OJSC NOVOLIPETSK STEEL

CONSOLIDATED FINANCIAL STATEMENTS

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

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(WITH REPORT OF INDEPENDENT AUDITORS THEREON)

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REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheets of OJSC Novolipetsk Steel and its subsidiaries (the "Group") as at December 31, 2008, 2007 and 2006, and the related consolidated statements of income, cash flows and stockholders' equity and comprehensive income for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as at December 31, 2008, 2007 and 2006 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Moscow, Russian Federation

March 23, 2009

OJSC Novolipetsk Steel
Consolidated balance sheets
as at December 31, 2008, 2007 and 2006
(All amounts in thousands of US dollars, except for share data)

	Note	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
ASSETS				
Current assets				
Cash and cash equivalents	4	2,159,989	1,154,641	665,213
Short-term investments	6	8,089	153,462	37,261
Accounts receivable and advances given, net	7	1,487,847	1,696,451	1,150,492
Inventories, net	8	1,555,762	1,236,433	856,940
Other current assets	9	99,960	147,191	331,322
Restricted cash	5	-	-	8,372
Current assets held for sale	18(a)	34,432	-	-
		5,346,079	**4,388,178**	**3,049,600**
Non-current assets				
Long-term investments, net	6	815,527	818,590	810,350
Property, plant and equipment, net	10	6,826,139	6,449,877	3,988,128
Intangible assets, net	11(b)	235,283	189,084	199,030
Goodwill	11(a)	613,668	1,189,459	559,703
Other non-current assets	9	33,546	40,754	110,179
Non-current assets held for sale	18(a)	194,286	-	-
		8,718,449	**8,687,764**	**5,667,390**
Total assets		**14,064,528**	**13,075,942**	**8,716,990**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable and other liabilities	12	1,879,213	1,394,934	664,319
Short-term borrowings	13	1,079,806	1,536,570	248,782
Current income tax liability		10,497	70,686	80,350
Current liabilities held for sale	18(a)	10,959	-	-
		2,980,475	**3,002,190**	**993,451**
Non-current liabilities				
Deferred income tax liability		296,875	585,567	537,647
Long-term borrowings	13	1,929,772	73,225	48,153
Other long-term liabilities	14	128,944	316,616	194,872
Non-current liabilities held for sale	18(a)	5,393	-	-
		2,360,984	**975,408**	**780,672**
Total liabilities		**5,341,459**	**3,977,598**	**1,774,123**
Commitments and contingencies		**-**	**-**	**-**
Minority interest	16	**33,100**	**106,813**	**133,425**
Stockholders' equity				
Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at December 31, 2008, 2007 and 2006	17(a)	221,173	221,173	221,173
Statutory reserve		10,267	10,267	10,267
Additional paid-in capital		52,395	52,395	1,812
Accumulated other comprehensive (loss) / income		(549,879)	1,181,546	589,986
Retained earnings		8,956,013	7,526,150	5,986,204
		8,689,969	**8,991,531**	**6,809,442**
Total liabilities and stockholders' equity		**14,064,528**	**13,075,942**	**8,716,990**

The consolidated financial statements as set out on pages 4 to 51 were approved on March 23, 2009.

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

Chief Accountant
Sokolov A.A.

The accompanying notes constitute an integral part of these consolidated financial statements

	Note	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
Sales revenue	26	**11,698,661**	**7,719,061**	**6,045,625**
Cost of sales				
Production cost		(5,808,780)	(3,569,331)	(2,716,434)
Depreciation and amortization		(498,994)	(407,699)	(357,941)
		(6,307,774)	**(3,977,030)**	**(3,074,375)**
Gross profit		**5,390,887**	**3,742,031**	**2,971,250**
General and administrative expenses		(366,664)	(214,836)	(188,648)
Selling expenses		(734,489)	(442,657)	(325,361)
Taxes other than income tax		(100,025)	(79,977)	(57,215)
Accretion expense on asset retirement obligations		-	(6,190)	(19,765)
Impairment losses		(128,389)	-	(136,916)
Operating income		**4,061,320**	**2,998,371**	**2,243,345**
Loss on disposals of property, plant and equipment		(9,594)	(27,285)	(3,582)
Gains / (losses) on investments, net	21	(21,319)	(23,522)	400,696
Interest income		100,238	99,751	111,789
Interest expense		(217,270)	(31,417)	(29,692)
Foreign currency exchange, net		(366,984)	80,495	(74,975)
Gain from disposal of subsidiaries	18	-	83,122	-
Other expenses, net	30(b)	(414,694)	(22,688)	(26,526)
Income from continuing operations before income tax and minority interest		**3,131,697**	**3,156,827**	**2,621,055**
Income tax	20	(703,474)	(837,003)	(706,605)
Income from continuing operations before minority interest		**2,428,223**	**2,319,824**	**1,914,450**
Minority interest	16	1,730	(23,490)	(25,773)
Equity in net earnings / (losses) of associates		(151,212)	(50,312)	501
Income from continuing operations		**2,278,741**	**2,246,022**	**1,889,178**
Discontinued operations				
Gain from operations of discontinued subsidiary (including gain on disposal of $227,524 in 2006)	18(d), 21(b)	-	1,261	228,499
Income tax		-	-	(51,714)
Income from discontinued operations		**-**	**1,261**	**176,785**
Net income		**2,278,741**	**2,247,283**	**2,065,963**
Income from continuing operations per share (US dollars)				
basic and diluted		0.3802	0.3748	0.3152
Income from discontinued operations per share (US dollars)				
basic and diluted		-	0.0002	0.0295
Net income per share (US dollars)				
basic and diluted	19	0.3802	0.3750	0.3447

	Note	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income		**2,278,741**	**2,247,283**	**2,065,963**
Adjustments to reconcile net income to net cash provided by operating activities:				
Minority interest		(1,730)	24,592	25,773
Depreciation and amortization		498,994	407,699	357,941
Loss on disposals of property, plant and equipment		9,594	27,285	3,582
(Gains) / losses on investments, net		21,319	23,522	(400,696)
Gain from disposal of subsidiaries		-	(83,122)	(227,524)
Gain from operations of discontinued subsidiary		-	(1,261)	-
Equity in net (earnings) / losses of associates		151,212	50,312	(501)
Deferred income tax (benefit) / expense		(259,446)	37,925	(38,732)
Impairment losses	11(a)	128,389	-	136,916
Loss / (income) on forward contracts	15	653,297	(58 708)	(6 125)
Settlement agreement on the dispute	30(b)	234,000	-	-
Accretion expense on asset retirement obligations		-	6,190	19,765
Cash in assets held for sale		(11 431)	-	-
Other		68,285	16,348	21,386
Changes in operating assets and liabilities				
Increase in accounts receivable		(698,002)	(33,325)	(135,234)
Increase in inventories		(364,316)	(200,074)	(159,995)
Decrease / (increase) in other current assets		45,690	(43,633)	(16,905)
Increase in loans provided by the subsidiary bank		-	(106,260)	(69,776)
Increase / (decrease) in accounts payable and other liabilities		89,776	242,830	(23,125)
(Decrease) / increase in current income tax payable		(63,610)	(33,700)	32,376
Net cash provided by operating activities		**2,780,762**	**2,523,903**	**1,585,089**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of subsidiaries, net of cash acquired of $422,841 in 2008, $25,047 in 2007 and $14,127 in 2006	25(a) 25(h)	(514,156)	-	(1,347,545)
Purchases of equity investments	6(b)	(6,488)	-	(805,503)
Net cash acquired in business combination	25(b)	297,905	24,038	-
Proceeds from adjustment of the original purchase price of subsidiaries		-	37,089	-
Proceeds from disposal of discontinued operations		-	-	302,526
Proceeds from sale of property, plant and equipment		9,789	12,278	15,565
Purchases and construction of property, plant and equipment		(1,934,274)	(957,719)	(618,677)
Proceeds from sale of investments and loans settled		95,803	11,606	465,274
Purchases of investments		(33,386)	(199,469)	(54,758)
Payment for acquisition of interests in new subsidiaries	25(c)	(299,928)	-	-
Loan issued		(12,839)	(134,300)	-
Disposal of subsidiaries		-	(60,063)	-
Movement of restricted cash		(1,006)	(1,020)	339
Net cash used in investing activities		**(2,398,580)**	**(1,267,560)**	**(2,042,779)**

	Note	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings and notes payable		3,735,078	268,844	224,870
Repayment of borrowings and notes payable		(2,248,720)	(451,802)	(183,305)
Capital lease payments		(90,675)	(3,066)	(379)
Proceeds from disposal of assets to the company under common control	18(d)	-	78,469	-
Payments to controlling shareholders for common control transfer of interests in new subsidiaries		-	-	(104,000)
Dividends paid to previous shareholder of acquired subsidiary		-	-	(83,547)
Prepayment for disposal of assets to a company under common control	18(a)	258,182	-	-
Dividends to minority shareholders of existing subsidiaries		(12,324)	(19,146)	(20,228)
Dividends to shareholders		(842,792)	(702,983)	(766,646)
Net cash provided by / (used in) financing activities		**798,749**	**(829,684)**	**(933,235)**
Net increase / (decrease) in cash and cash equivalents		**1,180,931**	**426,659**	**(1,390,925)**
Effect of exchange rate changes on cash and cash equivalents		(175,583)	62,769	131,990
Cash and cash equivalents at the beginning of the year	4	1,154,641	665,213	1,924,148
Cash and cash equivalents at the end of the year	4	**2,159,989**	**1,154,641**	**665,213**

Supplemental disclosures of cash flow information:

	Note	2008	2007	2006
Non cash investing activities:				
Capital lease liabilities incurred	23	107,793	448,731	8,460
Elimination of intercompany loan in business combination	25(a)	161,023	-	-
Non cash investing and financing activities as a result of:				
Fair value of net assets acquired from third parties in new subsidiaries, net of cash acquired of $422,841 in 2008, $25,047 in 2007 and $14,127 in 2006	25	514,156	533,468	1,347,545

	Note	Common stock	Statutory reserve	Additional paid-in capital	Accumulated other comprehensive (loss) / income	Retained earnings	Total stockholders' equity
Balance at December 31, 2005 (see Note 25(g))		**221,173**	**10,267**	**1,812**	**72,129**	**4,809,094**	**5,114,475**
Comprehensive income:							
Net income		-	-	-	-	2,065,963	2,065,963
Other comprehensive income:							
Net unrealized loss on a change in valuation of investments		-	-	-	(1,177)	-	(1,177)
Cumulative translation adjustment	2(b)	-	-	-	519,034	-	519,034
Comprehensive income							**2,583,820**
Dividends to shareholders	17(b)	-	-	-	-	(784,853)	(784,853)
Payments to controlling shareholders for common control transfer of subsidiary	25(g)	-	-	-	-	(104,000)	(104,000)
Balance at December 31, 2006		**221,173**	**10,267**	**1,812**	**589,986**	**5,986,204**	**6,809,442**
Comprehensive income:							
Net income		-	-	-	-	2,247,283	2,247,283
Other comprehensive income:							
Cumulative translation adjustment, attributable to associate		-	-	-	15,562	-	15,562
Cumulative translation adjustment	2(b)	-	-	-	575,998	-	575,998
Comprehensive income							**2,838,843**
Dividends to shareholders	17(b)	-	-	-	-	(707,337)	(707,337)
Earnings from disposal of assets to the company under common control	18(d) 28(d)	-	-	50,583	-	-	50,583
Balance at December 31, 2007		**221,173**	**10,267**	**52,395**	**1,181,546**	**7,526,150**	**8,991,531**
Comprehensive income:							
Net income		-	-	-	-	2,278,741	2,278,741
Other comprehensive income:							
Cumulative translation adjustment, attributable to foreign subsidiaries and associate		-	-	-	79,827	-	79,827
Cumulative translation adjustment	2(b)	-	-	-	(1,811,252)	-	(1,811,252)
Comprehensive income							**547,316**
Dividends to shareholders	17(b)	-	-	-	-	(848,878)	(848,878)
Balance at December 31, 2008		**221,173**	**10,267**	**52,395**	**(549,879)**	**8,956,013**	**8,689,969**

1 BACKGROUND

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

The Group's principal activity is the production and sale of ferrous metals, primarily consisting of pig iron, steel slabs, long products, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings and also electro-technical steel. These products are sold both in the Russian Federation and abroad. The Group also operates in the mining and coke-chemical segments and has a less significant seaport operating segment (Note 26).

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

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

- Mining companies OJSC Stoilensky GOK (acquired in 2004), OJSC StAGDoK and OJSC Dolomite. The principal business activity of these companies is mining and processing of iron-ore raw concentrate, fluxing limestone and metallurgical dolomite.
- Coke-chemical company OJSC Altai-Koks and its subsidiaries (acquired in 2006). The principal business activity of these companies is the production of blast furnace coke, cupola coke, nut coke and small-sized coke.
- Steel rolling company LLC VIZ-Stahl (acquired in 2006). The principal business activity of this company is the production of cold rolled grain oriented and non-oriented steel.
- OJSC Maxi-Group and its subsidiaries (acquired in 2007). The principal business activities of these companies are the collection and recycling of iron scrap, steel-making and production of long products.

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

- Joint Venture with Duferco Group – established in 2006 on the basis of Steel Invest & Finance (Luxembourg) S.A. ("SIF S.A.") in which both parties hold a 50% interest. SIF S.A. holds 100% interests or majority votes in 24 companies located in Europe and USA which include one steel making plant and five steel rolling facilities as well as a network of steel service centers (Note 6(b)).
- Danish steel rolling company DanSteel A/S (acquired in 2006). The principal business activity of this company is production of hot rolled plates.
- Trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. (acquired in 2008). The principal business activity of these companies is sales of Group's products outside the Russian Federation.
- American electric arc furnace steel making and hot rolled coils producer Beta Steel Corp. (acquired in 2008). The principal business activity of this company is production of hot rolled steel.

2 BASIS OF CONSOLIDATED FINANCIAL STATEMENTS PREPARATION

(a) Statement of compliance

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

(b) Functional and reporting currency

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

The Group's principal functional currency is considered to be the Russian ruble. The functional currency of the foreign subsidiaries is their local currency. The accompanying consolidated financial statements have been prepared using the US dollar as the Group's reporting currency, utilizing period-end exchange rates for assets and liabilities, period weighted average exchange rates for consolidated statement of income accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52, *Foreign Currency Translation*. As a result of these translation procedures, a cumulative translation adjustment of $(1,811,252), $575,998 and $519,034 as at December 31, 2008, 2007 and 2006, respectively, which accounts for such translation gains / (losses), was recorded directly in stockholders' equity.

The Central Bank of the Russian Federation's closing rates of exchange as at December 31, 2008, 2007 and 2006 were 1 US dollar to 29.3804, 24.5462 and 26.3311 Russian rubles, respectively. The annual weighted average exchange rates were 24.8553, 25.5770 and 27.1852 Russian rubles to 1 US dollar for the years ended December 31, 2008, 2007 and 2006, respectively.

In these consolidated financial statements items of consolidated statement of income are translated at weighted average exchange rate of Russian ruble to 1 US dollar for 2008. But due to significant decline in exchange rate of Russian ruble to 1 US dollar in the fourth quarter 2008 the Group recalculated items of consolidated statement of income using weighted average exchange rate for the nine months ended September 30, 2008 (24.0454 Russian rubles to 1 US dollar) for the corresponding income and expenses in nine months ended September 30, 2008 and weighted average exchange rate for the fourth quarter 2008 (27.2672 Russian rubles to 1 US dollar) for calculation of income and expenses in the fourth quarter 2008.

(c) Consolidation principles

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Use of estimates

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(b) Cash and cash equivalents

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

(c) Restricted cash

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

(d) Accounts receivable

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

(e) Value added tax (VAT)

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

(f) Inventories

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

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

(g) Investments in marketable debt and equity securities

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

Trading securities

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

Held-to-maturity securities

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Available-for-sale securities

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

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

(h) Investments in associates and non-marketable securities

Investments in associates

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

Investments in non-marketable securities

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

(i) Property, plant and equipment

Owned assets

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

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

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

Subsequent expenditures

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

Capitalized interest

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Mineral rights

Mineral rights acquired in business combinations are recorded in accordance with provisions of SFAS No. 141, *Business Combinations*, ("SFAS No. 141") at their fair values at the date of acquisition, based on their appraised fair value. The Group reports mineral rights as a separate component of property, plant and equipment in accordance with the consensus reached by Emerging Issues Task Force ("EITF") on Issue No. 04-2, *Whether Mineral Rights Are Tangible or Intangible Assets*.

Depreciation and amortization

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

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

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

(j) Leasing

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

(k) Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. Under SFAS No. 142, *Goodwill and Other Intangible Assets*, ("SFAS No. 142") goodwill and intangible assets with indefinite useful lives are subject to impairment test at least annually and on an interim basis when an event occurs or circumstances change between annual tests that would more-likely-than-not result in impairment.

Under SFAS No. 142, goodwill is assessed for impairment by using the fair value based method. The impairment test required by SFAS No. 142 includes a two-step approach. Under the first step, companies must compare fair value of a "reporting unit" to its carrying value. A reporting unit is the level at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, step two is required to determine if goodwill is impaired.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

(l) Impairment of long-lived assets

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

(m) Derivative instruments

The Group uses foreign currency derivative instruments to manage its exposure to foreign exchange risk. Forwards and options (Note 15) are used to reduce the effects of fluctuations in the foreign exchange rates and corresponding effects on business transactions denominated in foreign currencies. The Group has not elected to designate derivative instruments as qualifying for hedge accounting treatment. As a result, the changes in fair value of all derivatives are recognized immediately in results of operations in "Foreign currency exchange, net" line.

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

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

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

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

(o) Asset retirement obligations

The Group's land, buildings and equipment are subject to the provisions of SFAS No. 143, *Accounting for Asset Retirement Obligations*. This Standard addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Group's asset retirement obligation (ARO) liabilities primarily consist of spending estimates related to reclaiming surface land and support facilities at both surface and underground mines in accordance with federal and state reclamation laws as defined by each mining permit.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(p) Borrowing activities

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

(q) Commitments and contingencies

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

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

(r) Income tax

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

Pursuant to the provisions of SFAS No. 109, *Accounting for Income Taxes*, the Group provides valuation allowances for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

(s) Dividends

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

(t) Revenue recognition

Goods sold

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

Interest income

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Shipping and handling

Starting in the second quarter of 2006 the Group bills its customers for the shipped steel products with product delivery to the place of destination in accordance with revised delivery terms agreed with customers. The related shipping and handling expense is reported in selling expenses. Previously, arrangements for product delivery were entirely the responsibility of customers. Portion of this expense in selling expenses in 2006-2008 varied from 80% to 86%.

(v) Expenses

Operating lease payments

Operating leases are recognized as an expense in the consolidated statement of income as incurred.

Interest expense

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

(w) Non-cash transactions

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

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

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

(x) Recent accounting pronouncements

Accounting changes

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 was initially effective as of January 1, 2008, but in February 2008, the FASB delayed the effective date for applying this standard to nonfinancial assets and nonfinancial liabilities that are not currently recognized or disclosed at fair value in the financial statements until periods beginning after November 15, 2008. In February 2008, the FASB issued FSP No. FAS 157-1, *Application of FAS 157 to FAS 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under FAS 13* ("FSP No. FAS 157-1"). This FASB Staff Position (FSP) amends FASB Statement No. 157, Fair Value Measurements, to exclude FASB Statement No. 13, *Accounting for Leases*, and other accounting pronouncements that address fair value measurements for purposes of lease classification or measurement under Statement 13. However, this scope exception does not apply to assets acquired and liabilities assumed in a business combination that are required to be measured at fair value under SFAS No. 141 or No. 141R, regardless of whether those assets and liabilities are related to leases. This FSP was effective upon the initial adoption of Statement 157. In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarifies the application of SFAS No. 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. This FSP shall be effective upon issuance, including prior periods for which financial statements have not been issued. The adoption of FSP No. FAS 157, FAS 157-1 and FAS 157-3 did not have a material impact on the Group's consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* ("SFAS No. 159"). The Group did not adopt fair value option for financial assets and financial liabilities.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

New pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51* ("SFAS No. 160"). SFAS No. 160 requires all entities to report noncontrolling interests in subsidiaries (also known as minority interests) as a separate component of equity in the consolidated statement of financial position, to clearly identify consolidated net income attributable to the parent and to the noncontrolling interest on the face of the consolidated statement of income and to provide sufficient disclosure that clearly identifies and distinguishes between the interest of the parent and the interests of noncontrolling owners. SFAS No. 160 also establishes accounting and reporting standards for changes in a parents ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. This Statement is effective as of January 1, 2009. The adoption of SFAS No. 160 did not have a material impact on the Group's consolidated financial statements.

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

In February 2008, the FASB issued FSP No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions* ("FSP No. FAS 140-3"). This FSP applies to a repurchase financing, which is a repurchase agreement that relates to a previously transferred financial asset between the same counterparties (or consolidated affiliates of either counterparty), that is entered into contemporaneously with, or in contemplation of, the initial transfer. This FSP is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Earlier application is not permitted. The Group is currently evaluating the potential impact, if any, that the adoption of FSP No. FAS 140-3 will have on its consolidated financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS No. 161"), which enhances the current disclosure framework contained in SFAS No. 133. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Group is currently evaluating the potential impact, if any, that the adoption of SFAS No. 161 will have on its consolidated financial statements.

In September 2008, the FASB issued FSP No. FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45*; and Clarification of the Effective Date of FASB Statement No. 161. This FSP applies to credit derivatives within the scope of FASB Statement No. 133, hybrid instruments that have embedded credit derivatives, and guarantees within the scope of Interpretation 45. This FSP's amendment to Statement No. 133 also pertains to hybrid instruments that have embedded credit derivatives and requires a seller of credit derivatives shall disclose information about its credit derivatives and hybrid instruments that have embedded credit derivatives. This FSP amends paragraph 13(a) of Interpretation 45 to require disclosure of the current status of the payment / performance risk of the guarantee. The provisions of this FSP that amend Statement 133 and Interpretation 45 shall be effective for reporting periods (annual or interim) ending after November 15, 2008. The FSP clarifies the Board's intent about the effective date of FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities, to be any reporting period beginning after November 15, 2008. The Group does not expect any material impact on the Group's consolidated financial statements relating to the adoption of this FSP.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

In January 2009, the FASB issued FSP No. EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20*, which amends the impairment guidance in EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and other related guidance. The FSP shall be effective for interim and annual reporting periods ending after December 15, 2008, and shall be applied prospectively. Retrospective application is not permitted. The Group is currently evaluating the potential impact, if any, that it will have on its consolidated financial statements.

(y) Segment reporting

According to SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, segment reporting follows the internal organizational and reporting structure of the Group. The Group's organization comprises four reportable segments:

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

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

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

4 CASH AND CASH EQUIVALENTS

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Cash – Russian rubles	75,561	124,773	113,380
Cash – other currencies	79,688	23,165	44,852
Deposits – Russian rubles	317,772	947,322	466,254
Deposits – US dollars	1,591,632	20,486	1,612
Deposits – Euros	89,683	38,656	37,227
Deposits – other currencies	4,832	-	-
Other cash equivalents	821	239	1,888
	2,159,989	**1,154,641**	**665,213**

5 RESTRICTED CASH

Restricted cash balances as at December 31, 2006 totaled $8,372 and represented obligatory cash reserves, placed with the Central Bank of the Russian Federation by the subsidiary bank (Note 18(b)) in accordance with statutory requirements applicable to credit institutions.

6 INVESTMENTS

Balance sheet classification of investments:

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Short-term investments and current portion of long-term investments	8,089	153,462	37,261
Long-term investments, net	815,527	818,590	810,350
Total investments, net	**823,616**	**972,052**	**847,611**

As at December 31, 2008 major part of short-term investments are represented by loans issued.

Long-term investments include a loan issued to SIF S.A. (Note 28(b)).

(a) Trading securities

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Investments in shares	-	-	10,098
Corporate bonds	-	-	13,575
Eurobonds	-	-	-
Government bonds	-	-	4,767
Subfederal bonds	-	-	7,134
Other	65	-	1,398
	65	**-**	**36,972**

Investments in shares are represented by the marketable securities of companies which are listed on the OJSC "Stock Exchange Russian Trading System". These shares and bonds were held by the Group's subsidiary bank.

(b) Investments in associates

	As at December 31, 2008 Ownership	As at December 31, 2007 Ownership	As at December 31, 2006 Ownership	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Steel Invest & Finance (Luxembourg) S.A.	50.00%	50.00%	50.00%	654,134	817,942	805,463
TBEA & NLMK (Shenyang) Metal Product Co., Ltd.	50.00%	-	-	6,488	-	-
OJSC Lipetsky Gipromez	-	-	43.44%	-	-	9
				660,622	**817,942**	**805,472**

6 INVESTMENTS (continued)

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

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

As at December 31, 2008 the difference between the cost of the Group's investment and the amount of acquired equity in SIF S.A.'s net assets, appraised at fair value, amounted to $27,419 and was accounted for as if SIF S.A. was a consolidated subsidiary.

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

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

Previously reported SIF S.A.'s fiscal year end was September 30. In May 2008 the shareholders approved change of SIF S.A.'s fiscal year to calendar year starting December 31, 2008.

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

	As at December 31, 2008
Current assets	2,289,830
Non-current assets	1,276,334
Total assets	**3,566,164**
Current liabilities	(2,393,931)
Non-current liabilities	(529,535)
Total liabilities	**(2,923,466)**
Equity	**642,698**

The revenues and net income of SIF S.A. for the twelve months, ended September 30, 2008 amount to $4,958,941 and $182,885, respectively.

At December 31, 2008 Group's retained earnings included a loss of $(151,212) related to SIF S.A.

In 2008 the Group's sales to SIF S.A. and its subsidiary were $543,682 (Note 28(a)).

6 INVESTMENTS (continued)

(c) Non-marketable securities

	As at December 31, 2008 Ownership	As at December 31, 2007 Ownership	As at December 31, 2006 Ownership	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Non-marketable securities, net of current portion:						
OJSC Lipetskenergo	-	-	14.11%	-	-	162
OJSC TGK-4	-	-	2.68%	-	-	2,972
OJSC Lipetsk energy sales company	-	-	14.11%	-	-	36
OJSC Lipetsk mains systems	-	-	14.11%	-	-	400
OJSC Lipetskoblgaz	-	-	19.40%	-	-	778
Other				393	687	919
				393	687	5,267
Provision for other than temporary diminution in value				(3)	(39)	(389)
				390	**648**	**4,878**

In 2006 the Group sold a 11.96% share in OJSC Lebedinsky GOK to a third party for $400 million (Note 21(a)).

The interest in OJSC TGK-4 was acquired by the Parent Company as a result of a stock conversion of OJSC Lipetsk power generating company in 2006. There was no cash outflow from the Group as a result of this transaction.

In December 2006 the Group concluded an agreement for the sale of its energy assets to a related party and subsequently sold them in February 2007 (Note 18(d)).

7 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Trade accounts receivable	964,257	996,669	667,369
Advances given to suppliers	123,588	313,550	97,458
Taxes receivable	489,352	416,696	311,993
Accounts receivable from employees	2,709	5,968	2,838
Other accounts receivable	178,996	207,181	84,287
	1,758,902	1,940,064	1,163,945
Allowance for doubtful debts	(271,055)	(243,613)	(13,453)
	1,487,847	**1,696,451**	**1,150,492**

As at December 31, 2007 and 2006, the Group had accounts receivable from Steelco Mediterranean Trading Ltd., Cyprus and Moorfield Commodities Company, UK, each of which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by these debtors totaled $194,648 and $473,841 at December 31, 2007, $159,826 and $236,514 at December 31, 2006, respectively.

As at December 31, 2006, the Group also had accounts receivable from Tuscany Intertrade (UK) which exceeded 10% of the gross trade accounts receivable balances. The outstanding balances owed by this debtor totaled $104,155 at December 31, 2006.

7 ACCOUNTS RECEIVABLE AND ADVANCES GIVEN (continued)

As at December 31, 2008 and December 31, 2007, the Group had other accounts receivable of $95,033 and $73,051, respectively, from companies for which a 100% allowance was recorded. These accounts receivable were acquired by the Group through a business combination (Note 25(c)).

As at December 31, 2006 the Group had accounts receivable of $37,089 from the sellers of coal and coke-chemical assets due to the adjustment of the original purchase price (Note 25(e)), which is included in other accounts receivable.

8 INVENTORIES

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Raw materials	833,236	756,983	554,126
Work in process	326,168	310,832	199,243
Finished goods and goods for resale	480,135	209,878	129,421
	1,639,539	1,277,693	882,790
Provision for obsolescence	(83,777)	(41,260)	(25,850)
	1,555,762	**1,236,433**	**856,940**

As at December 31, 2008 and December 31, 2007, inventories of $35,900 and $82,920, respectively, served as collateral for certain borrowings (Note 13).

9 OTHER CURRENT AND NON-CURRENT ASSETS

Positive fair values of unrealized forward exchange contracts, amounting to nil, $68,392 and $6,323 respectively, are included in other current assets as at December 31, 2008, 2007 and 2006 (Note 15).

Other current and non-current assets as at December 31, 2006 included short-term and long-term loans provided by the subsidiary bank (Note 18(b)) totaled $241,030 (net of allowance) and $80,435, respectively.

10 PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Land	91,553	88,353	77,191
Mineral rights	527,162	616,620	583,962
Asset retirement cost	-	-	24,277
Buildings	1,385,103	1,428,223	1,201,439
Land and buildings improvements	1,213,582	1,339,274	1,204,403
Machinery and equipment	5,699,662	5,841,034	5,030,473
Vehicles	333,351	333,209	278,711
Construction in progress and advances for construction and acquisition of property, plant and equipment	2,355,259	2,197,131	773,388
Leased assets	310,534	457,191	8,460
Other	72,169	79,393	76,763
	11,988,375	12,380,428	9,259,067
Accumulated depreciation	(5,162,236)	(5,930,551)	(5,270,939)
	6,826,139	**6,449,877**	**3,988,128**

10 PROPERTY, PLANT AND EQUIPMENT (continued)

According to US GAAP, the Group's property, plant and equipment should be reported at their actual historical depreciated cost. However, due to the absence of reliable US GAAP accounting records and impairment calculations, the book value of certain property, plant and equipment was determined with the assistance of an independent appraiser, which management considers provided the best basis for the recognition and depreciation of such items. The appraiser provided US dollar estimates of the fair value, determined on the basis of depreciated replacement cost, which the Group has recorded as its property, plant and equipment balance as at January 1, 2000. As at December 31, 2008, 2007 and 2006, the net book value of these items amounted to 4%, 6% and 12% of the total net book value of property, plant and equipment, respectively.

In August 2005, the Group acquired a license for exploration and mining of Zhernovsky coal deposit, expiring in 2025. The carrying value of this license as at December 31, 2008 is $31,242.

The other major part of mineral rights relate to mining segment, and was acquired by the Group in 2004 through a business combination. They expire on January 1, 2016 and management believes that they will be extended at the initiative of the Group.

As at December 31, 2008 and 2007, property, plant and equipment of $272,678 and $390,816, respectively, (net book value) were collaterized against certain borrowings (Note 13).

11 GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Goodwill

Balance as at December 31, 2005	**173,357**
Acquired in new subsidiaries (Note 25)	370,020
Disposal of subsidiary	(17,749)
Cumulative translation adjustment	34,075
Balance as at December 31, 2006	**559,703**
Acquired in new subsidiaries (Note 25)	592,171
Cumulative translation adjustment	37,585
Balance as at December 31, 2007	**1,189,459**
Acquired in new subsidiaries	54,772
Acquired in existing subsidiaries	43,188
Change associated with purchase price adjustment (Note 25(c))	(310,988)
Goodwill associated with disposal assets held for sale (Note 18(a))	(77,238)
Goodwill impairment	(128,389)
Cumulative translation adjustment	(157,136)
Balance as at December 31, 2008	**613,668**

Goodwill arising on acquisitions was allocated to the appropriate business segment in which each acquisition took place. Goodwill arising from the acquisition in 2008 of a controlling interest in Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. amounted to $2,055 and was allocated to the steel segment. Preliminary estimated goodwill in Beta Steel Corp. amounted to $35,727 and was also allocated to the steel segment. Goodwill arising from the other immaterial acquisitions in 2008 (Note 25(h)) amounted to $16,991 in new subsidiaries and $43,188 in existing subsidiaries and was allocated to the steel and mining segments. Calculated based on the Group's management best estimate of final consideration, the goodwill arising from the acquisition of a controlling interest in OJSC Maxi-Group and its subsidiaries in 2007 amounted to $281,183 and was allocated to the long products segment (Note 25(c)) and was subsequently impaired. Goodwill arising from the acquisition of a controlling and minority interests in OJSC Altai-Koks and its subsidiaries in 2006 amounted to $276,348 and was allocated to the coke-chemical segment. Goodwill arising from the acquisition of a controlling interest in LLC VIZ-Stahl and its subsidiaries in 2006 amounted to $58,112 and was allocated to the steel segment. Goodwill arising from the acquisition of a controlling interest in OJSC Combinat KMAruda in 2006 amounted to $16,798 and was allocated to the mining segment (Note 25(f)).

11 GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Goodwill impairment

The Group performed a test for impairment of goodwill at December 31, 2008 using the income approach. As a result the Group determined that the goodwill associated with the Long product segment was partially impaired, recording an estimated charge of $128,389 in “Impairment losses” line in the consolidated statement of income for the year ended December 31, 2008. The Group’s management believes that the current global economic crisis and economic conditions within the industry were the primary factors that led to the impairment of goodwill.

The Group performed a test for impairment of goodwill at December 31, 2007 and 2006 which indicated no impairment at such dates.

(b) Other intangible assets

	Subsidiary	Total useful life, months	Gross book value as at December 31, 2008	Gross book value as at December 31, 2007	Gross book value as at December 31, 2006
	Note 25				
Industrial intellectual property	LLC VIZ-Stahl	149	58,160	69,614	64,895
Customer base	LLC VIZ-Stahl	125	110,456	132,207	123,575
Customers relationships (oil)	OJSC TMTP	66	-	12,740	11,876
Customers relationships (dry cargo)	OJSC TMTP	66	-	14,113	13,156
Customers relationships	DanSteel A/S	72	4,470	5,352	4,988
Beneficial lease interest	Beta Steel Corp.	38	8,700	-	-
Customers relationships (electricity)	Beta Steel Corp.	18	7,200	-	-
Customer base	Novexco (Cyprus) Ltd. Novex Trading (Swiss) S.A.	180	89,910	-	-
			278,896	234,026	218,490
Accumulated amortization			(43,613)	(44,942)	(19,460)
			235,283	**189,084**	**199,030**

The intangible assets were acquired in business combinations (Note 25) and met the criteria for separate recognition outlined in SFAS No. 141. They were recorded under the provisions of SFAS No. 141 at fair values at the date of acquisition, based on their appraised value.

	Amortization expense
Aggregate amortization expense	
For the year ended December 31, 2008	(16,276)
Estimated amortization expense in subsequent annual periods	
2009	(26,929)
2010	(23,729)
2011	(21,999)
2012	(21,277)
2013 and later	(141,349)

12 ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Trade accounts payable	489,486	266,640	130,396
Advances received	54,127	165,624	121,654
Customers' deposits and accounts in the subsidiary bank	-	-	201,638
Taxes payable other than income tax	81,966	65,322	66,297
Accounts payable and accrued liabilities to employees	129,724	159,578	104,591
Dividends payable	4,859	4,877	4,602
Short-term capital lease liability	35,722	32,273	1,379
Negative fair values of unrealized forward contracts(Note 15)	495,540	-	-
Other accounts payable	587,789	700,620	33,762
	1,879,213	**1,394,934**	**664,319**

Other accounts payable as at December 31, 2008 include payables to the company under common control for OJSC TMTP shares of $241,833 (Note 18(a)) and amount of settlement with respect to dispute with DBO Holdings Inc. totaled $234,000 (Note 30(b)).

As at December 31, 2007 the Group had accounts payable of $555,578 to Mr. Maximov (minority shareholder of OJSC Maxi-Group) in respect of the purchase from him of his shares in OJSC Maxi-Group, which was included in other accounts payable. This amount was reduced as at December 31, 2008 as a result of the first payment for the acquired shares for $299,928 (as at the date of the transaction) and subsequent write off of the remaining accounts payable resulting from the purchase price adjustment based on the Group's management revised estimate of the remaining consideration due (Note 25(c)).

13 SHORT-TERM AND LONG-TERM BORROWINGS

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Parent Company			
Loan, RUR denominated, with interest rate of 9.6% per annum	-	203,933	-
Loans, US$ denominated, with interest rate of LIBOR +1.2% - 7% per annum	1,657,105	-	155,026
Maxi-Group			
Russian rubles			
Loans with interest rates of 10.3% - MosPrime1M +7% per annum, mature 2008-2013	908,002	602,456	-
Bonds with interest rates of 10% - 12% per annum	980	93,656	-
Other borrowings	56,065	92,551	-
US dollars			
Loans with interest rates of LIBOR (1 m) +3.75% - 17% per annum, mature 2009-2010	119,431	282,394	-
Other borrowings	-	10,250	-
Euros			
Loans with interest rates of EURIBOR (6 m) +1.3% - 13.75% per annum, mature 2008-2017	122,559	256,700	-
Other borrowings	19,631	33,902	-
	2,883,773	**1,575,842**	**155,026**

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

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Other companies			
Loans, RUR denominated, with interest rates of 8% - 25% per annum	81,825	14,124	83,970
Loan, US$ denominated, with interest rate of 5% per annum	-	19,677	13,829
Loan, EURO denominated, with interest rate of 5.38% per annum	43,711	-	15,805
Other borrowings	269	152	28,305
	3,009,578	**1,609,795**	**296,935**
Less: short-term loans and current maturities of long-term loans	(1,079,806)	(1,536,570)	(248,782)
Long-term borrowings	**1,929,772**	**73,225**	**48,153**

Included in short-term loans and current maturities of long-term loans of $1,079,806 above are loans with breaches of certain covenants of $178,768.

The Group's long-term borrowings at December 31, 2008 mature between 2 to 9 years.

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

As at December 31, 2008 and December 31, 2007, loans of $50,204 and $339,469, respectively, were collateralized with guarantee letters and other guarantees issued by companies which are the related parties of OJSC Maxi-Group (Note 28(f)). As at December 31, 2008 and December 31, 2007, loans of $78,563 and $281,081, respectively, were collateralized with the shares of Maxi-Group companies.

The payment scheduled for long-term loans is as follows:

2010	564,430
2011	516,881
2012	523,086
2013	322,063
Remainder	3,312
	1,929,772

(a) New borrowings, received in the reporting period

The amount of loans, received by the Group under the new loan agreements concluded in the year ended December 31, 2008, and outstanding as at December 31, 2008, is $2,660,139.

Such loan agreements contain certain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganizations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, subjective acceleration clauses in relation to unfavorable economic conditions and performance of the borrowers as well as legal claims in excess of certain amount, where reasonable expectation of negative outcome exist and covenants triggered by any failure of the borrower to fulfill the contractual obligations.

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

(b) Loans covenants and restructuring of Maxi-Group's borrowings

In 2007, the Group acquired a controlling stake in OJSC Maxi-Group (Note 25(c)). The Maxi-Group companies had certain debts which were in breach of restrictive covenants.

Loans covenants – Maxi-Group

Due to the breach of certain restrictive covenants and terms of the pledge agreements long-term loans of $56,048 were reclassified to short-term loans as at December 31, 2008 ($148,241 as at December 31, 2007). As a result of this breach the lenders can request payment of $178,768 of short-term loans upon notice, including loans with original short-term maturities of $122,720.

None of the bank loans where the breach of loan's covenants existed at December 31, 2008 and 2007 has been called by the lenders either at December 31, 2008 and 2007 or during the subsequent period through to the date of these consolidated financial statements.

The Group's management believes that measures undertaken and preliminary agreements achieved will allow the Group to avoid further breaches of covenants and ensure future compliance with the terms of the loan agreements.

Restructuring of borrowings

Immediately following the acquisition of the Maxi-Group (Note 25(c)) the Parent Company commenced the restructuring of the borrowings of the Maxi-Group entities which is presently continuing.

For the purpose of the refinancing Maxi-Group companies' have entered into the following major loan agreements:

- August 2008, a nonrevolving Russian ruble denominated credit lines agreements with a number of leading Russian banks totaling approximately $82,000 and $150,000 and maturing in February 17, 2010 and August 14, 2013, respectively.
- September 2008, a nonrevolving Russian ruble denominated credit lines agreements with a leading Russian bank and a subsidiary of a European bank totaling approximately $178,000 and $20,000 and maturing in September 8, 2013 and September 23, 2011, respectively.
- December 2008, a nonrevolving Russian ruble denominated credit line agreement with a leading Russian bank totaling approximately $30,054 and maturing in November 28, 2013.

The Group's management expects to continue the restructuring of the Maxi-Group's credit portfolio in the first half of 2009. The restructuring is expected to reduce the numbers of providers of credit, to lengthen the maturity periods and to change favorably the covenants applying to loans received. As previously reported the Group engaged two leading Russian banks for rendering services on setting up a Russian ruble denominated syndicated loan totaling $510,000, however final satisfactory financial terms were not achieved and as a result no transaction was consummated.

14 OTHER LONG-TERM LIABILITIES

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Customers' deposits in subsidiary bank	-	-	53,547
Long-term capital lease liability (Note 22)	128,712	316,558	6,690
Asset retirement obligations	-	-	134,635
Other long-term liabilities	232	58	-
	128,944	**316,616**	**194,872**

15 FORWARD CONTRACTS

The Group holds or purchases derivative financial instruments for purposes other than trading to mitigate foreign currency exchange rate risk. The Group uses Euro and US dollar forward sales and purchases contracts with maturities no longer than 12 months to exchange Euros and US dollars to Russian rubles and back, to manage its exposure to foreign currencies price fluctuations.

Positive fair values of unrealized forward exchange contracts, amounting to nil, $68,392 and $6,323 respectively, are included in other current assets as at December 31, 2008, 2007 and 2006. Negative fair values of unrealized forward exchange and option contracts, amounting to $(495,540) are included in other accounts payable as at December 31, 2008 (the corresponding amounts were immaterial as at December 31, 2007 and 2006).

In accordance with SFAS No. 157, the fair value of foreign currency derivatives is determined using Level 2 inputs, which are defined as “significant other observable” inputs. The inputs used include quoted prices for similar assets or liabilities in active market. Fair value is determined as the sum of the differences between the discounted market forward rate in the settlement month prevailing at December 31, 2008 and the appropriate contract settlement rate, multiplied by the respective notional amount of the contract.

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

	As at December 31, 2008		As at December 31, 2007		As at December 31, 2006	
	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
US dollars	1,411,825	(353,169)	1,767,295	63,247	1,451,076	6,075
Euro	915,723	(142,371)	707,389	5,145	191,315	248
	2,327,548	**(495,540)**	**2,474,684**	**68,392**	**1,642,391**	**6,323**

During 2008, 2007 and 2006 gains / (losses) from realized forward exchange and option contracts amounted to $12,138, $37,911 and $(107), respectively, these gains and losses were included in “Foreign currency exchange, net” line in consolidated statements of income.

16 MINORITY INTEREST

Balance as at December 31, 2005	**92,576**
Minority’s share in subsidiaries’ net income	25,773
Acquisitions of new subsidiaries (Note 25)	41,765
Purchase of the minority interest in existing subsidiaries	(20,339)
Dividends paid to minority shareholder of existing subsidiaries	(20,228)
Minority interest due to dilution of interest in existing subsidiary	3,037
Minority interest in discontinued operations	938
Disposal of a stake in a non-wholly owned subsidiary	(777)
Cumulative translation adjustment	10,680

16 MINORITY INTEREST (continued)

Balance as at December 31, 2006	**133,425**
Minority's share in subsidiaries' net income	23,490
Acquisitions of new subsidiaries (Note 25)	(17,144)
Purchase of the minority interest in existing subsidiaries	(2,686)
Dividends paid to minority shareholder of existing subsidiaries	(12,906)
Disposal of a stake in non-wholly owned subsidiaries (Note 18(b),(d))	(26,424)
Cumulative translation adjustment	9,058
Balance as at December 31, 2007	**106,813**
Minority's share in subsidiaries' net income	(1,730)
Acquisitions of new subsidiaries	2,146
Purchase of the minority interest in existing subsidiaries	(84,913)
Disposal of the minority interest in existing subsidiaries	306
Dividends paid to minority shareholder of existing subsidiaries	(12,383)
Change of the minority interest associated with purchase price adjustment	24,942
Cumulative translation adjustment	(2,081)
Balance as at December 31, 2008	**33,100**

17 STOCKHOLDERS' EQUITY

(a) Stock

As at December 31, 2008, 2007 and 2006, the Parent Company's share capital consisted of 5,993,227,240 issued common shares, with a par value of 1 Russian ruble each. For each common share held, the stockholder has the right to one vote at the annual stockholders' meeting.

(b) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at a General Stockholders' Meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent Company. At December 31, 2008, 2007 and 2006 the retained earnings of the Parent Company, in accordance with the legislative requirements of the Russian Federation, available for distribution amounted to $7,551,800, $6,972,850 and $5,645,329, converted into US dollars using exchange rates at December 31, 2008, 2007 and 2006, respectively.

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

In September 2008, the Parent Company declared interim dividends for the six months ended June 30, 2008 of 2 Russian rubles per share for the total of $471,338. Dividends payable amounted to $4,859 at December 31, 2008 (Note 12).

In June 2008, the Parent Company declared dividends for the year ended December 31, 2007 of 3 Russian rubles per share for the total of $737,682, including interim dividends for the six months ended June 30, 2007 of 1.5 Russian ruble per share for the total of $360,142.

17 STOCKHOLDERS' EQUITY (continued)

In September 2007 the Parent Company declared interim dividends for the six months ended June 30, 2007 of 1.5 Russian ruble per share for the total of $360,142. Dividends payable amount to $4,877 at December 31, 2007 (Note 12).

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

In June 2006 the Parent Company declared dividends for the year ended December 31, 2005 of 3 Russian rubles per share for the total of $659,573, including interim dividends for the six months ended June 30, 2005 of one Russian ruble per share for the total of $210,792. Dividends payable amount to $4,602 at December 31, 2006 (Note 12).

18 DISPOSALS OF ASSETS

(a) Disposal of TMTP Group

In December 2008 the Parent Company reached an agreement to sell, to a company under common control, its full controlling share (69.41%) in OJSC TMTP for a total consideration of $258,182 (as at the date of payment). The deal closed in January 2009.

Under the terms of the agreement the company under common control is obliged to offer all the Parent Company's minority shareholders the opportunity to acquire OJSC TMTP's shares for 1.17 Russian rubles per one ordinary share on a pro rata basis in accordance with their shareholding in the Parent Company as of the transaction date.

Management of the Group plans to continue to use the shipping services provide by OJSC TMTP. Accordingly, operations of OJSC TMTP in these consolidated financial statements are recognized within continuing operations of the Group within other segments.

In these consolidated financial statements the assets and liabilities of OJSC TMTP and its subsidiaries are classified as assets and liabilities held for sale. Associated minority interest of disposal group of $41,103 was included into "Minority interest" line in the consolidated balance sheet as at December 31, 2008.

In 2008 cash consideration for OJSC TMTP shares was received and corresponding liability to a company under common control is included in "Accounts payable and other liabilities" line of the consolidated balance sheet as at December 31, 2008.

The carrying amounts of the major classes of assets and liabilities of OJSC TMTP at December 31, 2008 are as follows (in relation to the 100% stake):

Current assets	34,432
Goodwill	77,238
Other non-current assets	117,048
Total assets	**228,718**
Current liabilities	(10,959)
Non-current liabilities	(5,393)
Minority interest, related to OJSC TMTP subsidiaries	(663)
Total liabilities	**(17,015)**
Net assets	**211,703**

Information on OJSC TMTP transactions, for 2008 is as follows:

Sales revenue	87,746
Net income	20,971

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

18 DISPOSALS OF ASSETS (continued)

(b) Disposal of a subsidiary bank

In June 2007, the Group completed the sale, to a related party (OJSC Bank Zenit) (Note 28(d)), of its full share in OJSC Lipetskcombank (54.88%) for a total consideration of $47,662. A pre-tax gain on this transaction of $24,097 was recognized by the Group, and included within the "Gain from disposal of subsidiaries" line in the consolidated statement of income for the year ended December 31, 2007.

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

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

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

Income	33,823
Net loss	(237)

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

(c) Disposal of Prokopyevskugol group

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

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

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

18 DISPOSALS OF ASSETS (continued)

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

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

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

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

(d) Disposal of energy assets

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

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

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

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

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

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

19 EARNINGS PER SHARE

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Weighted average number of shares	5,993,227,240	5,993,227,240	5,993,227,240
Net income (thousands of US dollars)	2,278,741	2,247,283	2,065,963
Basic and diluted net income per share (US dollars)	**0.3802**	**0.3750**	**0.3447**

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

The average shares outstanding for the purposes of basic and diluted earnings per share information was 5,993,227,240 for the years ended December 31, 2008, 2007 and 2006.

The Parent Company does not have potentially dilutive shares outstanding.

20 INCOME TAX

	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
Current income tax expense	962,920	799,078	745,337
Deferred income tax expense / (benefit):			
origination and reversal of temporary differences	(259,446)	37,925	(38,732)
Total income tax expense	**703,474**	**837,003**	**706,605**

The corporate income tax rate dominantly applicable to the Group was 24% in 2008, 2007 and 2006.

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

	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
Income from continuing operations before income tax	3,131,697	3,156,827	2,621,055
Income tax at applicable tax rate	751,607	757,638	629,053
Decrease in income tax resulting from:			
changing from 9% to 0% of the tax rate applicable to income received in form of dividends since January 1, 2008	(77,911)	-	-
changing from 24% to 20% of the income tax rate from January 1, 2009	(64,336)	-	-
Increase in income tax resulting from:			
non-deductible expenses and unrecognized tax assets	94,114	79,365	77,552
Total income tax expense	**703,474**	**837,003**	**706,605**

20 INCOME TAX (continued)

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

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Deferred tax assets			
Accounts payable and other liabilities	108,433	23,160	17,922
Non-current liabilities	30,615	64,367	16,779
Accounts receivable	17,254	5,349	1,250
Other	11,439	2,881	1,821
	167,741	95,757	37,772
Deferred tax liabilities			
Property, plant and equipment	(399,681)	(507,459)	(470,630)
Intangible assets	(28,099)	(46,788)	(51,579)
Inventories	(27,016)	(21,338)	(20,159)
Other	(9,820)	(105,739)	(33,051)
	(464,616)	(681,324)	(575,419)
Total deferred tax liability	**(296,875)**	**(585,567)**	**(537,647)**

21 GAINS ON INVESTMENTS

(a) Disposal of OJSC Lebedinsky GOK shares

In January 2006, the Parent Company sold to third parties 11.96% of the outstanding common shares of OJSC Lebedinsky GOK for a consideration of $400,000; the carrying value of these shares at December 31, 2005 was $9,456 (Note 6(c)). This transaction was consummated in line with the Group's strategy.

The Group recognized a gain on this transaction calculated as the difference between the consideration received and carrying value of these shares as at the date of disposal in the amount of $390,373, as at the transaction date, (included within the "(Losses) / gains on investments, net" line (totaling $(23,522))) in the consolidated statement of income for the year ended December 31, 2006.

(b) Disposal of OJSC Combinat KMAruda shares

In August 2006 the Parent Company signed an agreement for the disposal of 92.04% of the outstanding common shares of OJSC Combinat KMAruda to a third party, for a consideration of $302.5 million. Part of the consideration was settled by an interest bearing promissory note of $25 million which was due and settled in December 2006. This transaction was carried out in accordance with the Group's corporate restructuring plan. The carrying amounts of the major classes of assets and liabilities of OJSC Combinat KMAruda as at August 31, 2006 were as follows (in relation to 100% stake):

21 GAINS ON INVESTMENTS (continued)

Current assets	9,277
Non-current assets	67,590
Total assets	**76,867**
Current liabilities	(8,451)
Deferred income tax liability	(10,628)
Total liabilities	**(19,079)**
Net assets	**57,788**

The Group recognized a gain on this transaction calculated as the difference between the consideration received and net assets as at the date of disposal and goodwill disposed of, in the amount of $231,605, as at the transaction date.

The revenues and net income of OJSC Combinat KMAruda, previously related to the mining segment, for the eight months ended August 31, 2006 were $49,394 and $11,171, respectively. The carrying amount of goodwill, related to OJSC Combinat KMAruda at August 31, 2006 was $17,733.

22 CAPITAL AND OPERATIONAL LEASES

	Capital leases
Future minimum lease payments	
2009	75,783
2010	61,144
2011	46,943
2012	40,781
2013	28,220
Remainder	28,028
Total minimum lease payments	**280,899**
Less: amount representing estimated executory costs (including taxed payable by the lessor) and profit thereon, included in total minimum lease payments	(15,693)
Net lease payments	**265,206**
Less: amount representing interest	(56,927)
Present value of minimum lease payments	**208,279**
Short-term capital lease liability, including advances given	49,303
Less: advances given	(13,581)
Short-term capital lease liability	35,722
Long-term capital lease liability, including advances given	158,976
Decrease of advances given amount	(30,264)
Long-term capital lease liability	**128,712**

22 CAPITAL AND OPERATIONAL LEASES (continued)

The average capital lease contracts term is 6 years.

The discount rate used for calculation of the present value of the minimum lease payments was 10.5% for assets received in 2008, 2007 and 2006.

Capital lease charges of $12,867, $6,333 and $860 were recorded in the consolidated statement of income for the years ended December 31, 2008, 2007 and 2006, respectively.

The majority of the fixed assets held under the capital lease arrangements as at December 31, 2008 were acquired by the Group through a business combination (Note 25(c)).

At December 31, 2008, 2007 and 2006, net book value of the machinery, equipment and vehicles held under the capital lease arrangements was:

	As at December 31, 2008	As at December 31, 2007	As at December 31, 2006
Machinery and equipment	139,643	323,126	-
Vehicles	170,891	134,065	8,460
	310,534	457,191	8,460
Accumulated depreciation	(44,501)	(39,432)	(690)
Net value of property, plant and equipment obtained under capital lease arrangements	**266,033**	**417,759**	**7,770**

The Group incurred expenses in respect of operational leases of $2,582, $11,251 and $10,538 in 2008, 2007 and 2006, respectively.

23 NON-CASH TRANSACTIONS

Approximately $86,800, $74,000 and $16,900 of the Group's 2008, 2007 and 2006 revenues, respectively, were settled in the form of mutual offset against the liability to pay for goods supplied.

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

In 2008, 2007 and 2006 the Group acquired equipment and vehicles under capital lease arrangements with the right to buy out leased assets upon completion of the underlying agreements. The amount of capital lease liabilities incurred during the years ended December 31, 2008, 2007 and 2006, were $107,793, $448,731 and $8,460, respectively (Note 22).

24 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The Group's management believes that the carrying values of cash, trade and other receivables, trade and other payables (excluding forward contracts – Note 15), and short-term loans approximate to a reasonable estimate of their fair value due to their short-term maturities. The fair value of investments and notes receivable, excluding equity method investments, is defined using Level 2 inputs, which include interest rates for similar instruments in active market. Fair values for these investments are determined based on discounted cash flows and approximate their book values. The fair value of long term debt is based on current borrowing rates available for financings with similar terms and maturities and approximates its book value.

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

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS

(a) Acquisition of Beta Steel Corp. shares

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

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

The Group is in the process of completing the purchase price allocation, including the assessment of the fair value of property, plant and equipment and intangible assets. The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed in this business combination. The fair values of property, plant and equipment and intangible assets were based on estimates of independent appraiser. The resulting goodwill primarily reflects the control premium paid for the acquisition:

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

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

(b) Acquisition of international traders

In December 2007, the Group reached an agreement to acquire 100% of the shares in trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A., which from December 2007 conduct the business previously operated by Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus, and Tuscany Intertrade (UK) (Note 27(c)). The acquired companies were consolidated by the Group for the first time as at the effective date of obtaining control, which management considers to be May 2008. The amount paid to the seller was $119,935.

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

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

The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. Property, plant and equipment and intangible assets were recorded at fair values:

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

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

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

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

(c) Acquisition of OJSC Maxi-Group shares

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

In December 2007, in accordance with the terms of the agreement the Parent Company acquired a 50% plus one share interest in OJSC Maxi-Group. In accordance with the formula defined in the share purchase agreement, the Group has estimated a preliminary purchase price of $558,515 as at the date of obtaining control and accrued the corresponding liability as at December 31, 2007 (Note 12). In January 2008, the Parent Company paid $299,928 of the purchase price (translated at the exchange rate at the date of payment). The final payment between the parties was required after completion of the Maxi-Group due diligence process and finalization of the corresponding price adjustment. As at the date of these consolidated financial statements the Maxi-Group due diligence process and corresponding price adjustment are not finalized.

Considering expiration of the time giving for the purchase price allocation on corresponding assets and liabilities in accordance with SFAS No. 141, Group's management prepared its best estimate of the Maxi-Group shares purchase price of $299,088 (as at the transfer of the ownership date).

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

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

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

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

Current assets	561,301
Property, plant and equipment	1,936,953
Other non-current assets	531
Goodwill	281,183
Total assets acquired	**2,779,968**
Current liabilities	(1,154,228)
Non-current liabilities	(1,277,623)
Deferred income tax liability	(29,729)
Minority interest	(19,300)
Total liabilities assumed	**(2,480,880)**
Net assets acquired	**299,088**
Less: cash acquired	(25,047)
Net assets acquired, net of cash acquired	**274,041**

The major differences between preliminary purchase price allocations, as previously disclosed and the adjusted purchase price as at December 31, 2007 are primarily due to the completion of an independent appraisal of property, plant and equipment and the adjustment of the fair value of assets acquired and liabilities assumed as a consequence of the purchase price adjustment.

The purchase price negotiation is not finalized and under discussion between the parties, however Group's management believes that the final adjustment, if any, will not be material.

(d) Acquisition of LLC VIZ-Stahl

In August 2006, the Parent Company acquired from a third party a 100% stake in LLC VIZ-Stahl, a steel-rolling company, for a consideration of $550.7 million, including consulting costs in the amount of $0.7 million. This acquisition was made consistent with the Group's vertical integration strategy, aiming for increasing production volumes of high-value-added products. The acquired company was consolidated by the Group for the first time as at the effective date of obtaining control, which management considers to be August 2006.

Prior to acquisition, the Parent Company was a supplier of different steel products for LLC VIZ-Stahl with total sales of $78,681 for the reporting period in 2006.

The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were established by independent appraiser:

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

Current assets	159,443
Property, plant and equipment and other non-current assets	380,017
Intangible assets	185,190
Goodwill (Note 11(a))	58,112
Total assets acquired	**782,762**
Current liabilities	(106,098)
Non-current liabilities	(1,795)
Deferred income tax liability	(124,170)
Total liabilities assumed	**(232,063)**
Net assets acquired	**550,699**
Less: cash acquired	(12,291)
Net assets acquired, net of cash acquired	**538,408**

Useful lives of the acquired intangible assets are as follows: 125 months for the customer base and 149 months for industrial intellectual property. Carrying value of the acquired intangible assets are $121,312 and $63,878 as at acquisition date, respectively.

Under the purchase agreement the Group has certain rights to make claims against the vendor in respect of additional tax claims relating to any period prior to the acquisition of the company by the Group.

(e) Acquisition of coal and coke-chemical assets

In April 2006, the Parent Company concurrently acquired 82.23% of the outstanding common shares of OJSC Altai-Koks and 100% of the outstanding common shares of a holding company Kuzbass Asset Holdings Limited, Gibraltar, which owns 100% of the Prokopievskugol group of coal companies, for a consideration of $564.1 million and $187.5 million respectively out of which $564.1 million and $99 million had been paid. In accordance with the provisions of the purchase agreement and the purchase price adjustment agreement finalized in December 2006 the Parent Company reduced the Prokopievskugol purchase price by a total amount of $125.4 million whereof:

- $88.5 million was offset against the last tranche of the purchase price as defined in the share purchase agreement; and
- $36.9 million was recorded as receivables, subsequently fully paid off by the sellers in the first quarter 2007.

As a result, the total consideration paid for the purchase of coal assets amounted to $62.1 million.

During the year ended December 31, 2006 the Parent Company acquired additional stakes of 6.29% and 5.12% in OJSC Altai-Koks from minority shareholders for a consideration of $34,355 and $37,936, respectively. As a result, the Group's ownership equals 93.64% of the voting shares. The acquired stake of 6.29% was included (taking into account the acquisition date) in the purchase price allocation presented below, with goodwill of $12,300. The Group recorded goodwill of $18,762 on the 5.12% stake acquired.

During the year ended December 31, 2007 the Parent Company acquired additional stakes of 0.51% in OJSC Altai-Koks from minority shareholders for a consideration of $1,829.

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

In 2008, the Group acquired the outstanding 5.85% of the shares of OJSC Altai-Koks (Note 25(h)).

These acquisitions were made in line with the Group's vertical integration strategy, aiming for additional competitive advantages through the stable supply of key raw materials. The acquisition of the Prokopievskugol group was carried out concurrently as a condition for the acquisition of OJSC Altai-Koks. The acquired companies were consolidated by the Group for the first time from the effective date of obtaining control which management considers to be April 2006. Subsequently, after further evaluation of the future perspectives of the Prokopievskugol group, the Group made a decision to dispose of this investment (Note 18(c)).

Acquisition of OJSC Altai-Koks shares

OJSC Altai-Koks is among the leading coke-chemical plants in Russia. It produces high-quality coke and chemical products.

The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were established by an independent appraiser. Resulting goodwill primarily reflects the control premium paid for the acquisitions:

Current assets	78,009
Property, plant and equipment	532,252
Other non-current assets	395
Goodwill (Note 11(a))	276,348
Total assets acquired	**887,004**
Current liabilities	(151,588)
Deferred income tax liability	(95,129)
Total liabilities assumed	**(246,717)**
Minority interest	(41,765)
Net assets acquired	**598,522**
Less: cash acquired	(113)
Net assets acquired, net of cash acquired	**598,409**

Acquisition of Prokopievskugol – group of coal companies

Prokopievskugol – group of coal companies owns seven mines and three processing plants.

The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment and intangible assets were established by an independent appraiser:

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

Current assets	40,429
Mineral rights	18,151
Property, plant and equipment	202,971
Other non-current assets	2
Total assets acquired	**261,553**
Current liabilities	(80,411)
Non-current liabilities	(99,909)
Deferred income tax liability	(19,090)
Total liabilities assumed	**(199,410)**
Net assets acquired	**62,143**
Less: cash acquired	(459)
Net assets acquired, net of cash acquired	**61,684**

(f) Acquisition of OJSC Combinat KMAruda shares

In February-March 2006, the Parent Company purchased from third parties 43.37% of the outstanding common shares of OJSC Combinat KMAruda, an iron ore producer, for a consideration of $60,629 which resulted in the Group's ownership of 76.26%.

The acquisition of OJSC Combinat KMAruda was accounted for using the purchase method of accounting. OJSC Combinat KMAruda was consolidated for the first time as of the effective date of obtaining control which management considers to be February 28, 2006. The results of operations of the acquired entity were included in the consolidated statement of income starting from March 1, 2006.

The Group generated positive goodwill of $16,798 on the acquisition of the stake in OJSC Combinat KMAruda that gives control (25.37%) and negative goodwill of $3,588 on the subsequent acquisition (18.00%). Negative goodwill was allocated to the acquired assets other than current assets in accordance with SFAS No. 141.

The following table summarizes the fair values of the assets acquired and liabilities assumed in this business combination, determined in accordance with SFAS No. 141. The fair values of property, plant and equipment, including mineral rights, and intangible assets were established by an independent appraiser (in relation to the 43.37% stake acquired):

Current assets	8,239
Mineral rights	18,661
Property, plant and equipment	15,107
Other non-current assets	8,974
Goodwill (Note 11(a))	16,798
Total assets acquired	**67,779**
Current liabilities	(1,187)
Deferred income tax liability	(5,963)
Total liabilities assumed	**(7,150)**
Net assets acquired	**60,629**
Less: cash acquired	(1,264)
Net assets acquired, net of cash acquired	**59,365**

25 BUSINESS COMBINATIONS AND COMMON CONTROL TRANSFERS (continued)

In April and June 2006 the Parent Company acquired from minority shareholders additional stakes in OJSC Combinat KMAruda of 8.59% and 7.19% for a consideration of $8,071 and $6,831, respectively, recording negative goodwill of $1,686 and $1,385 respectively, for each acquisition. The acquisitions resulted in the Parent Company's ownership of 92.04%.

As discussed in Note 21(b) in August 2006 the Parent Company signed agreements with third parties for the disposal of the full stake of shares in OJSC Combinat KMAruda, and accordingly it was disposed of in August 2006.

(g) Acquisition of DanSteel A/S shares

In January 2006, a company under common control outside the Group transferred to the Parent Company 100% of the outstanding common shares of DanSteel A/S, a steel-rolling company acquired by the common control party in November 2005. In these consolidated financial statements, the Group accounted for this transfer retroactively, in a manner similar to pooling, by reflecting the controlling shareholders' book value of the acquisition cost on such transfer of $63,982 as capital contributions. In January 2006, the Group transferred cash consideration to the common control party of $104,000 which is reflected as distributions to the controlling shareholders. The transaction value was determined based on an independent appraisal.

Negative goodwill of $41,851, generated on the acquisition by the common control party, was allocated to the acquired assets other than current assets in accordance with SFAS No. 141.

As a result of the consolidation of DanSteel A/S, revenues and net income of the Group, before the recording of consolidation adjustments, for the year ended December 31, 2006 increased by $365,247 and $44,939, respectively.

(h) Other acquisitions

In 2008, the Parent Company made a number of immaterial acquisitions of stock in existing (OJSC Stoilensky GOK, OJSC Altai-Koks, OJSC Stagdok, OJSC Dolomit and LLC Vtormetsnab NLMK) and new subsidiaries (OJSC VIZ and CJSC Vtorchermet) for the total consideration of $170,383 and recorded goodwill of $43,188 on existing and $16,991 on new subsidiaries (Note 11(a)).

26 SEGMENTAL INFORMATION

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

Revenue from segments that does not exceed the quantitative thresholds is primarily attributable to three operating segments of the Group. Those segments include the trade seaport services business, finance business, comprising banking and insurance services, and coal mining and refining. None of these segments has met any of the quantitative thresholds for determining reportable segment. Rendering banking services and operations on coal mining and refining were ceased in the first half of 2007.

The Group's management accounts for intersegmental sales and transfers, for the purpose of determining intersegmental operations, as if the sales or transfers were to third parties. The Group's management evaluates performance of the segments based on segment revenues, gross profit, operating income and income before minority interest.

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

26 SEGMENTAL INFORMATION (continued)

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	9,642,940	1,178,185	62,886	731,816	82,834	11,698,661	-	11,698,661
Intersegment revenue	242,685	658,485	870,296	415,416	6,324	2,193,206	(2,193,206)	-
Depreciation and amortization	(285,171)	(81,279)	(77,494)	(40,353)	(14,697)	(498,994)	-	(498,994)
Gross profit	**4,039,891**	**532,428**	**611,798**	**202,639**	**41,551**	**5,428,307**	**(37,420)**	**5,390,887**
Operating income	**3,227,065**	**177,421**	**548,473**	**88,364**	**31,278**	**4,072,601**	**(11,281)**	**4,061,320**
Interest income	124,327	3,734	61,580	210	3,919	193,770	(93,532)	100,238
Interest expense	(105,624)	(201,483)	(117)	(3,551)	(27)	(310,802)	93,532	(217,270)
Income tax	(500,876)	(48,475)	(126,615)	(23,377)	(11,953)	(711,296)	7,822	(703,474)
Income / (loss) from continuing operations before minority interest	**2,820,445**	**(206,813)**	**485,025**	**84,965**	**21,793**	**3,205,415**	**(777,192)**	**2,428,223**
Segment assets, including goodwill	12,113,175	2,253,124	1,400,030	1,022,413	187,861	16,976,603	(2,912,075)	14,064,528
Capital expenditures	(1,380,306)	(388,060)	(122,193)	(8,595)	(35,120)	(1,934,274)	-	(1,934,274)

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

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

26 SEGMENTAL INFORMATION (continued)

Segmental information for the year ended December 31, 2006 is as follows:

	Steel	Long products	Mining	Coke-chemical	All other	Totals	Inter-segmental operations and balances	Consolidated
Revenue from external customers	5,586,725	-	90,998	252,699	115,203	6,045,625	-	6,045,625
Intersegment revenue	26,065	-	523,558	83,707	107,384	740,714	(740,714)	-
Depreciation and amortization	(224,056)	-	(71,795)	(19,603)	(42,487)	(357,941)	-	(357,941)
Gross profit	**2,513,544**	**-**	**349,329**	**76,377**	**36,707**	**2,975,957**	**(4,707)**	**2,971,250**
Operating income	**2,108,437**	**-**	**297,286**	**23,883**	**(174,713)**	**2,254,893**	**(11,548)**	**2,243,345**
Interest income	45,394	-	22,541	4	44,555	112,494	(705)	111,789
Interest expense	(2,028)	-	-	(5,461)	(22,908)	(30,397)	705	(29,692)
Income tax	(622,962)	-	(72,499)	(6,641)	7,135	(694,967)	(11,638)	(706,605)
Income from continuing operations before minority interest	**1,934,234**	**-**	**242,549**	**7,962**	**(149,063)**	**2,035,682**	**(121,232)**	**1,914,450**
Segment assets, including goodwill	5,913,356	-	1,417,926	968,412	1,003,230	9,302,924	(585,934)	8,716,990
Capital expenditures	(476,650)	-	(80,456)	(25,936)	(35,635)	(618,677)	-	(618,677)

The allocation of total revenue by territory is based on the location of end customers who purchased the Group's products from international traders (Note 27(c)) and the Group, for goods sold, and also based on the country of the customers' registration for services provided. It does not reflect the geographical location of the international traders. The Group's total revenue from external customers by geographical area for the years ended December 31, 2008, 2007 and 2006, is as follows:

	For the year ended December 31, 2008	For the year ended December 31, 2007	For the year ended December 31, 2006
Russia	4,560,896	2,903,267	2,473,645
European Union	2,045,622	1,542,051	1,083,585
Middle East, including Turkey	1,952,551	1,122,438	798,862
North America	714,511	304,871	647,712
Asia and Oceania	1,785,518	995,709	440,331
Other regions	639,563	850,725	601,490
	11,698,661	**7,719,061**	**6,045,625**

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

27 RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

Russian Federation

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

Due to deteriorating economic conditions in the Russian Federation against the background of financial and economic crisis a number of measures have been undertaken by the Government to support financial markets, including investment into domestic financial instruments, support for refinancing of international loans by Russian borrowers, and provision of short-term non-securitized loans to Russian banks.

Impact of the ongoing global financial and economic crisis

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

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

Lower liquidity situation in the fourth quarter 2008 led to reduction in demand on steel from ultimate customers and resulted in negative impact on the debtors' ability to timely repay their amounts owed. These circumstances aggregated with downturn in metal prices led to increase in allowance for doubtful debts (Note 7), increase in provision for obsolescence in inventories and decline in value of certain inventories classes to market value (Note 8).

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

(b) Convertibility of Russian ruble

Future movements in the exchange rate between the Russian ruble and the US dollar will affect the reported US dollar amounts related to the Russian ruble carrying values of the Group's assets and liabilities. Such movements may also affect the Group's ability to realize assets presented in US dollars in these consolidated financial statements. Accordingly, any translation of ruble amounts to US dollars should not be construed as a representation that such ruble amounts have been, could be, or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate. Starting September 2008, volatility on currency market increased and in the fourth quarter 2008 and the first quarter 2009 exchange rate of Russian ruble to US dollar substantially decreased (Note 2(b)) and amounted 33.4230 Russian rubles to 1 US dollar as at March 23, 2009.

(c) Commercial risks

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

27 RISKS AND UNCERTAINTIES (continued)

The Group's sales outside the Russian Federation in monetary terms for the years ended December 31, 2008, 2007 and 2006 were 61%, 62% and 59% of the total sales, respectively.

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

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

The Group used to sell to three international traders that accounted for the majority of its sales outside Russia. In 2007, Moorfield Commodities Company, UK, Steelco Mediterranean Trading Ltd., Cyprus and Tuscany Intertrade (UK), purchased 40%, 23%, and 6% of the Group's sales outside Russia, respectively (2006: 27%, 28% and 19%). Price fluctuations of sales to these companies were in line with general trends in global price fluctuations. The Group's prices for sales outside Russia were comparable to the prices of Russian competitors. As at December 31, 2007 and 2006, 1.02% and 1.02% of the share capital of the Parent Company, respectively, was held by a company beneficially owned by the shareholders of these traders.

In 2007, Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. acquired the trading business of Steelco Mediterranean Trading Ltd., Cyprus, Tuscany Intertrade (UK) and Moorfield Commodities Company, UK. All business operations related to these trading companies and the client base of the abovementioned companies were transferred to the acquirers. In May 2008, the Group acquired 100% of the shares in trading companies Novexco (Cyprus) Ltd. and Novex Trading (Swiss) S.A. and consolidated them (Note 25(b)).

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

Due to its foreign currency denominated assets and liabilities, the Group is subject to the risk arising from foreign exchange rate fluctuations. The Group's objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes. The net foreign currency position as at December 31, 2008 is as follows:

	US dollar	Euro	Other currencies
Cash and cash equivalents	1,639,737	118,356	7,742
Accounts receivable and advances given	338,980	566,514	20,669
Investments	-	153,745	-
Accounts payable and other liabilities	(125,946)	(126,002)	(44,450)
Short-term borrowings	(279,728)	(154,340)	-
Long-term borrowings	(1,518,045)	(11,930)	-

28 RELATED PARTY TRANSACTIONS

Related parties relationships are determined with reference to SFAS No. 57, *Related Party Disclosures*. Balances as at December 31, 2008, 2007 and 2006 and transactions for the years ended December 31, 2008, 2007 and 2006 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to associate (SIF S.A.) and its subsidiary were $543,682 and $185,009 for the years ended December 31, 2008 and 2007. Sales to other related parties were $24,074, $7,358 and $20,094 for the years ended December 31, 2008, 2007 and 2006, respectively.

28 RELATED PARTY TRANSACTIONS (continued)

Related accounts receivable from associate (SIF S.A.) and its subsidiary equaled $193,875 and $18,953 as at December 31, 2008 and 2007. Accounts receivable from other related parties equaled $4,390, $1,993 and $1,539 as at December 31, 2008, 2007 and 2006, respectively.

Purchases and services

Purchases from subsidiary of an associate (SIF S.A.) were $74,193 for the year ended December 31, 2008. Purchases of raw materials, technological equipment and management services from the Companies under common control, were $8,063, $7,151 and $16,272 for the years ended December 31, 2008, 2007 and 2006, respectively. Purchases of energy from the companies under significant influence of the Group's management (OJSC Lipetsk energy sales company and other companies, which originated from reorganization of OJSC Lipetskenergo (Note 6(c))), were $22,514, $61,213 and $162,826 for the years ended December 31, 2008, 2007 and 2006, respectively.

Accounts payable to subsidiary of an associate (SIF S.A.) were $62,990 as at December 31, 2008. Accounts payable to the related parties were $18,154, $27,958 and $2,666 as at December 31, 2008, 2007 and 2006, respectively.

(b) Financial transactions

In May 2007, the Parent Company issued a loan of 100 million euro to its associate (SIF S.A.) for the purpose of financing the acquisition of its new subsidiary Sharon Coating LLC (former Winner Steel LLC). In November 2008, the loan was increased to 109 million euro. The carrying amount of the loan, including interest accrued, is $155,648 and $151,473 as at December 31, 2008 and 2007, respectively.

The subsidiary bank of the Group (which was disposed of in June 2007 (Note 18(b))) had loans receivable from related parties, either associates or companies under control or significant influence of the Group's management, of $8,864 as at December 31, 2006.

Deposits and current accounts of related parties, either the Companies under common control or companies under control or significant influence of the Group's management, in the subsidiary bank amounted to $22,811 as at December 31, 2006 (Note 18(b)).

Deposits and current accounts of the Group companies in banks under significant influence of the Group's management (OJSC Bank Zenit and OJSC Lipetskcombank) amounted to $69,515, $257,615 and $76,114 as at December 31, 2008, 2007 and 2006, respectively. Related interest income from these deposits and current accounts for the years ended December 31, 2008, 2007 and 2006 amounted to $388, $9,341 and $6,310, respectively.

The Group granted interest free loans to management in the total amount of $250, nil and $386 for the years ended December 31, 2008, 2007 and 2006, respectively. The aggregate amount of interest free loans granted to management outstanding as at December 31, 2008, 2007 and 2006 was $204, $151 and $467, respectively.

Agent fees paid to a company under significant influence of the Group's management for services connected with the purchase of shares in subsidiaries for the years ended December 31, 2008, 2007 and 2006 amounted to $2,746, $42 and $867, respectively (Note 25).

(c) Acquisitions and investments

In January 2006, the Parent Company received from a company under common control outside the Group 100% of the outstanding common shares of DanSteel A/S (Note 25(g)).

(d) Common control transfers and disposal of investments

In December 2008 the Parent Company reached an agreement to sell, to a company under common control, its full controlling share in OJSC TMTP for a total consideration of $258,182 (as at the date of payment) (Note 18(a)).

In June 2007, the Parent Company sold, to a related party (OJSC Bank Zenit), all of its shareholding in a subsidiary bank for $47,662 and recorded income, less corresponding tax, of $15,895 on this transaction in the consolidated statement of income (Note 18(b)).

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

28 RELATED PARTY TRANSACTIONS (continued)

In January 2006, the Group transferred cash consideration to the common control party outside the Group of $104,000 for the transfer of 100% of the outstanding common shares of DanSteel A/S to the Parent Company, which is reflected as distributions to the controlling shareholders (Note 25(g)).

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

Total contributions to a non-governmental pension fund and charity fund amounted to $4,786, $12,363 and $2,736 in 2008, 2007 and 2006, respectively. The Group has the right to appoint and dismiss top management of the non-governmental pension fund as the major contributor to its capital. The Group has no long-term commitments to provide funding, guarantees, or other support to the abovementioned funds.

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

Accounts receivable

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

Accounts payable

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

Financial settlements

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

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

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

(g) Outstanding balances with minority shareholder of Maxi-Group

Short-term loans received from the minority shareholder of Maxi-Group amount to $48,463 as at December 31, 2008.

As at December 31, 2007, the Group had preliminary estimated accounts payable of $555,578, to minority shareholder of OJSC Maxi-Group in respect of the purchase from him of his shares in OJSC Maxi-Group, which is included in other accounts payable (Note 12).

29 COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

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

29 COMMITMENTS AND CONTINGENCIES (continued)

(b) Litigation

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

On October 15, 2008 a lawsuit was brought against NLMK by DBO Holdings Inc., the parent company of JMC. The lawsuit was filed in the United States District Court for the Southern District of New York. It alleges that NLMK breached the terms of the Merger Agreement and seeks to obtain damages in an amount to be determined at a trial, an order to compel NLMK to fulfill its obligations under the Merger Agreement, and an award of costs and such other relief as the court may grant. On November 13, 2008 NLMK terminated the Merger Agreement and subsequently settled the dispute (Note 30(b)).

(c) Environmental matters

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

(d) Insurance

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

(e) Capital commitments

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $1,510,813, $1,635,623 and $396,801 as at December 31, 2008, 2007 and 2006, respectively.

(f) Social commitments

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

(g) Tax contingencies

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

As at December 31, 2008, management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

29 COMMITMENTS AND CONTINGENCIES (continued)

(h) Financial guarantees issued

As at December 31, 2008, 2007 and 2006, the Group has issued guarantees to third parties amounting to $67,058, $118,619 and $1,667, respectively. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees are immaterial.

30 SUBSEQUENT EVENTS

(a) Disposal of TMTP Group

In January 2009 the Parent Company has completed disposal to a company under common control of its full controlling share (69.41%) in OJSC TMTP for a total consideration of $258,182 (as at the date of payment) (Note 18(a)).

(b) Settlement with respect to dispute with DBO Holdings Inc.

In March 2009 NLMK and DBO Holdings Inc. have signed a settlement agreement with respect to their dispute concerning NLMK's acquisition of John Maneely Company which provides for the full mutual release and discharge by the parties arising from the transaction and payment to DBO Holdings Inc. an amount of $234 million. This amount was included in "Other expenses, net" line in the consolidated statement of income for the year ended December 31, 2008 and in "Accounts payable and other liabilities" line (Note 12 – "Other accounts payable") in the consolidated balance sheet as at December 31, 2008. This amount was subsequently fully paid to DBO Holdings Inc.