,446	785	1,644	2,429	557	1,592	2,149
CURRENT LIABILITIES:										
Trade and other payables		553	-	553	771	-	771	686	-	686
Short-term borrowings and current portion of long-term borrowings		375	-	375	604	-	604	1,198	-	1,198
Net assets attributable to minority participants	(d)	-	2	2	-	36	36	-	37	37
Current portion of obligations under finance leases		25	-	25	27	2	29	26	1	27
Current portion of retirement benefit obligations		3	-	3	4	-	4	4	-	4
Total current liabilities		956	2	958	1,406	38	1,444	1,914	38	1,952
TOTAL EQUITY AND LIABILITIES		**5,689**	**7,064**	**12,753**	**8,444**	**6,677**	**15,121**	**9,382**	**6,505**	**15,887**

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

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

Reconciliation of consolidated profit

	Notes	US GAAP*	Effect of transition to IFRS	IFRS	US GAAP*	Effect of transition to IFRS	IFRS	US GAAP*	Effect of transition to IFRS	IFRS
			Three months ended 30 September 2007			Nine months ended 30 September 2007			Year ended 31 December 2007	
REVENUE		2,150	-	2,150	6,150	-	6,150	8,197	-	8,197
COST OF SALES	(a)(b)	(1,342)	(156)	(1,498)	(3,776)	(455)	(4,231)	(5,095)	(615)	(5,710)
GROSS PROFIT		**808**	**(156)**	**(652)**	**2,374**	**(455)**	**1,919**	**3,102**	**(615)**	**2,487**
General and administrative expenses	(a)(b)	(112)	(3)	(115)	(311)	(12)	(323)	(548)	(14)	(562)
Selling and distribution expenses		(143)	-	(143)	(399)	-	(399)	(551)	-	(551)
Other operating income/(expenses), net	(a)	27	(16)	11	20	(43)	(23)	131	(52)	79
OPERATING PROFIT		**580**	**(175)**	**405**	**1,684**	**(510)**	**1,174**	**2,134**	**(681)**	**1,453**
Share of results of associates		(4)	-	(4)	-	-	-	(7)	-	(7)
Finance income		46	-	46	90	-	90	133	-	133
Finance costs		(27)	-	(27)	(64)	-	(64)	(87)	-	(87)
Foreign exchange gain, net		100	-	100	131	-	131	175	-	175
Excess of the Group's share in the fair value of net assets acquired over the cost of acquisition	(b)	-	-	-	-	20	20	-	20	20
Change in net assets attributable to minority participants		-	(3)	(3)	-	(5)	(5)	-	(6)	(6)
Other income		1	-	1	12	-	12	37	-	37
Other expenses		(32)	-	(32)	(70)	-	(70)	(92)	-	(92)
PROFIT BEFORE TAX		**664**	**(178)**	**486**	**1,783**	**(495)**	**1,288**	**2,293**	**(667)**	**1,626**
INCOME TAX	(c)	(131)	47	(84)	(382)	135	(247)	(507)	187	(320)
PROFIT FOR THE PERIOD		**533**	**(131)**	**402**	**1,401**	**(360)**	**1,041**	**1,786**	**(480)**	**1,306**
Attributable to:										
Shareholders of the parent company		527	(125)	402	1,393	(348)	1,045	1,772	(464)	1,308
Minority interest		6	(6)	-	8	(12)	(4)	14	(16)	(2)
		533	**(131)**	**402**	**1,401**	**(360)**	**1,041**	**1,786**	**(480)**	**1,306**

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

Notes to the reconciliation of consolidated equity

(a) Property, plant and equipment

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

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

(b) Business combinations

IFRS transition

- Minority interest: Under IFRS 3, minority interest is initially recorded at an amount equal to the minority's proportion of the net fair value of acquired assets and liabilities. Under US GAAP, fair values are assigned only to the parent company's share of the net assets acquired, with the minority interest valued at its historical book value. As a result, the Group recorded an adjustment to minority interest and property, plant and equipment related to business combinations which occurred after the transition date.
- Finalization of purchase price allocation (Goodwill adjustment): In addition, during 2008, the Group finalized its initial purchase price allocations associated with the acquisitions of MMK Atakas Metalurji, CJSC Interkos-IV, and OJSC Bashmetalloptorg. The finalization of purchase price allocation mainly resulted in increased value of property, plant and equipment and respective deferred income tax. Under IFRS, adjustments to the provisional values as a result of completing the initial accounting require that the adjustments be presented as if the initial accounting had been completed at the acquisition date. Under US GAAP, subsequent adjustments to these provisional measurements are to be accounted for in the period of change. As a result, adjustments to the consolidated balance sheet at 31 December 2007, condensed consolidated interim balance sheet at 30 September 2007, consolidated income statement for the year ended 31 December 2007 and condensed consolidated interim income statement for nine and three months ended 30 September 2007 under IFRS have been recorded.
- Negative goodwill: Under US GAAP, negative goodwill was offset against long lived assets whereas under IFRS it is required to be recorded directly through income at the time of the acquisition. This represents the impact on income of this adjustment. There is no offsetting adjustment to property, plant and equipment and depreciation expense as it was considered in computing the property, plant and equipment adjustment described above.

Correction of US GAAP

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

(c) Income taxes

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

Balance Sheet

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

Profit and Loss

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

Classifications

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

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

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

	Notes	1 January 2007	30 September 2007	31 December 2007
Increase related to the minority shareholders' share in revaluation of property, plant and equipment	(a)	38	38	38
Recognition of minority interest at fair value	(b)	-	39	39
Finalization of purchase accounting	(b)	-	35	35
Impact of change in profit for the period		-	(7)	(10)
Reclassification of minority interest, related to the holders of shares in Group's subsidiaries, organized as limited liability companies to current liabilities		(2)	(36)	(37)
Total increase in minority interest, net		**36**	**69**	**65**

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

	Notes	1 January 2007	30 September 2007	31 December 2007
Revaluation of property, plant and equipment	(a)	7,020	7,020	7,020
Effect of recognition of net assets attributable to minority shareholders		(2)	(2)	(2)
Deferred tax effect, net	(c)	(1,744)	(1,744)	(1,744)
Effect of transition to IFRS on net profit for the period		-	(348)	(464)
Total adjustment to retained earnings		**5,274**	**4,926**	**4,810**

Cash flows

The adoption of IFRS did not result in any material adjustments to the condensed consolidated interim statement of cash flows for the nine months ended 30 September 2007 and to the consolidated statement of cash flows for the year ended 31 December 2007 other than the reclassification of cash flows related to interest and dividends received from operating activities to investing activities. Under US GAAP interest and dividends received were presented within operating activities, however, under IFRS these cash flows are instead presented as investing activities as they relate to returns on investments.

18. EVENTS AFTER THE BALANCE SHEET DATE

In October 2008, principal of USD 300 million and a coupon of USD 12 million were paid to bond holders.

In October 2008, the Group acquired a 99% share in LLC MAGMA trade, a trading company located in the Russian Federation, for a cash consideration of USD 40 thousand. At the date of acquisition, LLC MAGMA trade did not prepare financial statements in accordance with IFRS and as at the date of issuance of these unaudited condensed consolidated interim financial statements the Group has not completed assessment of fair value of acquired assets, liabilities and contingent liabilities in accordance with IFRS 3 "Business Combinations". Thus it was not practicable to determine neither the carrying amounts of the acquired assets, liabilities and contingent liabilities nor their fair value in accordance with IFRS immediately after acquisition, and this information is not presented in these unaudited condensed consolidated interim financial statements.

In October 2008, foreign banks provided a short-term USD-denominated syndicated loan of USD 260 million, bearing interest at LIBOR+1.46% per annum with maturity in October 2009. The shares of MMK Atakas Metalurji, a subsidiary, were pledged as collateral under this loan.

As a result of world economic crisis and consequent fall in demand for steel products, production of steel has been reduced by approximately 30% in October 2008 over production levels in September 2008.

19. APPROVAL OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements for the nine months ended 30 September 2008 were approved by the Group's management and authorized for issue on 3 December 2008.