Evraz Group S.A.

Consolidated Financial Statements

Years Ended December 31, 2010, 2009 and 2008

Evraz Group S.A.

Consolidated Financial Statements

Years ended December 31, 2010, 2009 and 2008

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Evraz Group S.A.

Consolidated Financial Statements

Years ended December 31, 2010, 2009 and 2008

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Independent auditor's report

To the Shareholders of
Evraz Group S.A.
1, Allée Scheffer
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Following our appointment by the General Meeting of the Shareholders dated 17 May 2010, we have audited the accompanying consolidated financial statements of Evraz Group S.A., which comprise the consolidated statements of financial position as at 31 December 2010, 2009 and 2008, the consolidated statements of operations, the consolidated statements of comprehensive income, the consolidated statements of changes in equity, the consolidated statements of cash flows for each year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Ernst & Young

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Evraz Group S.A. as of 31 December 2010, 2009 and 2008, and of its financial performance and its cash flows for each year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

ERNST & YOUNG
Société Anonyme
Cabinet de révision agréé

Thierry BERTRAND

Luxembourg, 30 March 2011

Evraz Group S.A.

Consolidated Statement of Operations

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

	Notes	Year ended December 31, 2010	2009*	2008
Revenue				
Sale of goods	**3**	**$ 13,144**	$ 9,505	$ 19,990
Rendering of services	**3**	**250**	267	390
		13,394	9,772	20,380
Cost of revenue	**7**	**(10,319)**	(8,124)	(13,463)
Gross profit		**3,075**	1,648	6,917
Selling and distribution costs	**7**	**(807)**	(626)	(856)
General and administrative expenses	**7**	**(732)**	(628)	(895)
Social and social infrastructure maintenance expenses		**(64)**	(53)	(114)
Loss on disposal of property, plant and equipment		**(52)**	(39)	(37)
Impairment of assets	**5, 9, 10**	**(147)**	(180)	(880)
Foreign exchange gains/(losses), net		**104**	156	(471)
Other operating income		**63**	38	28
Other operating expenses	**7**	**(110)**	(121)	(60)
Profit/(loss) from operations		**1,330**	195	3,632
Interest income	**7**	**13**	40	57
Interest expense	**7**	**(728)**	(677)	(655)
Share of profits/(losses) of joint ventures and associates	**11**	**73**	2	194
Gain/(loss) on financial assets and liabilities, net	**7**	**8**	97	(129)
Gain/(loss) on disposal groups classified as held for sale, net	**12**	**(4)**	(5)	(43)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**4**	**4**	6	–
Other non-operating gains/(losses), net		**(1)**	4	(5)
Profit/(loss) before tax		**695**	(338)	3,051
Income tax benefit/(expense)	**8**	**(163)**	46	(1,192)
Net profit/(loss)		**$ 532**	$ (292)	$ 1,859
Attributable to:				
Equity holders of the parent entity		**$ 548**	$ (295)	$ 1,797
Non-controlling interests		**(16)**	3	62
		$ 532	$ (292)	$ 1,859
Earnings/(losses) per share:				
basic, for profit/(loss) attributable to equity holders of the parent entity, US dollars	**20**	**$ 3.95**	$ (2.19)	$ 14.55
diluted, for profit/(loss) attributable to equity holders of the parent entity, US dollars	**20**	**$ 3.95**	$ (2.19)	$ 14.50

* The amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made in connection with the changes in accounting policies (Note 2) and the completion of initial accounting (Note 4).

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

Evraz Group S.A.

Consolidated Statement of Comprehensive Income

(In millions of US dollars)

	Notes	Year ended December 31, 2010	2009*	2008
Net profit/(loss)		**$ 532**	$ (292)	$ 1,859
Other comprehensive income				
Effect of translation to presentation currency		**64**	108	(2,288)
Net gains/(losses) on available-for-sale financial assets *(Note 13)*		**(8)**	12	(150)
Net (gains)/losses on available-for-sale financial assets reclassified to profit or loss *(Notes 7 an 13)*		**4**	(8)	150
Income tax effect		**–**	–	–
		(4)	4	–
Deferred income tax benefit resulting from reduction in tax rate recognised in equity	**8**	**–**	–	7
Decrease in revaluation surplus in connection with the impairment of property, plant and equipment	**9**	**(7)**	(8)	–
Income tax effect	**8**	**1**	1	–
		(6)	(7)	–
Effect of translation to presentation currency of the Group's joint ventures and associates	**11**	**(9)**	(10)	(116)
Share of other comprehensive income of joint ventures and associates accounted for using the equity method		**(9)**	(10)	(116)
Total other comprehensive income/(loss)		**45**	95	(2,397)
Total comprehensive income/(loss), net of tax		**$ 577**	$ (197)	$ (538)
Attributable to:				
Equity holders of the parent entity		**$ 584**	$ (228)	$ (522)
Non-controlling interests		**(7)**	31	(16)
		$ 577	$ (197)	$ (538)

* The amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made in connection with the changes in accounting policies (Note 2) and the completion of initial accounting (Note 4).

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

Evraz Group S.A.
Consolidated Statement of Financial Position

(In millions of US dollars)

	Notes	December 31, 2010	2009*	2008
ASSETS				
Non-current assets				
Property, plant and equipment	**9**	**$ 8,607**	$ 8,585	$ 9,012
Intangible assets other than goodwill	**10**	**1,004**	1,098	1,108
Goodwill	**5**	**2,219**	2,186	2,167
Investments in joint ventures and associates	**11**	**750**	634	551
Deferred income tax assets	**8**	**100**	70	44
Other non-current financial assets	**13**	**118**	66	118
Other non-current assets	**13**	**103**	128	160
		12,901	12,767	13,160
Current assets				
Inventories	**14**	**2,070**	1,828	2,416
Trade and other receivables	**15**	**1,213**	1,001	1,369
Prepayments		**192**	134	76
Loans receivable		**1**	1	108
Receivables from related parties	**16**	**80**	107	137
Income tax receivable		**54**	58	262
Other taxes recoverable	**17**	**353**	258	397
Other current financial assets	**18**	**52**	120	589
Cash and cash equivalents	**19**	**683**	671	930
		4,698	4,178	6,284
Assets of disposal groups classified as held for sale	**12**	**2**	7	7
		4,700	4,185	6,291
Total assets		**$ 17,601**	$ 16,952	$ 19,451
EQUITY AND LIABILITIES				
Equity				
Equity attributable to equity holders of the parent entity				
Issued capital	**20**	**$ 375**	$ 375	$ 332
Treasury shares	**20**	**–**	–	(9)
Additional paid-in capital	**20**	**1,742**	1,739	1,054
Revaluation surplus	**4**	**180**	208	218
Legal reserve	**20**	**36**	36	30
Unrealised gains and losses		**–**	4	–
Accumulated profits		**4,632**	4,065	4,377
Translation difference		**(1,214)**	(1,260)	(1,330)
		5,751	5,167	4,672
Non-controlling interests		**247**	275	245
		5,998	5,442	4,917
Non-current liabilities				
Long-term loans	**21**	**7,097**	5,931	6,064
Deferred income tax liabilities	**8**	**1,072**	1,231	1,389
Finance lease liabilities	**22**	**38**	58	40
Employee benefits	**23**	**315**	307	292
Provisions	**25**	**279**	176	153
Other long-term liabilities	**26**	**143**	68	58
		8,944	7,771	7,996
Current liabilities				
Trade and other payables	**27**	**1,173**	1,069	1,479
Advances from customers		**205**	112	107
Short-term loans and current portion of long-term loans	**21**	**714**	1,992	3,922
Payables to related parties	**16**	**217**	235	322
Income tax payable		**78**	108	156
Other taxes payable	**28**	**180**	140	154
Current portion of finance lease liabilities	**22**	**19**	17	15
Provisions	**25**	**54**	35	63
Amounts payable under put options for shares of subsidiaries	**4**	**6**	17	–
Dividends payable by the parent entity to its shareholders		**–**	–	309
Dividends payable by the Group's subsidiaries to non-controlling shareholders		**13**	13	11
		2,659	3,738	6,538
Liabilities directly associated with disposal groups classified as held for sale	**12**	**–**	1	–
		2,659	3,739	6,538
Total equity and liabilities		**$ 17,601**	$ 16,952	$ 19,451

* The amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made in connection with the changes in accounting policies (Note 2) and the completion of initial accounting (Note 4).

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

Evraz Group S.A.
Consolidated Statement of Cash Flows
(In millions of US dollars)

	Year ended December 31,		
	2010	**2009***	**2008**
Cash flows from operating activities			
Net profit/(loss)	**$ 532**	$ (292)	$ 1,859
Adjustments to reconcile net profit/(loss) to net cash flows from operating activities:			
Deferred income tax (benefit)/expense *(Note 8)*	**(186)**	(231)	(402)
Depreciation, depletion and amortisation *(Note 7)*	**925**	979	1,195
Loss on disposal of property, plant and equipment	**52**	39	37
Impairment of assets	**147**	180	880
Foreign exchange (gains)/losses, net	**(104)**	(156)	471
Interest income	**(13)**	(40)	(57)
Interest expense	**728**	677	655
Share of (profits)/losses of associates and joint ventures	**(73)**	(2)	(194)
(Gain)/loss on financial assets and liabilities, net	**(8)**	(97)	129
(Gain)/loss on disposal groups classified as held for sale, net	**4**	5	43
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**(4)**	(6)	–
Other non-operating (gains)/losses, net	**1**	(4)	5
Bad debt expense	**48**	41	33
Changes in provisions, employee benefits and other long-term assets and liabilities	**(15)**	(16)	25
Expense arising from the equity-settled awards *(Note 24)*	**2**	6	35
Share-based payments under cash-settled awards *(Note 24)*	**(3)**	(35)	–
Other	**(3)**	(3)	12
	2,030	1,045	4,726
Changes in working capital:			
Inventories	**(191)**	680	(499)
Trade and other receivables	**(239)**	438	345
Prepayments	**(44)**	(52)	100
Receivables from/payables to related parties	**(34)**	(162)	165
Taxes recoverable	**(91)**	239	(355)
Other assets	**38**	(56)	(3)
Trade and other payables	**107**	(353)	238
Advances from customers	**80**	1	(203)
Taxes payable	**5**	(73)	51
Other liabillities	**1**	(9)	(2)
Net cash flows from operating activities	**1,662**	1,698	4,563
Cash flows from investing activities			
Issuance of loans receivable to related parties	**(46)**	(28)	(1)
Proceeds from repayment of loans issued to related parties, including interest	**5**	40	32
Issuance of loans receivable	**(1)**	(3)	(147)
Proceeds from repayment of loans receivable, including interest	**2**	114	33
Proceeds from the transaction with a 49% ownership interest in NS Group *(Note 18)*	**–**	506	–
Purchases of subsidiaries, net of cash acquired *(Notes 4 and 11)*	**(27)**	(20)	(1,914)
Purchases of non-controlling interests	**(13)**	(8)	(120)
Purchases of interest in associates/joint ventures	**(9)**	–	–
Purchases of other investments	**–**	(67)	(896)
Sale of other investments	**–**	48	99
Restricted deposits at banks in respect of investing activities	**17**	(16)	3
Short-term deposits at banks, including interest	**29**	20	29
Purchases of property, plant and equipment and intangible assets	**(832)**	(441)	(1,103)
Proceeds from disposal of property, plant and equipment	**21**	6	27
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs *(Note 12)*	**42**	28	161
Dividends received	**1**	1	70
Other investing activities, net	**54**	(1)	(9)
Net cash flows from/(used in) investing activities	**(757)**	179	(3,736)

* The amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made in connection with the changes in accounting policies (Note 2) and the completion of initial accounting (Note 4).

Continued on the next page

Evraz Group S.A.

Consolidated Statement of Cash Flows (continued)

(In millions of US dollars)

	Year ended December 31,		
	2010	**2009***	**2008**
Cash flows from financing activities			
Issue of shares, net of transaction costs of $nil, $5 million and $1 million, respectively *(Notes 4, 20 and 24)*	**$ –**	$ 310	$ (1)
Repurchase of vested share-based awards *(Notes 20 and 24)*	**–**	(3)	(77)
Purchase of treasury shares *(Note 20)*	**–**	(5)	(197)
Sale of treasury shares *(Note 20)*	**–**	7	81
Contribution from/(distribution to) a shareholder *(Note 4)*	**–**	65	(68)
Dividends paid by the parent entity to its shareholders	**–**	(90)	(1,276)
Dividends paid by the Group's subsidiaries to non-controlling shareholders	**(1)**	(2)	(81)
Proceeds from bank loans and notes	**3,172**	3,427	5,657
Repayment of bank loans and notes, including interest	**(4,142)**	(4,987)	(3,949)
Gain on derivatives not designated as hedging instruments *(Note 26)*	**31**	–	–
Net proceeds from/(repayment of) bank overdrafts and credit lines, including interest	**106**	(794)	(54)
Payments under covenants reset *(Note 21)*	**(29)**	(85)	–
Restricted deposits at banks in respect of financing activities	**–**	1	–
Repayment of loans provided by related parties, including interest	**–**	–	(21)
Payments under finance leases, including interest	**(23)**	(31)	(20)
Payments of restructured liabilities, including interest	**–**	–	(121)
Proceeds from sale-leaseback	**–**	38	–
Net cash flows from/(used in) financing activities	**(886)**	(2,149)	(127)
Effect of foreign exchange rate changes on cash and cash equivalents	**(7)**	13	(97)
Net increase/(decrease) in cash and cash equivalents	**12**	(259)	603
Cash and cash equivalents at beginning of year	**671**	930	327
Cash and cash equivalents at end of year	**$ 683**	$ 671	$ 930
Supplementary cash flow information:			
Cash flows during the year:			
Interest paid	**$ (594)**	$ (586)	$ (565)
Interest received	**11**	29	44
Income taxes paid by the Group	**(341)**	(141)	(1,680)

* The amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made in connection with the changes in accounting policies (Note 2) and the completion of initial accounting (Note 4).

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity

(In millions of US dollars)

	Attributable to equity holders of the parent entity										
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Revaluation surplus**	**Legal reserve**	**Unrealised gains and losses**	**Accumulated profits**	**Translation difference**	**Total**	**Non-controlling interests**	**Total Equity**
At December 31, 2009 (as previously reported)	$ 375	$ –	$ 1,739	$ 6,338	$ 36	$ 4	$ 3,164	$ (1,372)	$ 10,284	$ 324	$ 10,608
Change in accounting policies *(Note 2)*	–	–	–	(6,130)	–	–	905	112	(5,113)	(49)	(5,162)
Adjustments to provisional values *(Note 4)*	–	–	–	–	–	–	(4)	–	(4)	–	(4)
At December 31, 2009 (as restated)	375	–	1,739	208	36	4	4,065	(1,260)	5,167	275	5,442
Net profit	–	–	–	–	–	–	548	–	548	(16)	532
Other comprehensive income/(loss)	–	–	–	(6)	–	(4)	–	46	36	9	45
Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment	–	–	–	(22)	–	–	22	–	–	–	–
Total comprehensive income/(loss) for the period	–	–	–	(28)	–	(4)	570	46	584	(7)	577
Acquisition of non-controlling interests in existing subsidiaries *(Note 6)*	–	–	1	–	–	–	(3)	–	(2)	(14)	(16)
Derecognition of non-controlling interests in subsidiaries *(Note 20)*	–	–	–	–	–	–	–	–	–	(6)	(6)
Share-based payments *(Note 24)*	–	–	2	–	–	–	–	–	2	–	2
Dividends declared by the Group's subsidiaries to non-controlling shareholders *(Note 20)*	–	–	–	–	–	–	–	–	–	(1)	(1)
At December 31, 2010	$ 375	$ –	$ 1,742	$ 180	$ 36	$ –	$ 4,632	$ (1,214)	$ 5,751	$ 247	$ 5,998

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

Evraz Group S.A.
Consolidated Statement of Changes in Equity (continued)
(In millions of US dollars)

	Attributable to equity holders of the parent entity										
	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Unrealised gains and losses	Accumulated profits	Translation difference	Total	Non-controlling interests	Total Equity
At December 31, 2008	$ 332	$ (9)	$ 1,054	$ 218	$ 30	$ –	$ 4,377	$ (1,330)	$ 4,672	$ 245	$ 4,917
Net loss*	–	–	–	–	–	–	(295)	–	(295)	3	(292)
Other comprehensive income/(loss)*	–	–	–	(7)	–	4	–	70	67	28	95
Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment*	–	–	–	(3)	–	–	3	–	–	–	–
Total comprehensive income/(loss) for the period*	–	–	–	(10)	–	4	(292)	70	(228)	31	(197)
Issue of share capital *(Note 20)*	43	–	492	–	–	–	–	–	535	–	535
Transaction costs in respect of the issue of shares *(Note 20)*	–	–	(5)	–	–	–	–	–	(5)	–	(5)
Equity component of convertible bonds *(Note 20)*	–	–	133	–	–	–	–	–	133	–	133
Derecognition of non-controlling interests arising on acquisition of subsidiaries *(Note 4)*	–	–	–	–	–	–	(5)	–	(5)	–	(5)
Contribution from a shareholder *(Note 4)*	–	–	65	–	–	–	–	–	65	–	65
Purchase of treasury shares *(Note 20)*	–	(5)	–	–	–	–	–	–	(5)	–	(5)
Sale of treasury shares *(Note 20)*	–	12	–	–	–	–	(6)	–	6	–	6
Exercise of share options *(Note 20)*	–	2	–	–	–	–	(3)	–	(1)	–	(1)
Appropriation of net profit to legal reserve *(Note 20)*	–	–	–	–	6	–	(6)	–	–	–	–
Dividends declared by the Group's subsidiaries to non-controlling shareholders *(Note 20)*	–	–	–	–	–	–	–	–	–	(1)	(1)
At December 31, 2009	$ 375	$ –	$ 1,739	$ 208	$ 36	$ 4	$ 4,065	$ (1,260)	$ 5,167	$ 275	$ 5,442

* The amounts shown here do not correspond to the 2009 financial statements and reflect adjustments made in connection with the changes in accounting policies (Note 2).

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

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

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

1. Corporate Information

These consolidated financial statements were authorised for issue in accordance with a resolution of the directors of Evraz Group S.A. on March 30, 2011.

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

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

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

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

Subsidiary	Effective ownership interest, %			Business activity	Location
	2010	2009	2008		
OAO Nizhny Tagil Iron & Steel Plant	100.00	100.00	100.00	Steel production	Russia
OAO West-Siberian Iron & Steel Plant	100.00	100.00	100.00	Steel production	Russia
OAO Novokuznetsk Iron & Steel Plant	100.00	100.00	100.00	Steel production	Russia
Evraz Vitkovice Steel a.s.	100.00	100.00	100.00	Steel production	Czech Republic
Evraz Highveld Steel and Vanadium Limited	85.12	85.12	85.12	Steel production	South Africa
Dnepropetrovsk Iron and Steel Works	96.04	96.03	96.03	Steel production	Ukraine
Evraz Inc. NA	100.00	100.00	100.00	Steel mill	USA
Evraz Inc. NA Canada	100.00	100.00	100.00	Steel mill	Canada
OAO Yuzhkuzbassugol	100.00	100.00	100.00	Coal mining	Russia
OAO Kachkanarsky Mining-and-Processing Integrated Works	100.00	100.00	100.00	Ore mining and processing	Russia
OAO Evrazruda	100.00	100.00	100.00	Ore mining	Russia
OAO Sukha Balka	99.42	99.42	99.42	Ore mining	Ukraine

At December 31, 2010, the Group employed approximately 110,000 employees, excluding joint venture's and associates' employees.

1. Corporate Information (continued)

Going Concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. The Group's activities in all of its operating segments have been adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global economic crisis of 2008-2009. In 2010, the Group reported net profit of $532 million and EBITDA of $2,350 million whereas in 2009 net loss amounted to $(292) million and EBITDA was $1,237 million (Note 3). The Group expects that the recovery will continue in 2011.

At December 31, 2010, the Group was in compliance with all of its financial covenants (Note 21). The Board and the management anticipate that the Group will comply with all debt covenants during twelve months after the date of authorisation of issue of these financial statements.

2. Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union ("EU").

International Financial Reporting Standards are issued by the International Accounting Standard Board ("IASB"). As of December 31, 2010, all IFRSs that were published by IASB and that are mandatory for application are the same as those adopted by the EU and mandatory in the EU, with the exception of:

- IAS 39 "Financial Instruments: Recognition and Measurement", which was partially adopted by the EU;
- Improvements to IFRSs issued in May 2010.

Both exceptions have no effect on the Group's consolidated financial statements. As a result, the Group's consolidated financial statements comply with International Financial Reporting Standards as issued by the IASB.

The consolidated financial statements have been prepared under historical cost convention, except as disclosed in the accounting policies below. Exceptions include, but are not limited to, property, plant and equipment at the date of transition to IFRS accounted for at deemed cost, available for sale investments measured at fair value, assets classified as held for sale measured at the lower of their carrying amount or fair value less costs to sell and post-employment benefits measured at present value.

Completion of Initial Accounting

In 2010, the Group finalised its purchase price allocation for the acquisition of steel dealers (Note 4). As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition and restated consolidated financial statements as of December 31, 2009 and for the year then ended.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies

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

- the change in accounting policy in respect of the subsequent measurement of property, plant and equipment, i.e. the adoption of a cost model under IAS 16 “Property, Plant and Equipment”;
- the adoption of new standards and interpretations and revision of the existing standards as of January 1, 2010.

Property, Plant and Equipment

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

As of 1 January 2009, the Group made a voluntary change to its accounting policies to account for selected classes of property, plant and equipment (land, buildings and constructions, machinery and equipment) under the revaluation model instead of the cost model. The Group continued to apply the cost model for other classes of property, plant and equipment.

Given the difficulties in understanding the effects on the financial statements from the application of the revaluation model and given that most companies in the industry continue to apply the cost model of accounting, the Group’s consolidated financial statements had become non-comparable with its peers.

Accordingly, the Group has resolved to revert to the cost model of accounting for all classes of property, plant and equipment as it provides more relevant and reliable information about the Group's financial position and financial performance.

In accordance with the requirements of IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, this change in accounting policies should be applied retrospectively, therefore, the Group retrospectively adjusted amounts for the year ended December 31, 2009 in these financial statements. The Board of Directors of Evraz Group S.A. approved this change in accounting policy and its retrospective application. The formal shareholders’ approval of this change will be obtained during the forthcoming shareholders' meeting which is scheduled for May, 16, 2011.

The Group made certain adjustments to the assets and liabilities as of December 31, 2009 and June 30, 2010 and the financial results for the year ended December 31, 2009 and for the six-month period ended June 30, 2010. The amounts for the year ended December 31, 2008 presented as part of these consolidated financial statements were not affected by the retrospective application. The effects of the retrospective application are summarised below.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

	December 31, 2009		
US$ million	**Restated**	**As previously reported**	**Adjustment**
ASSETS			
Property, plant and equipment	**$ 8,585**	$ 14,941	$ (6,356)
Goodwill	**2,186**	2,211	(25)
Investments in joint ventures and associates	**634**	687	(53)
Deferred income tax assets	**70**	40	30
Non-current assets	**12,767**	19,171	(6,404)
Inventories	**1,828**	1,886	(58)
Cash and cash equivalents*	**671**	675	(4)
Current assets	**4,178**	4,240	(62)
Assets of disposal groups classified as held for sales	**7**	13	(6)
Total assets	**$ 16,952**	$ 23,424	$ (6,472)
EQUITY AND LIABILITIES			
Revaluation surplus	**$ 208**	$ 6,338	$ (6,130)
Accumulated profits	**4,065**	3,164	901
Translation difference	**(1,260)**	(1,372)	112
Equity attributable to equity holders of the parent entity	**5,167**	10,284	(5,117)
Minority interests	**275**	324	(49)
Equity	**5,442**	10,608	(5,166)
Deferred income tax liabilities	**1,231**	2,537	(1,306)
Non-current liabilities	**7,771**	9,077	(1,306)
Total equity and liabilities	**$ 16,952**	$ 23,424	$ (6,472)

	Year ended December 31,2009		
US$ million	**Restated**	**As previously reported**	**Adjustment**
Cost of revenue	**$ (8,124)**	$ (8,756)	$ 632
Gross profit	**1,648**	1,016	632
Selling and distribution costs	**(626)**	(623)	(3)
General and administrative expenses	**(628)**	(645)	17
Loss on disposal of property, plant and equipment	**(39)**	(81)	42
Impairment of assets	**(180)**	(163)	(17)
Revaluation deficit on property, plant and equipment	–	(564)	564
Other operating expenses	**(121)**	(128)	7
Profit/(loss) from operations	**195**	(1,047)	1,242
Share of profits/(losses) of joint ventures and associates	**2**	(8)	10
Gain/(loss) on disposal groups classified as held for sale, net	**(5)**	(19)	14
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition*	**6**	10	(4)
Profit/(loss) before tax	**(338)**	(1,600)	1,262
Income tax benefit/(expense)	**46**	339	(293)
Net profit/(loss)	**$ (292)**	$ (1,261)	$ 969
Attributable to:			
Equity holders of the parent entity	**$ (295)**	$ (1,251)	$ 956
Minority interests	**3**	(10)	13
	$ (292)	$ (1,261)	$ 969
Earnings/(losses) per share: basic and diluted, for profit/(loss) attributable to equity holders of the parent entity, US dollars	**$ (2.19)**	$ (9.30)	$ 7.11

* the change reflects an adjustment amounting to $4 million made in connection with the completion of initial accounting (Note 4).

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

US$ million	June 30, 2010 Restated	As previously reported	Adjustment
ASSETS			
Property, plant and equipment	**$ 8,170**	$ 14,736	$ (6,566)
Goodwill	**2,140**	2,165	(25)
Investments in joint ventures and associates	**717**	738	(21)
Deferred income tax assets	**70**	35	35
Non-current assets	**12,365**	18,942	(6,577)
Inventories	**1,972**	2,042	(70)
Cash and cash equivalents*	**650**	654	(4)
Current assets	**4,412**	4,486	(74)
Assets of disposal groups classified as held for sale	**106**	113	(7)
Total assets	**$ 16,883**	$ 23,541	$ (6,658)
EQUITY AND LIABILITIES			
Revaluation surplus	**$ 189**	$ 7,059	$ (6,870)
Accumulated profits	**4,273**	2,990	1,283
Translation difference	**(1,575)**	(1,887)	312
Equity attributable to equity holders of the parent entity	**5,037**	10,312	(5,275)
Minority interests	**269**	319	(50)
Equity	**5,306**	10,631	(5,325)
Deferred income tax liabilities	**1,193**	2,526	(1,333)
Non-current liabilities	**7,929**	9,262	(1,333)
Total equity and liabilities	**$ 16,883**	$ 23,541	$ (6,658)

US$ million	Six-month period June 30, 2010 Restated	As previously reported	Adjustment
Cost of revenue	**$ (4,919)**	$ (5,296)	$ 377
Gross profit	**1,460**	1,083	377
General and administrative expenses	**(363)**	(375)	12
Loss on disposal of property, plant and equipment	**(13)**	(24)	11
Impairment of assets	**(54)**	(38)	(16)
Revaluation deficit on property, plant and equipment	–	(138)	138
Profit/(loss) from operations	**689**	167	522
Share of profits/(losses) of joint ventures and associates	**71**	22	49
Gain/(loss) on disposal groups classified as held for sale, net	**(36)**	(52)	16
Profit/(loss) before tax	**323**	(264)	587
Income tax benefit/(expense)	**(131)**	(6)	(125)
Net profit/(loss)	**$ 192**	$ (270)	$ 462
Attributable to:			
Equity holders of the parent entity	**$ 190**	$ (267)	$ 457
Minority interests	**2**	(3)	5
	$ 192	$ (270)	$ 462
Earnings/(losses) per share: basic and diluted, for profit/(loss) attributable to equity holders of the parent entity, US dollars	**$ 1.37**	$ (1.93)	$ 3.30

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

New/Revised Standards and Interpretations Adopted in 2010

- IFRS 2 (revised) “Share-based Payment” – Group Cash-settled Share-based Payment Transactions

The amendment to IFRS 2 clarified the scope and the accounting for group cash-settled share-based payment transactions. It did not have an impact on the financial position or performance of the Group.

- IFRS 3 (revised) “Business Combinations”

The revised standard introduced significant changes in the accounting for business combinations occurring from January 1, 2010. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. The adoption of these amendments did not have an effect on the financial position or performance of the Group in 2010.

- IAS 27 (revised) “Consolidated Financial Statements”

The revised standard requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners, i.e. such transactions do not give rise to goodwill, nor a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. These amendments did not have a significant impact on the financial position or performance of the Group.

- IFRIC 17 “Distributions of Non-Cash Assets to Owners”

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation did not have an effect on the financial position or performance of the Group.

- Amendment to IAS 39 “Financial Instruments: Recognition and Measurement” – Eligible Hedged Items

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The amendment did not have any impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

- Amendments to standards following May 2008 and April 2009 “improvements to IFRS” project.

These amendments clarify the application of certain provisions of the standards.

2. Significant Accounting Policies (continued)

Changes in Accounting Policies (continued)

Standards Issued But Not Yet Effective

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

- IAS 24 (revised) "Related Party Disclosures" (effective for annual periods beginning on or after January 1, 2011);
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after January 1, 2013);
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after July 1, 2010);
- Amendment to IAS 32 "Financial Instruments: Presentation" (effective for annual periods beginning on or after February 1, 2010);
- Amendments to IFRIC 14/IAS 19 "Prepayments of a Minimum Funding Requirement" (effective for annual periods beginning on or after January 1, 2011);
- Amendments to standards following May 2010 "improvements to IFRS" project (separate transitional provisions for each standard).

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

Significant Accounting Judgements and Estimates

Accounting Judgements

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

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty

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

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2010, 2009 and 2008, the Group recognised an impairment loss of $102 million, $15 million and $117 million, respectively (Note 9).

Impairment of Property, Plant and Equipment (continued)

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

Useful Lives of Items of Property, Plant and Equipment

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Useful Lives of Items of Property, Plant and Equipment (continued)

In 2010 and 2009, the Group changed its estimation of useful lives of property, plant and equipment, which resulted in a $10 million increase and $102 million decrease in depreciation expense, respectively as compared to the amounts that would have been charged had no change in estimate occurred. In 2008, the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately $22 million.

Fair Values of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill

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

The carrying amount of goodwill at December 31, 2010, 2009 and 2008 was $2,219 million, $2,186 million and $2,167 million, respectively. More details are provided in Note 5. In 2010, 2009 and 2008, the Group recognised an impairment loss in respect of goodwill in the amount of $16 million, $160 million and $756 million, respectively (Note 5).

Mineral Reserves

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Site Restoration Provisions

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

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

In 2010, the independent experts made a re-assessment of site restoration provisions (Note 25).

Post-Employment Benefits

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

Allowances

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2010, 2009 and 2008, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of $117 million, $92 million, and $93 million, respectively (Note 29).

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Litigations

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

Current Taxes

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

Deferred Income Tax Assets

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

2. Significant Accounting Policies (continued)

Foreign Currency Transactions

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

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

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

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

Basis of Consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Non-controlling interest is that portion of the profit or loss and net assets of subsidiaries attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the parent's shareholders' equity.

Total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Acquisition of Subsidiaries from January 1, 2010

Business combinations are accounted for using the acquisition method.

The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition costs incurred are expensed and included in administrative expenses.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

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

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

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Acquisition of Subsidiaries Prior to January 1, 2010

The previous accounting policies relating to business combinations include the following differences as compared with the policies applied strating from January 1, 2010:

- Transaction costs directly attributable to the acquisition formed part of the acquisition costs.
- The non-controlling interest (formerly known as minority interest) could be measured only at the proportionate share of the acquiree's identifiable net assets.
- Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.
- Contingent consideration was recognised if the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Increases in Ownership Interests in Subsidiaries

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

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control

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

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

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

Put Options Over Non-controlling interests

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

2. Significant Accounting Policies (continued)

Investments in Associates

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

Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost including goodwill. Subsequent changes in the carrying value reflect the post acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any.

The Group's share of its associates' profits or losses is recognised in the statement of operations and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has legal or constructive obligations to make payments to, or on behalf of, the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

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

Interests in Joint Ventures

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

Property, Plant and Equipment

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

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

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

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

	Useful lives (years)	**Weighted average remaining useful life (years)**
Buildings and constructions	15-60	18
Machinery and equipment	4-45	11
Transport and motor vehicles	7-20	14
Other assets	3-15	5

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

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

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

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

Leases

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

2. Significant Accounting Policies (continued)

Leases (continued)

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

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

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

Goodwill

Goodwill represents the excess of the aggregate of the consideration transferred for an acquisition of a subsidiary or an associte and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the acquiree, the difference is recognised in the consolidated statement of operations.

Goodwill on acquisition of a subsidiary is included in intangible assets. Goodwill on acquisition of an associate is included in the carrying amount of the investments in associates.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or the group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2. Significant Accounting Policies (continued)

Intangible Assets Other Than Goodwill

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

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

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

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

The table below presents the useful lives of intangible assets.

	Useful lives (years)	Weighted average remaining useful life (years)
Customer relationships	1-15	12
Trade names and trademarks	5	1
Water rights and environmental permits with definite lives	5	1
Patented and unpatented technology	5	1
Contract terms	1-49	45
Other	5-10	8

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

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

2. Significant Accounting Policies (continued)

Intangible Assets Other Than Goodwill (continued)

Emission Rights

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

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

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

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

Financial Assets

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

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

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

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

2. Significant Accounting Policies (continued)

Financial Assets (continued)

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

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

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

Inventories

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

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

Accounts Receivable

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

2. Significant Accounting Policies (continued)

Accounts Receivable (continued)

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

Value Added Tax

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

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

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

Cash and Cash Equivalents

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

Borrowings

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

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

Financial Guarantee Liabilities

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

2. Significant Accounting Policies (continued)

Equity

Share Capital

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

Treasury Shares

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

Dividends

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

Provisions

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

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

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

2. Significant Accounting Policies (continued)

Employee Benefits

Social and Pension Contributions

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

Employee Benefits

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

The Group involves an independent qualified actuary in the measurement of all employee benefits obligations.

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

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

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

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

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

Other Costs

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

Share-based Payments

In 2005, 2006 and 2010, the Group adopted management compensation schemes, under which certain directors, senior executives and employees of the Group received remuneration in the form of share-based payment transactions, whereby they rendered services as consideration for equity instruments ("equity-settled transactions").

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

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

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

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

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

2. Significant Accounting Policies (continued)

Share-based Payments (continued)

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

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

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

Revenue

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

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

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

Sale of Goods

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

Rendering of Services

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

Interest

Interest is recognised using the effective interest method.

2. Significant Accounting Policies (continued)

Revenue (continued)

Dividends

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

Rental Income

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

Current Income Tax

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

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

Deferred Income Tax

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

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

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

3. Segment Information

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

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

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

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

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

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

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

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

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

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

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

3. Segment Information (continued)

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

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

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

The Group adopted IFRS 8 "Operating segments" starting from January 1, 2009. The Group did not restate the segment information for prior periods reported as comparative information in these consolidated financial statements, because the necessary information is not available and the cost to develop it would be excessive. Consequently, the Group disclosed segment information for the current period on both the new basis of segmentation in accordance with IFRS 8 "Operating Segments" and the basis used in previous periods in accordance with IAS 14 "Segment Reporting". The adoption of IFRS 8 did not result in a change in reportable segments previously disclosed by the Group.

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

Year ended December 31, 2010

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	**$ 12,592**	**$ 322**	**$ 280**	**$ 140**	**$ –**	**$ 13,334**
Inter-segment sales	**359**	**2,056**	**257**	**536**	**(3,208)**	**–**
Total revenue	**12,951**	**2,378**	**537**	**676**	**(3,208)**	**13,334**
Segment result – EBITDA	**$ 1,445**	**$ 898**	**$ 90**	**$ 122**	**$ (155)**	**$ 2,400**

Year ended December 31, 2009

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

3. Segment Information (continued)

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

Year ended December 31, 2010

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue	$ 12,951	$ 2,378	$ 537	$ 676	$ (3,208)	$ 13,334
Forecasted vs. actual revenue	112	(7)	(4)	(1)	–	100
Reclassifications and other adjustments	(940)	136	33	140	591	(40)
Revenue per IFRS financial statements	$ 12,123	$ 2,507	$ 566	$ 815	$ (2,617)	$ 13,394
EBITDA	$ 1,445	$ 898	$ 90	$ 122	$ (155)	$ 2,400
Forecasted vs. actual EBITDA	(24)	(14)	(1)	–	–	(39)
Exclusion of management services from segment result	62	32	2	2	–	98
Unrealised profits adjustment	(33)	–	3	–	45	15
Reclassifications and other adjustments	(11)	19	(41)	66	–	33
	(6)	37	(37)	68	45	107
EBITDA based on IFRS financial statements	$ 1,439	$ 935	$ 53	$ 190	$ (110)	$ 2,507
Unallocated subsidiaries						(157)
						$ 2,350
Depreciation, depletion and amortisation expense	(558)	(282)	(47)	(37)	–	(924)
Impairment of goodwill	–	–	(16)	–	–	(16)
Impairment of property, plant and equipment and intangible assets	(81)	(20)	–	(30)	–	(131)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	(33)	(18)	–	(1)	–	(52)
Foreign exchange gains/(losses), net	65	(2)	–	1	–	64
	$ 832	$ 613	$ (10)	$ 123	$ (110)	$ 1,291
Unallocated income/(expenses), net						39
Profit/(loss) from operations						$ 1,330
Interest income/(expense), net						$ (715)
Share of profits/(losses) of joint ventures and associates						73
Gain/(loss) on financial assets and liabilities						8
Loss on disposal groups classified as held for sale						(4)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition						4
Other non-operating gains/(losses), net						(1)
Profit/(loss) before tax						$ 695

3. Segment Information (continued)

Year ended December 31, 2009

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue	$ 9,421	$ 1,348	$ 262	$ 556	$ (1,764)	$ 9,823
Forecasted vs. actual revenue	(54)	(2)	3	–	–	(53)
Reclassifications and other adjustments	(389)	110	98	209	(26)	2
Revenue per IFRS financial statements	$ 8,978	$ 1,456	$ 363	$ 765	$ (1,790)	$ 9,772
EBITDA	$ 950	$ 179	$ 12	$ 110	$ –	$ 1,251
Forecasted vs. actual EBITDA	(27)	–	–	–	–	(27)
Exclusion of management services from segment result	53	30	–	4	–	87
Unrealised profits adjustment	(15)	–	–	–	12	(3)
Reclassifications and other adjustments	(34)	70	(24)	53	–	65
	(23)	100	(24)	57	12	122
EBITDA based on IFRS financial statements	$ 927	$ 279	$ (12)	$ 167	$ 12	$ 1,373
Unallocated subsidiaries						(136)
						$ 1,237
Depreciation, depletion and amortisation expense	(624)	(281)	(38)	(35)		(978)
Impairment of goodwill	(160)	–	–	–		(160)
Impairment of property, plant and equipment and intangible assets	(24)	4	–	–		(20)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	(25)	(12)	–	(2)		(39)
Foreign exchange gains/(losses), net	54	1	–	–		55
	$ 148	$ (9)	$ (50)	$ 130	$ 12	$ 95
Unallocated income/(expenses), net						100
Profit/(loss) from operations						$ 195
Interest income/(expense), net						$ (637)
Share of profits/(losses) of joint ventures and associates						2
Gain/(loss) on financial assets and liabilities						97
Loss on disposal groups classified as held for sale						(5)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition						6
Other non-operating gains/(losses), net						4
Profit/(loss) before tax						$ (338)

3. Segment Information (continued)

Under the previous basis of segmentation in accordance with IAS 14 “Segment Reporting”, the Group’s primary reporting format was business segments and its secondary format was geographical segments. The following tables present revenue and profit information regarding business segments for the years ended December 31, 2010, 2009 and 2008 in accordance with the previous accounting policies in respect of segment information.

Year ended December 31, 2010

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 11,976	$ 736	$ 536	$ 146	$ –	$ 13,394
Inter-segment sales	147	1,771	30	669	(2,617)	–
Total revenue	12,123	2,507	566	815	(2,617)	13,394
Result						
Segment result	$ 832	$ 613	$ (10)	$ 123	$ (110)	$ 1,448
Unallocated expenses						(118)
Profit/(loss) from operations						$ 1,330
Share of profits/(losses) of joint ventures and associates	(32)	105	–	–		73
Other income/(expenses), net						(708)
Income tax expense						(163)
Net profit/(loss)						$ 532
Assets and liabilities						
Segment assets	$ 11,960	$ 3,293	$ 620	$ 503		$ 16,376
Investments in joint ventures and associates	32	718	–	–		750
Unallocated assets						475
Total assets						$ 17,601
Segment liabilities	$ 1,636	$ 525	$ 246	$ 50		$ 2,457
Unallocated liabilities						9,146
Total liabilities						$ 11,603
Other segment information						
Additions to property, plant and equipment and intangible assets	$ 516	$ 307	$ 10	$ 44		$ 877
Property, plant and equipment and intangible assets acquired in business combinations	123	–	–	–		123
Depreciation, depletion and amortisation	(579)	(289)	(22)	(37)		(927)
Impairment losses recognised in statement of operations	(96)	(21)	(16)	(30)		(163)
Impairment losses reversed through statement of operations	15	1	–	–		16
Impairment losses recognised in other comprehensive income	–	(7)	–	–		(7)

3. Segment Information (continued)

Year ended December 31, 2009

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 8,855	$ 435	$ 354	$ 128	$ –	$ 9,772
Inter-segment sales	123	1,021	9	637	(1,790)	–
Total revenue	8,978	1,456	363	765	(1,790)	9,772
Result						
Segment result	$ 148	$ (9)	$ (50)	$ 130	$ 12	$ 231
Unallocated expenses						(36)
Profit/(loss) from operations						$ 195
Share of profits/(losses) of joint ventures and associates	(1)	3	–	–		2
Other income/(expenses), net						(535)
Income tax expense						46
Net profit/(loss)						$ (292)
Assets and liabilities						
Segment assets	$ 11,435	$ 3,397	$ 592	$ 516		$ 15,940
Investments in joint ventures and associates	65	569	–	–		634
Unallocated assets						378
Total assets						$ 16,952
Segment liabilities	$ 1,373	$ 484	$ 155	$ 43		$ 2,055
Unallocated liabilities						9,455
Total liabilities						$ 11,510
Other segment information						
Additions to property, plant and equipment and intangible assets	$ 208	$ 150	$ 2	$ 33		$ 393
Property, plant and equipment and intangible assets acquired in business combinations	7	–	54	–		61
Depreciation, depletion and amortisation	(545)	(289)	(54)	(48)		(936)
Impairment losses recognised in statement of operations	(229)	(18)	–	–		(247)
Impairment losses reversed through statement of operations	45	22	–	–		67
Impairment losses recognised in other comprehensive income	–	(8)	–	–		(8)

3. Segment Information (continued)

Year ended December 31, 2008

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

3. Segment Information (continued)

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

US$ million	**2010**	2009	2008
Steel Production			
Construction products	**$ 3,331**	$ 2,184	$ 4,949
Flat-rolled products	**2,005**	1,448	3,236
Railway products	**1,466**	1,113	2,221
Tubular products	**1,309**	1,008	1,753
Semi-finished products	**2,340**	2,018	3,512
Other steel products	**383**	236	562
Other products	**1,064**	729	1,305
Rendering of services	**77**	119	85
	11,975	8,855	17,623
Mining			
Iron ore	**330**	175	708
Coal	**355**	219	461
Other products	**26**	22	84
Rendering of services	**25**	19	37
	736	435	1,290
Vanadium Products			
Vanadium in slag	**39**	60	290
Vanadium in alloys and chemicals	**493**	290	909
Other products	**3**	3	–
Rendering of services	**2**	1	2
	537	354	1,201
Other Operations			
Rendering of services	**146**	128	266
	146	128	266
	$ 13,394	$ 9,772	$ 20,380

3. Segment Information (continued)

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

US$ million	**2010**	2009	2008
Russia	**$ 4,692**	$ 2,950	$ 7,575
USA	**1,674**	1,543	3,232
Canada	**1,451**	861	1,283
Thailand	**550**	285	479
Ukraine	**471**	233	913
Taiwan	**459**	228	504
United Arab Emirates	**410**	415	289
South Africa	**407**	298	649
China	**367**	528	172
Kazakhstan	**342**	210	327
Philippines	**285**	250	149
Germany	**219**	116	417
Italy	**205**	140	343
Czech Republic	**189**	120	295
Austria	**188**	148	415
Poland	**139**	93	166
Korea	**126**	174	760
Turkey	**118**	130	192
Indonesia	**113**	74	143
Vietnam	**93**	226	234
Japan	**71**	21	121
Syria	**65**	62	104
Slovakia	**64**	51	119
Great Britain	**28**	25	173
Jordan	**29**	101	74
Other countries	**639**	490	1,252
	$ 13,394	$ 9,772	$ 20,380

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

3. Segment Information (continued)

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

US$ million		2010		2009		2008
Russia	**$**	**8,245**	$	7,555	$	8,252
USA		**2,864**		2,935		3,604
Canada		**2,638**		2,523		2,415
South Africa		**1,029**		1,131		1,052
Ukraine		**1,215**		1,235		1,533
Czech Republic		**515**		455		613
Switzerland		**435**		490		646
Italy		**336**		334		415
Cyprus		**154**		148		159
Luxembourg		**138**		113		723
Other countries		**32**		33		39
	$	**17,601**	$	16,952	$	19,451

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

US$ million		2010		2009		2008
Russia	**$**	**764**	$	293	$	971
USA		**34**		30		50
South Africa		**36**		26		53
Canada		**11**		15		15
Czech Republic		**4**		14		19
Ukraine		**26**		13		84
Other countries		**9**		3		8
	$	**884**	$	394	$	1,200

4. Business Combinations

Steel and Mining Businesses in Ukraine

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

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

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

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

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

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

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

4. Business Combinations (continued)

Steel and Mining Businesses in Ukraine (continued)

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

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

In 2007, cash flow on acquisition was as follows:

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

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

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

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

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

4. Business Combinations (continued)

Steel and Mining Businesses in Ukraine (continued)

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

Claymont Steel

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

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

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

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

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

4. Business Combinations (continued)

Claymont Steel (continued)

In 2008, cash flow on acquisition was as follows:

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

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

IPSCO Inc.

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

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

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

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

The financial position and the results of operations of IPSCO Inc. were included in the Group's consolidated financial statements beginning June 12, 2008.

4. Business Combinations (continued)

IPSCO Inc. (continued)

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

US$ million	**June 12, 2008**
Property, plant and equipment	$ 726
Intangible assets	607
Other non-current assets	18
Inventories	551
Accounts and notes receivable	186
Cash	2
Total assets	**2,090**
Non-current liabilities	4
Deferred income tax liabilities	319
Current liabilities	169
Total liabilities	**492**
Net assets	**$ 1,598**
Purchase consideration	**$ 2,450**
Goodwill	**$ 852**

In 2008, cash flow on acquisition was as follows:

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

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

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

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

4. Business Combinations (continued)

Vanady-Tula

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

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

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

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

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

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

4. Business Combinations (continued)

Vanady-Tula (continued)

In 2009, cash flow on acquisition was as follows:

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

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

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

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

In February, 2010, the Group made an offer to non-controlling shareholders of Vanady-Tula to sell their stakes to the Group. The non-controlling shareholders sold an 11.26% ownership interest to the Group. The Russian legislation allows a shareholder owning more than 95% of a company to increase its stake to 100% through a forced disposal of the shares held by non-controlling shareholders. Consequently, in August 2010, the Group started the buy out of non-controlling shares of Vanady-Tula. In November, 2010, the Group completed the buy-out of the remaining shares (3.90%).

The total purchase consideration for a 15.16% ownership interest amounted to 521 million Russian roubles ($18 million at the exchange rate as of the dates of transactions).

Steel Dealers

On October 15, 2009, the Group acquired a 100% interest in a holding company owning steel dealers throughout Russia (formerly known as Carbofer). The purchase consideration amounted to $11 million.

The financial position and the results of operations of this holding were included in the Group's consolidated financial statements beginning October 15, 2009. At December 31, 2009, the acquisition was accounted for based on provisional values as the Group, as of the date of authorisation of issue of the financial statements for the year ended December 31, 2009, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations".

In 2010, the Group finalised its purchase price allocation on the acquisition of steel dealers. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities at the date of acquisition.

4. Business Combinations (continued)

Steel Dealers (continued)

The table below sets forth the fair values of consolidated identifiable assets, liabilities and contingent liabilities at October 15, 2009:

US$ million	Provisional fair values	Final estimation of fair values
Property, plant and equipment	$ 7	$ 7
Other non-current assets	7	7
Inventories	73	73
Accounts and notes receivable	45	45
Cash	8	4
Total assets	**140**	**136**
Current liabilities	119	119
Total liabilities	**119**	**119**
Net assets	**$ 21**	**$ 17**
Purchase consideration	**$ 11**	**$ 11**
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**$ 10**	**$ 6**

In 2009, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ 4
Cash paid	(9)
Net cash outflow	**$ (5)**

In 2010, the Group paid $1 million of purchase consideration. At December 31, 2010, unpaid purchase consideration was $1 million.

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

Inprom Group

On December 22, 2010, the Group acquired 100% in a holding entity owning steel dealers throughout Russia (so called Inprom Group). Purchase consideration consisted of cash amounting to $19 million plus the fair value of a deferred consideration of $21 million.

The financial position and the results of operations of Inprom were included in the Group's consolidated financial statements beginning December 22, 2010. The acquisition was accounted for based on provisional values as the Group, as of the date of authorisation of issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations".

4. Business Combinations (continued)

Inprom Group (continued)

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

US$ million		**December 22, 2010**
Property, plant and equipment	$	123
Other non-current assets		26
Inventories		31
Accounts and notes receivable		24
Cash		8
Total assets		**212**
Non-current liabilities		8
Current liabilities		161
Total liabilities		**169**
Non-controlling interests		(1)
Net assets	**$**	**44**
Purchase consideration	**$**	**40**
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**$**	**4**

In 2010, cash flow on acquisition was as follows:

US$ million		
Net cash acquired with the subsidiary	$	8
Cash paid		(18)
Net cash outflow	**$**	**(10)**

For the period from December 22 to December 31, 2010, Inprom Group reported net loss amounting to $1 million.

Disclosure of Other Information in Respect of Business Combinations

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

It is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

5. Goodwill

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

US$ million	**Gross amount**	**Impairment losses**	**Carrying amount**
At December 31, 2007	**$ 2,145**	**$ –**	**$ 2,145**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	1,223	–	1,223
Adjustment to contingent consideration	(2)	–	(2)
Impairment	–	(756)	(756)
Palmrose	–	*(466)*	*(466)*
Claymont Steel	–	*(187)*	*(187)*
OSM Tubular – Portland Mill	–	*(103)*	*(103)*
Translation difference	(443)	–	(443)
At December 31, 2008	**2,923**	**(756)**	**2,167**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	69	–	69
Adjustment to contingent consideration	(5)	–	(5)
Impairment	–	(160)	(160)
Palmrose	–	*(100)*	*(100)*
Claymont Steel	–	*(49)*	*(49)*
General Scrap	–	*(4)*	*(4)*
Evraz Inc. N.A. Canada (Surrey)	–	*(7)*	*(7)*
Translation difference	94	21	115
At December 31, 2009	**3,081**	**(895)**	**2,186**
Adjustment to contingent consideration	8	–	8
Impairment	–	(16)	(16)
Stratcor, Inc.	–	*(16)*	*(16)*
Translation difference	43	(2)	41
At December 31, 2010	**$ 3,132**	**$ (913)**	**$ 2,219**

5. Goodwill (continued)

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

US$ million	**2010**	2009	2008
Evraz Inc. NA (formerly Oregon Steel Mills)	**$ 1,130**	$ 1,130	$ 1,183
Oregon Steel Portland Mill	***412***	*412*	*412*
OSM Tubular – Portland Mill	–	–	–
Rocky Mountain Steel Mills	***410***	*410*	*410*
OSM Tubular – Camrose Mills	***157***	*157*	*157*
Claymont Steel	***135***	*135*	*184*
General Scrap (was a part of IPSCO at the time of IPSCO acquisition)	***16***	*16*	*20*
Evraz Inc. NA Canada (formerly IPSCO)	**845**	801	700
Calgary	***232***	*220*	*190*
Red Deer	***57***	*54*	*46*
Regina Steel	***397***	*376*	*327*
Regina Tubular	***137***	*130*	*112*
Others	***22***	*21*	*25*
Palmrose	–	–	99
Dnepropetrovsk Iron and Steel Works	–	–	*24*
Dneprodzerzhinsk Coke Chemical Plant	–	–	*27*
Bagleykoks	–	–	*32*
Dneprokoks	–	–	*16*
Evraz Palini e Bertoli	**78**	82	80
Vanady-Tula	**66**	66	–
Strategic Minerals Corporation	**31**	39	45
Nikom, a.s.	**40**	40	38
Evraz Highveld Steel and Vanadium Limited	**29**	27	21
Evro-Aziatskaya Energy Company	–	1	1
	$ 2,219	$ 2,186	$ 2,167

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

Goodwill was tested for impairment as of December 31, 2010. For the purpose of the goodwill impairment testing the Group assessed the recoverable amount of each cash generating unit to which the goodwill relates. The recoverable amount has been determined based on value-in-use calculation using cash flows projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash generating units. For the periods not covered by management business plans, cash flow projections have been estimated by extrapolating the respective business plans results using a zero real growth rate. For mining operations management business plans cover the full life of mines.

5. Goodwill (continued)

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

	Period of forecast, years	Pre-tax discount rate, %	Commodity	Average price of the commodity per ton in 2011
Evraz Inc. NA	5	11.63-13.05	steel products	$ 899
Evraz Inc. NA Canada	5	13.05	steel products	$ 971
Evraz Palini e Bertoli	5	12.77	steel plates	€ 660
Vanady-Tula	5	13.39	vanadium products	$ 26,569
Strategic Minerals Corporation	5	14.28	ferrovanadium products	$ 34,980
Nikom, a.s.	5	13.19	ferrovanadium products	$ 30,667
Evraz Highveld Steel and Vanadium Limited	5	14.65	ferrovanadium products	$ 38,154
			steel products	$ 795

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

Discount Rates

Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rates have been determined using the Capital Asset Pricing Model and analysis of industry peers. Reasonable changes in discounts rates could lead to further impairment of goodwill at Evraz Inc. N.A. and Nikom cash generating units. A 10% increase in the discount rates would lead to an additional impairment of $55 million.

Sales Prices

The prices of the products sold by the Group were estimated using industry research. The average prices for steel products in 2011 were assumed to be 11% higher than the 2010 average. The Group expects that in 2012-2015 the nominal prices will grow on average by 5% and in 2016 and thereafter – by 3%. Reasonable changes in the assumptions for products prices could lead to an additional impairment at Evraz Inc. N.A. cash generating units. If the prices assumed for 2011 and 2012 in the impairment test were 10% lower, this would lead to an additional impairment of $27 million.

Sales Volumes

Management assumed that the sales volumes of steel products would increase on average by 5% during 2011 and would grow evenly during the following four years to reach normal asset capacity thereafter. Reasonable changes in sales volumes could lead to an additional impairment at Evraz Inc. N.A. cash generating units. If the sales volumes were 10% lower than those assumed for 2011 and 2012 in the impairment test, this would lead to an additional impairment of $11 million.

5. Goodwill (continued)

Cost Control Measures

The recoverable amounts of cash generating units are based on the business plans approved by management. The reasonable deviation of cost from these plans could lead to an additional impairment at Evraz Inc. N.A., Nikom and Vanady-Tula cash generating units. If the actual costs were 10% higher than those assumed for 2011 and 2012 in the impairment test, this would lead to an additional impairment of $56 million.

6. Acquisitions of Non-controlling interests in Subsidiaries

Highveld

In 2008, the Group acquired an additional non-controlling interest of 4.2% in Highveld Steel and Vanadium Corporation for a cash consideration of $69 million. The excess of the amounts of consideration over the carrying values of non-controlling interests acquired amounting to $35 million was charged to accumulated profits.

Exercise of Potential Voting Rights

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

Stratcor

In 2010, the Group acquired an additional non-controlling interest of 5.92% in Strategic Minerals Corporation ("Stratcor") for a cash consideration of $8 million paid in 2009. The excess of the amount of consideration paid over the carrying value of acquired non-controlling interest amounting to $3 million was charged to accumulated profits.

In addition, during the reporting period, the Group fully settled $16 million liability under earn-out payments for the acquisition of Stratcor in 2006 (Note 26).

LDPP

In 2010, the Group acquired an additional non-controlling interest of 25% in OAO Large Diameter Pipe Plant ("LDPP") for a cash consideration of $8 million. The excess of the carrying value of acquired non-controlling interest over the amount of consideration paid amounting to $1 million was recorded in additional paid-in capital.

7. Income and Expenses

Cost of revenues, selling and distribution costs, general and administrative expenses include the following for the years ended December 31:

US$ million		**2010**		2009		2008
Cost of inventories recognised as expense	**$**	**(5,241)**	$	(3,849)	$	(6,408)
Staff costs, including social security taxes		**(1,743)**		(1,524)		(2,154)
Depreciation, depletion and amortisation		**(925)**		(979)		(1,195)

In 2010 and 2009, the Group made a reversal of the allowance for net realisable value in the amount of $35 million and $177 million, respectively. In 2008, the amount of a write-down of finished goods to net realisable value together with the allowance for obsolete and slow-moving inventories that were recognised as expense amounted to $314 million.

The major components of other operating expenses were as follows:

US$ million		**2010**		2009		2008
Idling, reduction and stoppage of production, including termination benefits	**$**	**(45)**	$	(70)	$	(19)
Restoration works and casualty compensations in connection with accidents		**(17)**		(1)		(4)
Write-off of Mezhegey licence		–		–		(12)
Other		**(48)**		(50)		(25)
	$	**(110)**	$	(121)	$	(60)

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

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

US$ million		**2010**		2009		2008
Bank interest	**$**	**(241)**	$	(346)	$	(392)
Interest on bonds and notes		**(423)**		(268)		(221)
Finance charges payable under finance leases		**(6)**		(7)		(7)
Interest on liabilities relating to employee benefits and expected return on plan assets		**(32)**		(28)		(17)
Discount adjustment on provisions		**(15)**		(12)		(9)
Interest on contingent consideration		**(1)**		(2)		(2)
Other		**(10)**		(14)		(7)
	$	**(728)**	$	(677)	$	(655)

7. Income and Expenses (continued)

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

US$ million	**2010**	2009	2008
Interest on bank accounts and deposits	**$ 9**	$ 17	$ 37
Interest on loans receivable	**1**	10	15
Interest on loans receivable from related parties	**2**	6	–
Interest on accounts receivable	**1**	7	1
Other	**–**	–	4
	$ 13	$ 40	$ 57

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

US$ million	**2010**	2009	2008
Gain/(loss) on available-for-sale financial assets (Note 13)	**$ (2)**	$ –	$ (150)
Gain/(loss) on extinguishment of debts (Note 21)	**–**	103	80
Loss on trading with Raspadskaya shares	**–**	(1)	(27)
Change in the fair value of derivatives (Notes 18 and 26)	**4**	1	(10)
Impairment of financial instrument relating to the transaction with 49% ownership interest in NS Group (Note 18)	**–**	(2)	(3)
Other	**6**	(4)	(19)
	$ 8	$ 97	$ (129)

8. Income Taxes

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

	2010	2009	2008
Russia	**20.00%**	20.00%	24.00%
Canada	**28.00%**	29.00%	29.00%
Cyprus	**10.00%**	10.00%	10.00%
Czech Republic	**19.00%**	20.00%	21.00%
Italy	**31.40%**	31.40%	31.40%
South Africa	**28.00%**	28.00%	28.00%
Switzerland	**10.09%**	12.10%	10.04%
Ukraine	**25.00%**	25.00%	25.00%
USA	**35.00%**	35.00%	35.00%

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

In 2010, a new Tax Code has been adopted in Ukraine, which introduced a gradual reduction in income tax rates from 25% in 2010 to 16% in 2014. In addition, in accordance with the new Tax Code the carrying values of property, plant and equipment per statutory books as of April 1, 2011 will become a new tax base of these assets for income tax calculations. The Group's subsidiaries measured the respective deferred tax assets and liabilities at December 31, 2010 based on the new tax bases using the announced tax rates and a forecast of temporary differences reversal.

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

US$ million	2010	2009	2008
Current income tax expense	**$ (415)**	$ (179)	$ (1,622)
Adjustment in respect of income tax of previous years	**(8)**	(6)	28
Deferred income tax benefit/(expense) relating to origination and reversal of temporary differences	**119**	219	302
Deferred income tax benefit relating to changes in tax rates	**17**	13	107
Deferred income tax benefit relating to changes in tax regulations other than tax rates	**125**	–	–
Less: deferred income tax recognised directly in other comprehensive income	**(1)**	(1)	(7)
Income tax benefit/(expense) reported in the consolidated statement of operations	**$ (163)**	$ 46	$ (1,192)

8. Income Taxes (continued)

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

US$ million	**2010**	2009	2008
Profit before income tax	**$ 695**	$ (338)	$ 3,051
At the Russian statutory income tax rate of 20% (2009: 20%, 2008: 24%)	**(139)**	68	(732)
Adjustment in respect of income tax of previous years	**(8)**	(6)	28
Deferred income tax benefit resulting from reduction in tax rate	**17**	13	107
Deferred income tax benefit relating to changes in tax regulations other than tax rates	**125**	–	–
Less: deferred income tax recognised directly in other comprehensive income	**(1)**	(1)	(7)
Effect of non-deductible expenses and other non-temporary differences	**(254)**	(111)	(430)
Effect of the difference in tax rates on dividend income from associates and joint ventures	**–**	–	23
Tax on dividends distributed by the Group's subsidiaries to parent company	**–**	(1)	(153)
Effect of the difference in tax rates in countries other than the Russian Federation	**82**	68	(100)
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	**–**	11	43
Share of profits in joint ventures and associates	**15**	–	25
Utilisation of previously unrecognised tax losses	**–**	5	5
Benefit arising from early payment of income tax	**–**	–	6
Tax paid on dividends to minorities	**–**	–	(7)
Income tax expense reported in the consolidated statement of operations	**$ (163)**	$ 46	$ (1,192)

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

8. Income Taxes (continued)

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

Year ended December 31, 2010

US$ million	**2010**	**Change recognised in statement of operations**	**Received from tax authorities**	**Change recognised in other comprehen-sive income**	**Change due to business combina tions**	**Change due to disposal of subsidiaries**	**Translation difference**	**2009**
Deferred income tax liabilities:								
Valuation and depreciation of property, plant and equipment	**$ 1,074**	**(184)**	**–**	**(1)**	**5**	**(13)**	**10**	**$ 1,257**
Valuation and amortisation of intangible assets	**274**	**(38)**	**–**	**–**	**–**	**–**	**15**	**297**
Other	**89**	**(7)**	**–**	**–**	**–**	**–**	**4**	**92**
	1,437	**(229)**	**–**	**(1)**	**5**	**(13)**	**29**	**1,646**
Deferred income tax assets:								
Tax losses available for offset	**150**	**5**	**(74)**	**–**	**11**	**–**	**5**	**203**
Accrued liabilities	**197**	**67**	**–**	**–**	**–**	**–**	**2**	**128**
Impairment of accounts receivable	**33**	**6**	**–**	**–**	**5**	**–**	**–**	**22**
Other	**140**	**8**	**–**	**–**	**1**	**–**	**(1)**	**132**
Allowance for deferred tax assets	**(55)**	**(55)**	**–**	**–**	**–**	**–**	**–**	**–**
	465	**31**	**(74)**	**–**	**17**	**–**	**6**	**485**
Net deferred income tax asset	**100**	**24**	**–**	**–**	**10**	**–**	**(4)**	**70**
Net deferred income tax liability	**$ 1,072**	**(236)**	**74**	**(1)**	**(2)**	**(13)**	**19**	**$ 1,231**

Year ended December 31, 2009

US$ million	**2009**	**Change recognised in statement of operations**	**Received from tax authorities**	**Change recognised in other comprehen-sive income**	**Change due to business combina tions**	**Change due to disposal of subsidiaries**	**Translation difference**	**2008**
Deferred income tax liabilities:								
Valuation and depreciation of property, plant and equipment	$ 1,257	(42)	–	(1)	9	–	17	$ 1,274
Valuation and amortisation of intangible assets	297	(49)	–	–	–	–	36	310
Undistributed earnings of subsidiaries	–	(11)	–	–	–	–	–	11
Other	92	31	–	–	–	–	3	58
	1,646	(71)	–	(1)	9	–	56	1,653
Deferred income tax assets:								
Tax losses available for offset	203	154	–	–	4	–	2	43
Accrued liabilities	128	(20)	–	–	–	–	1	147
Impairment of accounts receivable	22	(3)	–	–	2	–	(1)	24
Other	132	29	–		1	–	8	94
	485	160	–	–	7	–	10	308
Net deferred income tax asset	70	20	–	–	8	–	(2)	44
Net deferred income tax liability	$ 1,231	(211)	–	(1)	10	–	44	$ 1,389

8. Income Taxes (continued)

Year ended December 31, 2008

US$ million	2008	Change recognised in statement of operations	Received from tax authorities	Change recognised in other comprehen-sive income	Change due to business combina tions	Change due to disposal of subsidiaries	Translation difference	2007
Deferred income tax liabilities:								
Valuation and depreciation of property, plant and equipment	$ 1,274	(221)	–	(7)	170	–	(268)	$ 1,600
Valuation and amortisation of intangible assets	310	(39)	–	–	177	–	(54)	226
Undistributed earnings of subsidiaries	11	(43)	–	–	–	–	–	54
Other	58	(85)	–	–	47	–	(10)	106
	1,653	(388)	–	(7)	394	–	(332)	1,986
Deferred income tax assets:								
Tax losses available for offset	43	14	–	–	10	–	(4)	23
Accrued liabilities	147	(3)	–	–	7	–	(15)	158
Impairment of accounts receivable	24	2	–	–	–	–	(7)	29
Other	94	1	–	–	–	–	(15)	108
	308	14	–	–	17	–	(41)	318
Net deferred income tax asset	44	27	–	–	–	–	(5)	22
Net deferred income tax liability	$ 1,389	(375)	–	(7)	377	–	(296)	$ 1,690

As of December 31, 2010, 2009 and 2008, deferred income taxes have been provided for in respect of undistributed earnings of the Group's subsidiaries amounting to $nil, $nil and $199 million, respectively, as management intended to dividend these amounts. Management does not intend to distribute other accumulated earnings in the foreseeable future. The current tax rate on intra-group dividend income varies from 0% to 10%.

At December 31, 2010, the Group has not recognised a deferred tax liability and deferred tax asset in respect of temporary differences of $5,764 million and $2,831 million, respectively (2009: $4,270 million and $2,713 million, respectively; 2008: $4,118 million and $2,826 million, respectively) These differences are associated with investments in subsidiaries and were not recognised as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies, except for the companies registered in Cyprus where group relief can be applied. As of December 31, 2010, the unused tax losses carry forward approximated $3,365 million (2009: $2,757 million, 2008: $803 million). The Group recognised deferred tax asset of $150 million (2009: $203 million, 2008: $43 million) in respect of unused tax losses. Deferred tax asset in the amount of $655 million (2009: $463 million, 2008: $78 million) has not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Tax losses of $2,555 million (2009: $1,873 million, 2008: $463 million) for which deferred tax asset was not recognised arose in companies registered in Luxembourg, Cyprus, Russia, Ukraine and Canada. Losses in the amount of $2,535 million (2009: $1,870 million, 2008: $459 million) are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $20 million (2009: $3 million, 2008: $4 million) will expire during 2016 – 2029.

9. Property, Plant and Equipment

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

US$ million	2010	2009	2008
Revalued amount or cost:			
Land	**$ 177**	$ 164	$ 157
Buildings and constructions	**2,536**	2,456	2,383
Machinery and equipment	**5,738**	5,342	4,971
Transport and motor vehicles	**483**	445	430
Mining assets	**2,656**	2,617	2,603
Other assets	**84**	77	98
Assets under construction	**702**	539	691
	12,376	11,640	11,333
Accumulated depreciation, depletion and impairment losses:			
Buildings and constructions	**(854)**	(711)	(570)
Machinery and equipment	**(2,046)**	(1,631)	(1,218)
Transport and motor vehicles	**(203)**	(173)	(133)
Mining assets	**(607)**	(485)	(359)
Other assets	**(55)**	(50)	(35)
	(3,765)	(3,050)	(2,315)
Government grants:			
Machinery and equipment, net	**(4)**	(5)	(6)
	$ 8,607	$ 8,585	$ 9,012

The movement in property, plant and equipment for the year ended December 31, 2010 was as follows:

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2009, cost, net of accumulated depreciation and government grants	$ 164	$ 1,745	$ 3,706	$ 272	$ 2,132	$ 27	$ 539	$ 8,585
Reclassifications between categories	–	1	(4)	1	3	(1)	–	–
Additions	–	2	4	6	25	–	840	877
Assets acquired in business combination	11	47	55	2	–	3	5	123
Assets put into operation	1	54	423	45	70	11	(604)	–
Disposals	(1)	(9)	(39)	(3)	(12)	(2)	(10)	(76)
Depreciation and depletion charge	–	(149)	(453)	(40)	(151)	(10)	–	(803)
Impairment losses recognised in statement of operations	–	(4)	(40)	–	(8)	–	(65)	(117)
Impairment losses reversed through statement of operations	–	3	8	–	1	–	3	15
Impairment losses recognised or reversed through other comprehensive income	–	(4)	(1)	–	(2)	–	–	(7)
Transfer to/from assets held for sale	–	(6)	(9)	–	(75)	–	–	(90)
Change in site restoration and decommissioning provision	–	2	–	–	71	–	–	73
Translation difference	2	–	38	(3)	(5)	1	(6)	27
At December 31, 2010, cost, net of accumulated depreciation and government grants	$ 177	$ 1,682	$ 3,688	$ 280	$ 2,049	$ 29	$ 702	$ 8,607

9. Property, Plant and Equipment (continued)

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

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2008, cost, net of accumulated depreciation and government grants	$ 157	$ 1,813	$ 3,747	$ 297	$ 2,244	$ 63	$ 691	$ 9,012
Reclassifications	5	35	(12)	(1)	5	(34)	2	–
Additions	–	–	10	1	11	–	371	393
Assets acquired in business combination	–	31	26	2	–	–	2	61
Assets put into operation	3	56	346	24	72	15	(516)	–
Disposals	–	(11)	(26)	(4)	(1)	(1)	(6)	(49)
Depreciation and depletion charge	–	(151)	(445)	(43)	(147)	(17)	–	(803)
Impairment losses recognised in statement of operations	–	(28)	(33)	–	(4)	–	(7)	(72)
Impairment losses reversed through statement of operations	–	15	20	–	22	–	–	57
Impairment losses recognised or reversed through other comprehensive income	(4)	(3)	(1)	–	–	–	–	(8)
Disposal of assets due to sale of a subsidiary	–	(1)	–	–	(10)	–	–	(11)
Transfer to/from assets held for sale	–	(3)	–	–	–	(2)	–	(5)
Change in site restoration and decommissioning provision	–	5	6	–	3	–	–	14
Translation difference	3	(13)	68	(4)	(63)	3	2	(4)
At December 31, 2009, cost, net of accumulated depreciation and government grants	$ 164	$ 1,745	$ 3,706	$ 272	$ 2,132	$ 27	$ 539	$ 8,585

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

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

9. Property, Plant and Equipment (continued)

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $250 million, $121 million and $145 million as of December 31, 2010, 2009 and 2008, respectively.

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

The amount of borrowing costs capitalised during the year ended December 31, 2010 was $5 million (2009: $7 million, 2008: $18 million). In 2010, the rate used to determine the amount of borrowing costs eligible for capitalisation was 6.3%, which is the effective interest rate of the specific borrowings.

10. Intangible Assets Other Than Goodwill

Intangible assets consisted of the following as of December 31:

US$ million	**2010**	2009	2008
Cost:			
Customer relationships	**$ 1,353**	$ 1,276	$ 1,117
Trade names and trademarks	**31**	31	28
Water rights and environmental permits	**64**	64	63
Patented and unpatented technology	**10**	9	9
Contract terms	**11**	42	66
Other	**53**	46	56
	1,522	1,468	1,339
Accumulated amortisation:			
Customer relationships	**(441)**	(307)	(171)
Trade names and trademarks	**(25)**	(19)	(12)
Water rights and environmental permits	**(6)**	(5)	(3)
Patented and unpatented technology	**(8)**	(6)	(4)
Contract terms	**(3)**	(2)	(8)
Other	**(35)**	(31)	(33)
	(518)	(370)	(231)
	$ 1,004	$ 1,098	$ 1,108

As of December 31, 2010, 2009 and 2008, water rights and environmental permits with a carrying value $56 million had an indefinite useful life.

10. Intangible Assets Other Than Goodwill (continued)

The movement in intangible assets for the year ended December 31, 2010 was as follows:

US$ million	**Customer relation-ships**	**Trade names and trademarks**	**Water rights and environ-mental permits**	**Patented and unpatented technology**	**Contract terms**	**Other**	**Total**
At December 31, 2009, cost, net of accumulated amortisation	**$ 969**	**$ 12**	**$ 59**	**$ 3**	**$ 40**	**$ 15**	**$ 1,098**
Additions	–	–	–	–	–	**7**	**7**
Amortisation charge	**(113)**	**(6)**	**(1)**	**(2)**	**(1)**	**(4)**	**(127)**
Emission allowances granted	–	–	–	–	–	**6**	**6**
Emission allowances used/sold/purchased for the period	–	–	–	–	–	**(5)**	**(5)**
Impairment loss recognised in statement of operations	–	–	–	–	**(30)**	–	**(30)**
Impairment losses reversed through statement of operations	**1**	–	–	–	–	–	**1**
Translation difference	**55**	–	–	**1**	**(1)**	**(1)**	**54**
At December 31, 2010, cost, net of accumulated amortisation	**$ 912**	**$ 6**	**$ 58**	**$ 2**	**$ 8**	**$ 18**	**$ 1,004**

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

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

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

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

11. Investments in Joint Ventures and Associates

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

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

US$ million	**Corber**	**Streamcore**	**Kazankov-skaya**	**Other associates**	**Total**
Investment at December 31, 2007	**$ 573**	**$ –**	**$ 15**	**$ 4**	**$ 592**
Share of profit/(loss)	212	–	(14)	–	198
Dividends distributed	(95)	–	–	–	(95)
Return of capital to a shareholder	(35)	–	–	–	(35)
Assets acquired in business combination (Note 4)	–	–	–	7	7
Translation difference	(114)	–	(1)	(1)	(116)
Investment at December 31, 2008	**541**	–	–	**10**	**551**
Additional investments	–	42	–	13	55
Share of profit/(loss)	40	–	–	–	40
Impairment of investments	–	–	–	(1)	(1)
Disposal of investments	–	–	–	(1)	(1)
Translation difference	(12)	2	–	–	(10)
Investment at December 31, 2009	**569**	**44**	–	**21**	**634**
Share of profit/(loss)	105	–	–	1	106
Impairment of investments	–	(23)	–	(10)	(33)
Group's share in excess of net assets of ZAO Koksovaya transferred to Raspadskaya over consideration received (Note 12)	52	–	–	–	52
Translation difference	(8)		–	(1)	(9)
Investment at December 31, 2010	**$ 718**	**$ 21**	**$ –**	**$ 11**	**$ 750**

Share of profit/(loss) of joint ventures and associates which is reported in the statement of operations comprised the following:

US$ million	**2010**	**2009**	**2008**
Share of profit/(loss), net	**$ 106**	$ 40	$ 198
Impairment of investments	**(33)**	(1)	–
Losses recognised in excess of the Group's investment in the associate (Note 13)	–	(37)	(4)
Share of profits/(losses) of joint ventures and associates recognised in the consolidated statement of operations	**$ 73**	$ 2	$ 194

11. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited

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

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

US$ million	**2010**	**2009**	**2008**
Mineral reserves	$ 798	$ 864	$ 935
Other property, plant and equipment	970	746	643
Other non-current assets	27	38	5
Inventories	77	44	56
Accounts and notes receivable	275	335	268
Cash	165	24	73
Total assets	**2,312**	**2,051**	**1,980**
Non-current liabilities	361	325	333
Deferred income tax liabilities	194	186	188
Current liabilities	81	111	102
Total liabilities	**636**	**622**	**623**
Non-controlling interests	**340**	**291**	**277**
Net assets	**$ 1,336**	**$ 1,138**	**$ 1,080**

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

US$ million	**2010**	**2009**	**2008**
Revenue	$ 706	$ 497	$ 1,200
Cost of revenue	(323)	(252)	(362)
Other expenses, including income taxes	(119)	(141)	(311)
Net profit	**$ 264**	**$ 104**	**$ 527**
Attributable to:			
Equity holders of the parent entity	$ 214	$ 82	$ 420
Non-controlling interests	50	22	107
Net profit	**$ 264**	**$ 104**	**$ 527**
50% of unrealised profits on transactions with the joint venture	(2)	(1)	2
Group's share of profits of the joint venture	**$ 105**	**$ 40**	**$ 212**

11. Investments in Joint Ventures and Associates (continued)

Kazankovskaya

ZAO Kazankovskaya ("Kazankovskaya") is a coal mining company that was acquaired as part of the purchase of Yuzhkuzbassugol in 2007. The Group owns 50% in Kazankovskaya.

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

US$ million	2010	2009	2008
Mineral reserves	$ –	$ –	$ 38
Other property, plant and equipment	–	21	46
Inventories	1	2	2
Accounts receivable	1	1	1
Other current assets	1	1	1
Total assets	**3**	**25**	**88**
Non-current liabilities	65	48	83
Deferred income tax liabilities	4	8	–
Current liabilities	24	15	13
Total liabilities	**93**	**71**	**96**
Net assets/(liabilities)	**$ (90)**	**$ (46)**	**$ (8)**

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

US$ million	2010	2009	2008
Revenue	$ 14	$ 15	$ 15
Cost of revenue	(32)	(26)	(24)
Other expenses, including income taxes	(23)	(55)	(27)
Net loss	**$ (41)**	**$ (66)**	**$ (36)**
Group's share of loss of the associate	**$ (21)**	**$ (33)**	**$ (18)**
including: share of loss allocated against loan receivable from Kazankovskaya (Note 13)	–	(33)	(4)

11. Investments in Joint Ventures and Associates (continued)

Streamcore

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

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

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

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

US$ million		**2010**		**2009**
Property, plant and equipment	$	52	$	59
Accounts receivable		17		15
Total assets		**69**		**74**
Non-current liabilities		4		2
Deferred income tax liabilities		–		5
Current liabilities		1		3
Total liabilities		**5**		**10**
Net assets	$	**64**	**$**	**64**

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

US$ million		**2010**		**Period from September 4 to December 31, 2009**
Revenue	$	10	$	5
Cost of revenue		(9)		(4)
Other expenses, including income taxes		(1)		(1)
Net profit	**$**	–	**$**	–
Group's share of profit of the joint venture	**$**	–	**$**	–

12. Disposal Groups Held for Sale

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

US$ million	2010	2009	2008
Land	**$ –**	**$ 1**	$ –
Other property, plant and equipment	**2**	**6**	7
Assets classified as held for sale	**2**	**7**	7
Liabilities directly associated with assets classified as held for sale	**–**	**1**	–
Net assets classified as held for sale	**$ 2**	**$ 6**	$ 7

The table below demonstrates the carrying values of assets and liabilities, at the dates of disposal, of the subsidiaries and other business units disposed of during 2008-2010.

US$ million	2010	2009	2008
Property, plant and equipment	**$ 90**	$ 16	$ 91
Goodwill	**–**	–	13
Inventory	**–**	3	35
Accounts and notes receivable	**22**	7	33
Assets held for sale acquired in business combinations	**–**	–	36
Total assets	**112**	26	208
Deferred income tax liabilities	**13**	–	10
Non-current liabilities	**1**		
Current liabilities	**–**	14	12
Total liabilities	**14**	14	22
Net assets	**$ 98**	$ 12	$ 186

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

US$ million	2010	2009	2008
Net cash disposed of with subsidiaries	**$ –**	$ –	$ –
Transaction costs	**–**	–	(7)
Cash received	**42**	28	168
Net cash inflow	**$ 42**	$ 28	$ 161

At December 31, 2008, receivables in respect of the sold assets in the amount of $10 million were included in accounts receivable. At December 31, 2010 and 2009, the Group owed $5 million in respect of the disposed business units.

12. Disposal Groups Held for Sale (continued)

The disposal groups sold during 2008-2010 are described below.

Highveld's Business Units

In 2008, the Group sold Rand Carbide, a division of Evraz Highveld Steel and Vanadium Corporation ("Highveld"), producing ferrosilicon and various carbonaceous products. The division was included in the steel segment of the Group's operations. Cash consideration amounting to $39 million approximated the carrying value of the disposed assets.

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

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

Mine 12

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

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

12. Disposal Groups Held for Sale (continued)

Sale of Koksovaya

In April, 2010, the Group sold ZAO Koksovaya to Raspadskaya, a subsidiary of Corber, the Group's joint venture, which holds 80% in Raspadskaya. ZAO Koksovaya is an operating hard-coking coal mine, which owns the license for Tomusinskaya 5-6 coal deposit. As part of the transaction, the parties entered into a long-term off-take contract under which Raspadskaya committed to supply to the Group substantially all coal or concentrate produced from coal extracted on the Tomusinskaya 5-6 deposit during 2010-2019.

The cash consideration amounted to $40 million. The loss from sale, net of the Group's share in gain on the transaction recognised by Raspadskaya (Note 11), amounted to $5 million and was included in loss on disposal groups classified as held for sale caption of the consolidated statement of operations.

Other Disposal Groups Held for Sale

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

13. Other Non-Current Assets

Non-Current Financial Assets

US$ million	**2010**	**2009**	**2008**
Investments in Delong Holdings Limited	**$ 37**	$ 43	$ 23
Investments in Cape Lambert Iron Ore	**–**	–	10
Derivatives not designated as hedging instruments (Note 26)	**5**	–	–
Restricted deposits at banks	**9**	18	2
Loans issued to related parties (Note 29)	**46**	–	38
Loans receivable (Note 29)	**17**	4	5
Trade and other receivables (Note 29)	**3**	1	40
Other	**1**	–	–
	$ 118	$ 66	$ 118

13. Other Non-Current Assets (continued)

Other Non-Current Assets

US$ million	2010	2009	2008
Deposit to secure put option for the shares of OAO Vanady-Tula (Note 4)	**$ –**	$ 12	$ 105
Prepayment for purchases of associates and joint ventures	**9**	–	28
Prepaids for purchases of non-controlling interests	**–**	8	–
Long-term input VAT	**11**	59	2
Defined benefit plan asset (Note 23)	**19**	15	4
Fees for future purchases under a long-term contract	**11**	12	–
Other	**53**	22	21
	$ 103	$ 128	$ 160

Investments in Delong Holdings Limited

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

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

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

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

13. Other Non-Current Assets (continued)

Investments in Delong Holdings Limited (continued)

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

The investments in Delong are classified as available-for-sale financial assets and measured at fair value based on market quotations. The change in the fair value of these shares is initially recorded in other comprehensive income.

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

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

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

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

In 2010, the Group recognised $6 million impairment loss on Delong shares, including $4 million – through comprehensive income and $2 million – through the statement of operations.

13. Other Non-Current Assets (continued)

Investments in Cape Lambert Iron Ore

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

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

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

Loans Issued to Related Parties

At December 31, 2008, amounts receivable from related parties represent rouble-denominated loans granted by Yuzhkuzbassugol to Kazankovskaya (Note 11) in 2004 – 2005. The loans bore interest of 10% per annum and mature in 2013. In 2009, the interest rate was reduced to 0.1%. In 2009 and 2008, the Group wrote off $37 million and $4 million in respect of this loan. These amounts were included in share of profits/(losses) of joint ventures and associates caption of the consolidated statement of operations.

In 2010, the Group issued a $46 million loan to Lanebrook Limited, the controlling shareholder of the Group. The loan bears interest of 7.85% per annum and matures on June 22, 2012. Under the agreement, Lanebrook Limited prepaid the full amount of interest totaling $7 million, which was included in other long-term liabilities caption of consolidated statement of financial position as of December 31, 2010 (Note 26).

Prepayment for Purchases of Associates and Joint Ventures

In 2010, the Group made a prepayment to a key management person for the acquisition of 29% ownership interest in Mediaholding Provincia. This prepayment was included in other non-current assets caption of the consolidated statement of financial position as of December 31, 2010.

14. Inventories

Inventories consisted of the following as of December 31:

US$ million	2010	2009	2008
Raw materials and spare parts:			
– at cost	**$ 906**	$ 647	$ 974
– at net realisable value	**68**	77	145
	974	724	1,119
Work-in-progress:			
– at cost	**300**	255	376
– at net realisable value	**144**	112	156
	444	367	532
Finished goods:			
– at cost	**454**	506	496
– at net realisable value	**198**	231	269
	652	737	765
	$ 2,070	$ 1,828	$ 2,416

As of December 31, 2010, 2009 and 2008, the net realisable value allowance was $114 million, $145 million, $318 million, respectively.

As of December 31, 2010, 2009 and 2008, certain items of inventory with an approximate carrying amount of $203 million, $81 million and $648 million, respectively, were pledged to banks as collateral against loans provided to the Group (Note 21).

15. Trade and Other Receivables

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

US$ million	2010	2009	2008
Trade accounts receivable	**$ 1,239**	$ 931	$ 1,365
Other receivables	**72**	160	90
	1,311	1,091	1,455
Allowance for doubtful accounts	**(98)**	(90)	(86)
	$ 1,213	$ 1,001	$ 1,369

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

16. Related Party Disclosures

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

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

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

	Amounts due from related parties			Amounts due to related parties		
US$ million	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**
Kazankovskaya	**$ 21**	$ 14	$ 10	**$ 1**	$ 1	$ 1
Lanebrook Limited	**53**	53	81	**–**	–	–
Marens	**–**	2	2	**–**	–	–
Raspadsky Ugol	**2**	1	1	**32**	73	56
Yuzhny GOK	**19**	22	37	**178**	154	231
Other entities	**9**	17	9	**6**	7	34
	104	109	140	**217**	235	322
Less: allowance for doubtful accounts	**(24)**	(2)	(3)	**–**	–	–
	$ 80	$ 107	$ 137	**$ 217**	$ 235	$ 322

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

	Sales to related parties			Purchases from related parties		
US$ million	**2010**	**2009**	**2008**	**2010**	**2009**	**2008**
Interlock Security Services	**$ 1**	$ 1	$ 1	**$ 37**	$ 27	$ 32
Kazankovskaya	**6**	5	8	**14**	15	14
Raspadsky Ugol	**11**	11	–	**192**	107	354
Yuzhny GOK	**20**	6	57	**67**	34	631
Other entities	**8**	8	11	**20**	18	32
	$ 46	$ 31	$ 77	**$ 330**	$ 201	$ 1,063

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

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

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

16. Related Party Disclosures (continued)

Lanebrook Limited is a controlling shareholder of the Company. The amounts receivable from Lanebrook Limited represent overpayments for the acquired working capital of the Ukrainian businesses (Note 4). In addition, in 2008, the Group acquired a 1% ownership interest in Yuzhny GOK for a cash consideration of $38 million (Note 18). As part of the transaction, the Group signed a put option agreement that gives the Group the right to sell these shares back to Lanebrook Limited for the same amount. The put option expires on December 31, 2011.

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

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

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

The transactions with related parties are based on market prices.

Compensation to Key Management Personnel

Key management personnel include the following positions within the Group:

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

In 2010, 2009 and 2008, key management personnel totalled 55, 58 and 60 persons, respectively. Total compensation to key management personnel were included in general and administrative expenses in the consolidated statement of operations and consisted of the following:

US$ million	**2010**	2009	2008
Salary	**$ 21**	$ 18	$ 22
Performance bonuses	**12**	10	29
Social security taxes	**1**	1	1
Share-based payments (Note 24)	**1**	3	18
Termination benefits	**4**	–	–
Other benefits	**3**	1	1
	$ 42	$ 33	$ 71

17. Other Taxes Recoverable

Taxes recoverable consisted of the following as of December 31:

US$ million		**2010**		2009		2008
Input VAT	**$**	**241**	$	173	$	257
Other taxes		**112**		85		140
	$	**353**	$	258	$	397

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

18. Other Current Financial Assets

Other current assets included the following as of December 31:

US$ million		**2010**		2009		2008
Financial instrument relating to the transaction with a 49% ownership interest in NS Group (Note 4)	**$**	**–**	$	–	$	508
Investments in Yuzhny GOK (Note 16)		**38**		38		38
Bank deposits		**1**		22		25
Restricted deposits at banks		**13**		59		–
Financial assets at fair value through profit or loss (Note 13)		**–**		–		18
Other short-term investments		**–**		1		–
	$	**52**	$	120	$	589

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

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

Financial Assets at Fair Value through Profit or Loss

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

19. Cash and Cash Equivalents

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

US$ million	**2010**	2009	2008
US dollar	**$ 306**	$ 300	$ 536
Russian rouble	**200**	170	124
South African rand	**49**	110	177
Euro	**46**	75	45
Canadian dollar	**69**	14	27
Ukrainian hryvnia	**10**	1	12
Czech koruna	**1**	1	7
Other	**2**	–	2
	$ 683	$ 671	$ 930

20. Equity

Share Capital

Number of shares	**2010**	**2009**	**2008**
Authorised			
Ordinary shares of €2 each	**257,204,326**	257,204,326	157,204,326
Issued and fully paid			
Ordinary shares of €2 each	**145,957,121**	145,957,121	122,504,803

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

Acquisition of the Ukrainian Businesses

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

Scrip Dividends

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

20. Equity (continued)

Scrip Dividends (continued)

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

Share-based Payment Transactions

Starting from May 23, 2007, the Group made a decision to cease the issuance of new shares for the settlement of share-based awards (Note 24). Since that date the Group acquired its own shares (in the form of global depositary receipts) on the open market for the grantees or repurchased the share options after vesting.

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

Treasury Shares

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

Convertible Bonds and Equity Offerings

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

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

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

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

20. Equity (continued)

Convertible Bonds and Equity Offerings (continued)

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

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

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

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

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

Increase of Authorised Share Capital

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

20. Equity (continued)

Shares Lending Transactions

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

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

Earnings per Share

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

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

	2010	**2009**	**2008**
Weighted average number of ordinary shares for basic earnings per share	**138,623,788**	**134,457,386**	123,495,726
Effect of dilution: share-based awards	**14,993**	**–**	435,504
Weighted average number of ordinary shares adjusted for the effect of dilution	**138,638,781**	**134,457,386**	123,931,230
Profit/(loss) for the year attributable to equity holders of the parent, US$ million	**$ 548**	**$ (295)**	$ 1,797
Basic earnings/(losses) per share	**$ 3.95**	**$ (2.19)**	$ 14.55
Diluted earnings/(losses) per share	**$ 3.95**	**$ (2.19)**	$ 14.50

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

20. Equity (continued)

Earnings per Share (continued)

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

The weighted average number of ordinary shares for basic earnings per share does not include 7,333,333 shares issued in 2009 to Lanebrook in exchange for the right to receive 7,333,333 shares lended under the shares lending transactions. These transactions had no impact on equity, as the Group's net assets did not change as a result of these transactions.

In 2010 and 2008, share-based awards (Note 24) had a dilutive effect. In 2009, the Group reported net loss. Consequently, they were antidilutive.

In 2010 and 2009, the convertible bonds were antidilutive as the interest (net of tax) per ordinary share obtainable on conversion exceeded basic earnings per share. 10,220,126 contingently issuable shares on conversion of the bonds could potentially dilute basic earnings per share in the future.

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

Dividends

Dividends declared by Evraz Group S.A. during 2008-2010 were as follows:

	Date of declaration	**To holders registered at**	**Dividends declared, US$ million**	**US$ per share**
Final for 2007	15/05/2008	14/05/2008	497	4.20
Interim for 2008	29/08/2008	18/09/2008	1,011	8.25

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

The shareholders meeting held May 15, 2009 resolved not to declare final dividends for 2008.

The shareholders meeting held May 17, 2010 resolved not to declare dividends for 2009.

In addition, certain subsidiaries of the Group declared dividends. The share of non-controlling shareholders in those dividends in 2010, 2009 and 2008 was $1 million, $1 million and $80 million, respectively.

20. Equity (continued)

Legal Reserve

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

Other Movements in Equity

Acquisitions of Non-controlling interests in Subsidiaries

In 2010 and 2008, the Group acquired non-controlling interests in certain subsidiaries (Note 6). The excess of acquired non-controlling interests over the consideration amounting to $1 million and $21 million, respectively, was recorded as additional paid-in capital and the excess of consideration over the carrying value of non-controlling interests amounting to $3 million and $37 million, respectively, was charged to accumulated profits.

Derecognition of Non-controlling interests in Subsidiaries

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

In 2010, the non-controlling shareholder's right to put a 49% share in Frotora Holdings Ltd. ("Frotora") to the Group at fair value of the ownership interest become exercisable. The Group derecognised a 49% ownership interest in Frotora amounting to $6 million and accrued a liability for the same amount. The assets of Frotora comprised mostly the rights under a long-term lease of land to be used for a construction of a commercial sea port in Ukraine. These rights are included in contract terms category of the intangible assets. In 2010, the Group recognised an impairment loss of $30 million in respect of these rights due to the change in plans for the use of this land.

21. Loans and Borrowings

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

US$ million	**2010**	**2009**	**2008**
Bank loans	**$ 3,472**	$ 4,605	$ 7,163
8.875 per cent notes due 2013	**1,156**	1,156	1,245
7.25 per cent convertible bonds due 2014 (Note 20)	**650**	650	–
8.25 per cent notes due 2015	**577**	577	725
9.5 per cent notes due 2018	**509**	509	560
10.875 per cent notes due 2009	–	–	300
13.5 per cent bonds due 2014	**656**	661	–
9.25 per cent bonds due 2013	**492**	–	–
9.95 per cent bonds due 2015	**492**	–	–
Liabilities under 12.00 per cent rouble bonds due 2011 and 2013 assumed in business combination (Note 4)	**13**	–	–
Unamortised debt issue costs	**(192)**	(196)	(94)
Difference between the nominal amount and liability component of convertible bonds (Note 20)	**(104)**	(126)	–
Interest payable	**90**	87	87
	$ 7,811	$ 7,923	$ 9,986

As of December 31, 2010, 2009 and 2008, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $381 million, $411 million and $2,495 million, respectively, and long-term loans and borrowings in the amount of $7,636 million, $7,747 million and $7,498 million, respectively, including the current portion of long-term liabilities of $244 million, $1,498 million and $1,346 million, respectively.

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

	Long-term borrowings			**Short-term borrowings**		
	2010	**2009**	**2008**	**2010**	**2009**	**2008**
US dollar	**8.01%**	**7.30%**	6.56%	**3.06%**	**4.18%**	6.40%
Russian rouble	**11.17%**	**13.49%**	–	**12.50%**	**13.25%**	16.50%
Euro	**5.05%**	**5.11%**	5.54%	**1.48%**	**1.46%**	6.06%
Czech koruna	–	–	–	–	**3.38%**	3.49%

21. Loans and Borrowings (continued)

The liabilities are denominated in the following currencies at December 31:

US$ million	**2010**	2009	2008
US dollar	**$ 6,079**	$ 7,233	$ 9,345
Russian rouble	**1,699**	701	364
Euro	**322**	297	348
Czech koruna	**7**	14	23
Unamortised debt issue costs	**(192)**	(196)	(94)
Difference between the nominal amount and liability component of convertible bonds (Note 20)	**(104)**	(126)	–
	$ 7,811	$ 7,923	$ 9,986

Covenants Reset

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

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

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

In connection with the covenants reset, the Group incurred transaction costs comprising consent fees and legal fees amounting to $114 million, which will be amortised during the period of the borrowings. These costs were fully paid during 2009 and 2010.

21. Loans and Borrowings (continued)

Pledged Assets

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

At December 31, 2010, 2009 and 2008, the Group had equipment with a carrying value of $Nil, $11 million and $1,131 million, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged inventory with a carrying value of $203 million, $81 million and $648 million as of December 31, 2010, 2009 and 2008, respectively. At December 31, 2010, 50% less one share of Kachkanarsky Mining-and-Processing Integrated Works were pledged as collateral under bank loans. This subsidiary represents 2.4% of the consolidated assets and 0.3% of the consolidated revenues of the Group. At December 31, 2010, the net assets (including intra-group balances) of Kachkanarsky Mining-and-Processing Integrated Works were $1,115 million.

Notes and Bonds

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

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

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

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

In 2009, the Group issued bonds in the total amount of 20,000 million Russian roubles, which bear interest of 13.50% per annum and mature on October 16, 2014. In 2010, the Group issued bonds in the amount of 15,000 million Russian roubles, which bear interest of 9.25% per annum and mature on March 22, 2013 and bonds amounting to 15,000 million Russian roubles, which bear interest of 9.95% per annum and mature on October 26, 2015. The currency and interest rate risk exposures of these transactions were partially economically hedged (Note 26).

21. Loans and Borrowings (continued)

Repurchase of Notes and Bonds

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

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

Early Settlement

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

In 2009, the Group repaid a bank loan ahead of schedule. As a result, the Group recognised a loss on extinguishment of debts in the amount of $13 million within gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations for the year ended December 31, 2009.

Loans from the Russian State Banks

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

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

In November 2009, the maturity of the VEB loan facility in the total amount of $1,007 million was extended for another twelve months. Consequently, the VEB tranches totalling $805 million have been classified as non-current liabilities in the consolidated statement of financial position as of December 31, 2009. In 2010, the Group fully repaid its liabilities under $1,007 million loan from VEB.

Unamortised Debt Issue Costs

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

21. Loans and Borrowings (continued)

Unutilised Borrowing Facilities

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

US$ million	**2010**	**2009**	**2008**
Unutilised borrowing facilities	**$ 1,010**	**$ 1,345**	$ 1,679

22. Finance Lease Liabilities

The Group has several lease agreements under which it has an option to acquire the leased assets at the end of lease term ranging from 2 to 15 years. The estimated remaining useful life of leased assets varies from 1 to 34 years. The leases were accounted for as finance leases in the consolidated financial statements. The carrying value of the leased assets was as follows as at December 31:

US$ million	**2010**	**2009**	**2008**
Buildings and constructions	**$ 1**	$ 1	$ –
Machinery and equipment	**22**	29	16
Transport and motor vehicles	**93**	101	73
Assets under construction	**10**	10	–
	$ 126	$ 141	$ 89

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

Future minimum lease payments were as follows at December 31:

US$ million	**2010**		**2009**		**2008**	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Not later than one year	**$ 25**	**$ 19**	$ 24	$ 17	$ 20	$ 15
Later than one year and not later than five years	**41**	**33**	65	51	41	34
Later than five years	**5**	**5**	7	7	8	6
	71	**57**	96	75	69	55
Less: amounts representing finance charges	**(14)**	**–**	(21)	–	(14)	–
	$ 57	**$ 57**	$ 75	$ 75	$ 55	$ 55

In the years ended December 31, 2010, 2009 and 2008, the average interest rates under the finance lease liabilities were 9.9%, 10.0% and 10.0%.

23. Employee Benefits

Russian Plans

In 2008-2010, the Russian subsidiaries of the Group provided regular lifetime pension payments and lump-sum amounts payable at the retirement date. These benefits generally depend on years of service, level of remuneration and amount of pension payment under the collective bargaining agreements. Other post-employment benefits consist of various compensations and certain non-cash benefits. The Group funds the benefits when the amounts of benefits fall due for payment.

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

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

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

Ukrainian Plans

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

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

23. Employee Benefits (continued)

USA and Canadian Plans

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

Other Plans

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

Defined Contribution Plans

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

US$ million	**2010**	2009	2008
Expense under defined contribution plans	**$ 203**	$ 187	$ 283

Defined Benefit Plans

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

23. Employee Benefits (continued)

The components of net benefit expense recognised in the consolidated statement of operations for the years ended December 31, 2010, 2009 and 2008 and amounts recognised in the consolidated statement of financial position as of December 31, 2010, 2009 and 2008 for the defined benefit plans were as follows:

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

Year ended December 31, 2010

US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
Current service cost	**$ (5)**	**$ (5)**	**$ (14)**	**$ (1)**	**$ (25)**
Interest cost on benefit obligation	**(16)**	**(8)**	**(34)**	**(2)**	**(60)**
Expected return on plan assets	**–**	**–**	**28**	**–**	**28**
Net actuarial gains/(losses) recognised in the year	**(3)**	**–**	**(4)**	**–**	**(7)**
Past service cost	**6**	**(2)**	**1**	**–**	**5**
Minimum funding requirements	**–**	**–**	**1**	**–**	**1**
Curtailment gain/(loss)		**–**	**(1)**	**–**	**(1)**
Net benefit expense	**$ (18)**	**$ (15)**	**$ (23)**	**$ (3)**	**$ (59)**

Year ended December 31, 2009

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

Year ended December 31, 2008

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

23. Employee Benefits (continued)

Actual return on plan assets was as follows:

US$ million	2010	2009	2008
Actual return on plan assets	**$ 44**	$ 66	$ (101)
including:			
USA & Canadian plans	**44**	65	(101)
Russian plans	**–**	1	–

Benefit liability

December 31, 2010

US$ million	Russian Plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
Benefit obligation	**$ 192**	**$ 77**	**$ 629**	**$ 24**	**$ 922**
Plan assets	**(1)**	**–**	**(463)**	**–**	**(464)**
	191	**77**	**166**	**24**	**458**
Unrecognised net actuarial gains/ (losses)	**(68)**	**(2)**	**(95)**	**–**	**(165)**
Unrecognised past service cost	**12**	**(10)**	**1**	**–**	**3**
Benefit asset	**–**	**–**	**19**	**–**	**19**
Benefit liability	**$ 135**	**$ 65**	**$ 91**	**$ 24**	**$ 315**

December 31, 2009

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

December 31, 2008

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

23. Employee Benefits (continued)

Movements in benefit obligation

US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
At December 31, 2007	**$ 182**	**$ 56**	**$ 275**	**$ 22**	**$ 535**
Interest cost on benefit obligation	11	4	24	3	42
Current service cost	8	4	11	1	24
Past service cost	(1)	33	–	–	32
Change in liability due to business combinations	–	–	229	–	229
Benefits paid	(21)	(5)	(21)	(2)	(49)
Actuarial (gains)/losses on benefit obligation	13	17	(35)	2	(3)
Curtailment gain	(14)	–	–	–	(14)
Translation difference	(28)	(37)	(8)	(6)	(79)
At December 31, 2008	**150**	**72**	**475**	**20**	**717**
Interest cost on benefit obligation	11	7	33	2	53
Current service cost	5	6	13	1	25
Benefits paid	(12)	(5)	(43)	(2)	(62)
Actuarial (gains)/losses on benefit obligation	29	(6)	46	(5)	64
Curtailment gain	(5)	–	–	–	(5)
Disposal of subsidiaries	(2)	–	–	–	(2)
Translation difference	(3)	(2)	38	4	37
At December 31, 2009	**173**	**72**	**562**	**20**	**827**
Interest cost on benefit obligation	16	8	34	2	60
Current service cost	5	5	14	1	25
Past service cost	(4)	–	–	–	(4)
Benefits paid	(13)	(6)	(37)	(1)	(57)
Actuarial (gains)/losses on benefit obligation	17	(2)	39	–	54
Disposal of subsidiaries	(1)	–	–	–	(1)
Translation difference	(1)	–	17	2	18
At December 31, 2010	**$ 192**	**$ 77**	**$ 629**	**$ 24**	**$ 922**

The amount of contributions expected to be paid to the defined benefit plans during 2011 approximates $70 million.

23. Employee Benefits (continued)

Changes in the fair value of plan assets

US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
At December 31, 2007	**$ 2**	**$ –**	**$ 199**	**$ –**	**$ 201**
Change in plan assets due to business combinations	–	–	235	–	235
Expected return on plan assets	–	–	25	–	25
Contributions of employer	21	5	17	2	45
Benefits paid	(21)	(5)	(21)	(2)	(49)
Actuarial gains/(losses) on plan assets	–	–	(125)	–	(125)
Minimum funding requirements	–	–	(8)	–	(8)
Curtailment gain	(1)	–	–	–	(1)
Translation difference	–	–	(6)	–	(6)
At December 31, 2008	**1**	**–**	**316**	**–**	**317**
Expected return on plan assets	–	–	25	–	25
Contributions of employer	11	5	24	2	42
Benefits paid	(12)	(5)	(43)	(2)	(62)
Actuarial gains/(losses) on plan assets	1	–	40	–	41
Minimum funding requirements	–	–	7	–	7
Translation difference	–	–	34	–	34
At December 31, 2009	**1**	**–**	**403**	**–**	**404**
Expected return on plan assets	–	–	28	–	28
Contributions of employer	13	6	37	1	57
Benefits paid	(13)	(6)	(37)	(1)	(57)
Actuarial gains/(losses) on plan assets	–	–	16	–	16
Minimum funding requirements	–	–	1	–	1
Translation difference	–	–	15	–	15
At December 31, 2010	**$ 1**	**$ –**	**$ 463**	**$ –**	**$ 464**

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

	2010	2009	2008
USA & Canadian plans:			
Equity funds and investment trusts	**86%**	86%	76%
Corporate bonds and notes	**11%**	9%	11%
Shares	**0%**	0%	4%
Property	**0%**	3%	4%
Cash	**3%**	2%	5%

23. Employee Benefits (continued)

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

US$ million	2010	2009	2008	2007	2006
Defined benefit obligation	**$ 922**	**$ 827**	$ 717	$ 535	$ 131
Plan assets	**464**	**404**	325	201	24
(Deficit)/surplus	**(458)**	**(423)**	(392)	(334)	(107)
Experience adjustments on plan liabilities	**60**	**54**	(38)	(18)	11
Experience adjustments on plan assets	**9**	**24**	16	5	–

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

	2010				**2009**				**2008**			
	Russian plans	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**	**Russian plans**	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**	**Russian plans**	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**
Discount rate	**8%**	**12.6%**	**5.1-5.8%**	**3.9-8.3%**	10%	12.4%	5.5-9.3%	4.2-9.5%	8.5%	10.85%	5.75-7.5%	4.3%
Expected rate of return on assets	**12%**	**–**	**0.9-7.3%**	**–**	12%	–	1.3-8.5%	–	12%	–	6.75-8.5%	–
Future benefits increases	**8%**	**8%**	**–**	**3%**	8%	9%	3%	3-10%	6%	7-10%	0-7.75%	3.9%
Future salary increase	**8%**	**8%**	**3.0-3.2%**	**6.3-7.5%**	8%	9%	3-7.5%	6.3-7.5%	6%	10%	3-4%	3.2%
Healthcare costs increase rate	**–**	**–**	**6.8-10%**	**–**	–	–	8-10%	–	–	–	8-10%	–

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

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

24. Share-based Payments

On April 25, 2005, September 5, 2006 and December 14, 2010, the Group adopted Incentive Plans under which certain members of the Board of Directors, senior executives and employees ("participants") could acquire or be gifted shares of the Company. The exercise price of the options granted on June 15, 2005 under the Incentive Plan 2005 was fixed at $27.75 and $43.5 per share. Share options granted on September 5, 2006 under the Incentive Plan 2006 could be exercised for $65.37 per share. Shares under the Incentive Plan 2010 will be gifted to the participants upon vesting.

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

24. Share-based Payments (continued)

The actual vesting dates were as follows:

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

According to the Plan 2010, the vesting date for each tranche is the 90th day after announcement of the annual results. The expected vesting dates under the Plan 2010 are as follows:

	Incentive Plan 2010
June 30, 2011	128,759
June 30, 2012	96,570
June 30, 2013	96,569
	321,898

The plans are administrated by the Board of Directors of the Company. The Board of Directors has the right to accelerate vesting of the grant. In the event of a participant's employment termination the following rules were established:

- Plan 2010: unless otherwise determined by the Board or by a decision of the authorised person, a participant loses the entitlement for the shares that were not gifted up to the date of termination.
- Plan 2006: all options granted to a participant, whether vested or not, expired on termination date.
- Plan 2005: unless otherwise determined by the Board of Directors, all options which were not vested on the grantee's termination date became vested and remained exercisable within the period of one year. The options which were vested on the grantee's termination date remained exercisable and expired automatically as of the date of expiration.

24. Share-based Payments (continued)

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

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

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

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

There have been no other modifications or cancellations to the plans during 2008 – 2010.

The Group accounted for share-based compensations at fair value pursuant to the requirements of IFRS 2 "Share-based Payment". The weighted average fair value of share-based awards granted in 2010, 2006 and 2005 was $102.07, $14.15 and $10.88 per share, respectively. The fair value of the share-based awards under the extended portion was $272.34 per share. The fair value of these awards was estimated at the date of grant using the Black-Scholes-Merton option pricing models with the following inputs, including assumptions:

	Incentive Plan 2010	**Incentive Plan 2006**	**Incentive Plan 2005**
Dividend yield (%)	1.2 – 1.5	4 – 6	6 – 8
Expected volatility (%)	n/a	45.37	55.00
Risk-free interest rates (%)	n/a	5.42 – 5.47	4.36 – 4.59
Expected life (years)	0.5 – 2.5	0.7 – 2.7	0.5 – 3
Market prices of the shares at the grant dates	$103.83	$66.06	$42.90

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

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

24. Share-based Payments (continued)

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

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

	2010 No.	2010 WAEP	2009 No.	2009 WAEP	2008 No.	2008 WAEP
Outstanding at January 1	**–**	**$ –**	**370,340**	**$ 50.71**	**933,284**	**$ 48.72**
Granted during the year	334,755	–	–	–	–	–
Forfeited during the year	(12,857)	–	(107,625)	48.30	(33,846)	45.13
Exercised during the year:	–	–	(262,715)	51.70	(529,098)	47.55
by purchase of shares on the open market	–		*(27,902)*		*(253,104)*	
by repurchase of vested share-based awards	–		*(234,813)*		*(275,994)*	
Outstanding at December 31	**321,898**	**$ –**	**–**	**$ –**	**370,340**	**$ 50.71**
Vested at December 31	–	$ –	–	$ –	92,751	$ 45.96
Exercisable at December 31	–	–	–	–	5,029	43.50

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

The weighted average remaining contractual life of the share-based awards outstanding as of December 31, 2010 and 2008 was 1.4 years and 0.3 years, respectively.

In the years ended December 31, 2010, 2009 and 2008, expense arising from the share-based compensations, was as follows:

US$ million	2010	2009	2008
Expense arising from equity-settled share-based payment transactions	**$ 2**	$ –	$ 2
Expense arising from cash-settled share-based payment transactions	**–**	6	33
	$ 2	$ 6	$ 35

In 2010 and 2009, the Group paid $3 million and $35 million in respect of the cash-settled share-based compensations, respectively, $1 million was unpaid at December 31, 2010.

25. Provisions

In the years ended December 31, 2010, 2009 and 2008, the movement in provisions was as follows:

US$ million	Site restoration and decom-missioning costs	Legal claims	Other provisions	Total
At December 31, 2007	**$ 134**	**$ 15**	**$ 38**	**$ 187**
Additional provisions	47	6	30	83
Increase from passage of time	9	–	–	9
Effect of change in the discount rate	(10)	–	–	(10)
Effect of changes in estimated costs and timing	11	–	(1)	10
Utilised in the year	(5)	(3)	(9)	(17)
Unused amounts reversed	–	(13)	(3)	(16)
Translation difference	(26)	(1)	(3)	(30)
At December 31, 2008	**160**	**4**	**52**	**216**
Additional provisions	15	7	28	50
Increase from passage of time	12	–	–	12
Effect of changes in estimated costs and timing	(1)	–	–	(1)
Utilised in the year	(6)	(3)	(59)	(68)
Unused amounts reversed	–	(2)	(6)	(8)
Translation difference	10	–	–	10
At December 31, 2009	**190**	**6**	**15**	**211**
Additional provisions	23	18	12	53
Increase from passage of time	15	–	–	15
Effect of change in the discount rate	20	–	–	20
Effect of changes in estimated costs and timing	55	–	–	55
Utilised in the year	(5)	(5)	(15)	(25)
Unused amounts reversed	–	(2)	(1)	(3)
Translation difference	7	–	–	7
At December 31, 2010	**$ 305**	**$ 17**	**$ 11**	**$ 333**

Site Restoration Costs

Under the legislation, mining companies and steel mills have obligations to restore mining sites and contaminated land. The respective liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate ranging from 6.10% to 13.00% (2009: from 8.00% to 13.00%, 2008: from 6.85% to 11.90%).

26. Other Long-Term Liabilities

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

US$ million	**2010**	2009	2008
Contingent consideration payable for the acquisition of Stratcor	**$ 24**	$ 31	$ 34
Deferred consideration payable for the acquisition of Inprom (Note 4)	**21**	–	–
Dividends payable under cumulative preference shares of a subsidiary to a related party	**14**	14	14
Employee income participation plans and compensations	**3**	7	16
Tax liabilities	**33**	18	18
Derivatives not designated as hedging instruments (Note 21)	**38**	6	–
Other liabilities	**24**	18	7
	157	94	89
Less: current portion (Note 27)	**(14)**	(26)	(31)
	$ 143	$ 68	$ 58

Contingent Consideration Payable

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

Derivatives Not Designated As Hedging Instruments

In 2009 and 2010, the Group issued rouble-denominated bonds in the total amount of 50,000 million Russian roubles (Note 21). To manage the currency exposure, the Group concluded swap contracts under which it agreed to deliver US dollar-denominated interest payments at the rates ranging from 7.50% to 8.90% per annum plus the notional amount totalling $1,466 million, in exchange for rouble-denominated interest payments plus the notional amount totalling 43,794 roubles ($1,437 million at the exchange rate as of December 31, 2010). The exchange is exercised on approximately the same dates as the payments under the bonds.

26. Other Long-Term Liabilities

Derivatives Not Designated As Hedging Instruments (continued)

The swap conracts are summarised in the table below.

	Principal, millions of roubles	Hedged amount, millions of roubles	Swap amount, US$ million		Interest rates on the swap amount
13.5 per cent bonds due 2014	20,000	14,019	$	475	7.50% - 8.90%
9.25 per cent rouble bonds due 2013	15,000	14,778		500	5.75% - 5.90%
9.95 per cent rouble bonds due 2015	15,000	14,997		491	5.65% - 5.88%
	50,000	**43,794**	**$**	**1,466**	

These swap contracts were not designated as cash flow or fair value hedge. The Group accounted for these derivatives at fair value which was determined using valuation techniques. In 2010 and 2009, the change in fair value of the derivatives, net of realised gain on the swap transactions, amounting to $4 million and $(6) million, respectively, was recognised within gain/(loss) on financial assets and liabilities in the consolidated statement of operations (Note 7).

27. Trade and Other Payables

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

US$ million		2010		2009		2008
Trade accounts payable	**$**	**880**	$	780	$	1,094
Accrued payroll		**229**		176		208
Termination benefits		–		1		2
Other long-term obligations with current maturities (Note 26)		**14**		26		31
Other payables		**50**		86		144
	$	**1,173**	$	1,069	$	1,479

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

28. Other Taxes Payable

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

US$ million		2010		2009		2008
VAT	**$**	**90**	$	67	$	72
Social insurance taxes		**40**		29		31
Property tax		**14**		16		15
Land tax		**10**		5		9
Personal income tax		**10**		10		10
Other taxes, fines and penalties		**16**		13		17
	$	**180**	$	140	$	154

29. Financial Risk Management Objectives and Policies

Credit Risk

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

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

The Group's trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities. The major customers are Russian Railways and Vanomet AG (4% and 3.3% of total sales, respectively).

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

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

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

US$ million	**2010**	2009	2008
Restricted deposits at banks	**$ 22**	$ 77	$ 2
Financial instruments included in other non-current assets	**5**	–	–
Long-term and short-term investments	**76**	104	622
Trade and other receivables	**1,216**	1,002	1,409
Loans receivable	**18**	5	113
Receivables from related parties	**124**	107	156
Cash and cash equivalents	**683**	671	930
	$ 2,144	$ 1,966	$ 3,232

Receivables from related parties in the table above do not include prepayments in the amount of $2 million, $nil and $19 million as of December 31, 2010, 2009 and 2008, respectively.

29. Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

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

US$ million	2010		2009		2008	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**	**Gross amount**	**Impairment**
Not past due	**$ 1,098**	**$ (8)**	$ 842	$ (1)	$ 1,035	$ (8)
Past due	**377**	**(109)**	364	(91)	736	(85)
Less than six months	**232**	**(16)**	187	(5)	500	(13)
between six months and one year	**27**	**(10)**	28	(8)	166	(7)
over one year	**118**	**(83)**	149	(78)	70	(65)
	$ 1,475	**$ (117)**	$ 1,206	$ (92)	$ 1,771	$ (93)

In the years ended December 31, 2010, 2009 and 2008, the movement in allowance for doubtful accounts was as follows:

US$ million	2010	2009	2008
At January 1	**$ 92**	$ 93	$ 79
Charge for the year	**45**	40	35
Utilised	**(19)**	(40)	(7)
Translation difference	**(1)**	(1)	(14)
At December 31	**$ 117**	$ 92	$ 93

Liquidity Risk

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

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

The Group prepares the rolling 12-month financial plan which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities as they arise. The Group exercises a daily monitoring of cash proceeds and payments. The Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs. The Group's objective is to refinance its short-term debt by long-term borrowings. The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

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

29. Financial Risk Management Objectives and Policies (continued)

Year ended December 31, 2010

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ 7	$ 20	$ 124	$ 25	$ 5,039	$ 538	$ 5,753
Interest	–	55	462	509	955	123	2,104
Finance lease liabilities	–	1	2	3	7	3	16
Financial instruments included in long-term liabilities	1	2	11	8	60	21	103
Total fixed-rate debt	8	78	599	545	6,061	685	7,976
Variable-rate debt							
Loans and borrowings							
Principal	235	224	15	283	1,487	20	2,264
Interest	–	19	56	62	89	4	230
Finance lease liabilities	–	5	17	12	19	2	55
Total variable-rate debt	235	248	88	357	1,595	26	2,549
Non-interest bearing debt							
Financial instruments included in other liabilities	–	–	–	–	–	5	5
Trade and other payables	104	795	31	–	–	–	930
Payables to related parties	177	37	2	–	–	–	216
Amounts payable under put options for shares of subsidiaries	6	–	–	–	21	–	27
Dividends payable	13	–	–	–	–	–	13
Total non-interest bearing debt	300	832	33	–	21	5	1,191
	$ 543	$ 1,158	$720	$ 902	$ 7,677	$ 716	$ 11,716

29. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended December 31, 2009

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

29. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended December 31, 2008

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

Payables to related parties in the tables above do not include advances received in the amount of $1 million, $47 million and $138 million as of December 31, 2010, 2009 and 2008, respectively.

29. Financial Risk Management Objectives and Policies (continued)

Market Risk

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

Interest Rate Risk

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

The Group incurs interest rate risk on liabilities with variable interest rates. The Group's treasury function performs analysis of current interest rates. In case of changes in market fixed or variable interest rates management may consider the refinancing of a particular debt on more favourable terms.

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

Fair Value Sensitivity Analysis for Fixed Rate Instruments

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

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

Cash Flow Sensitivity Analysis for Variable Rate Instruments

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

29. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Interest Rate Risk (continued)

Cash Flow Sensitivity Analysis for Variable Rate Instruments (continued)

In estimating reasonably possible changes the Group assessed the volatility of interest rates during the reporting periods.

	2010		2009		2008	
	Basis points	Effect on PBT	Basis points	Effect on PBT	Basis points	Effect on PBT
		US$ millions		*US$ millions*		*US$ millions*
Liabilities denominated in US dollars						
Decrease in LIBOR	**(25)**	**$ 4**	(25)	$ 8	(53)	$ 24
Increase in LIBOR	**100**	**(17)**	100	(30)	53	(24)
Decrease in Prime rate	**–**	**–**	–	–	(106)	4
Increase in Prime rate	**–**	**–**	–	–	106	(4)
Decrease in Federal Funds Rate	**–**	**–**	–	–	(33)	1
Increase in Federal Funds Rate	**–**	**–**	–	–	33	(1)
Liabilities denominated in euro						
Decrease in EURIBOR	**(25)**	**1**	(25)	1	(30)	1
Increase in EURIBOR	**100**	**$ (2)**	100	$ (2)	30	$ (1)

Currency Risk

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

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

29. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Currency Risk (continued)

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

US$ million	2010	2009	2008
USD/RUB	**$ 3,419**	$ 1,732	$ 967
EUR/RUB	**(283)**	(297)	(390)
EUR/USD	**137**	108	180
CAD/USD	**1,180**	1,281	1,611
EUR/CZK	**38**	22	48
USD/CZK	**(282)**	(154)	(216)
USD/ZAR	**66**	41	(7)
EUR/ZAR	**41**	43	20
USD/UAH	**(1)**	(88)	(203)
RUB/UAH	**(43)**	(15)	12

Sensitivity Analysis

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating reasonably possible changes the Group assessed the volatility of foreign exchange rates during the reporting periods.

	2010		2009		2008	
	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT
	%	*US$ millions*	%	*US$ millions*	%	*US$ millions*
USD/RUB	**(9.70)**	**(332)**	(15.65)	(271)	(8.98)	(87)
	9.70	**332**	15.65	271	8.98	87
EUR/RUB	**(8.79)**	**25**	(12.18)	36	(8.63)	34
	8.79	**(25)**	12.18	(36)	8.63	(34)
EUR/USD	**(11.32)**	**(16)**	(12.96)	(14)	(14.32)	(26)
	11.32	**16**	12.96	14	14.32	26
CAD/USD	**(10.97)**	**(129)**	(14.02)	(180)	(15.44)	(249)
	10.97	**129**	14.02	180	15.44	249
EUR/CZK	**(5.30)**	**(2)**	(10.28)	(2)	(10.61)	(5)
	5.30	**2**	10.28	2	10.61	5
USD/CZK	**(13.79)**	**39**	(18.52)	29	(18.52)	40
	13.79	**(39)**	18.52	(29)	18.52	(40)
USD/ZAR	**(13.68)**	**(9)**	(21.41)	(9)	(28.52)	2
	13.68	**9**	21.41	9	28.52	(2)
EUR/ZAR	**(11.59)**	**(5)**	(17.74)	(8)	(38.76)	(8)
	11.59	**5**	17.74	8	38.76	8
USD/UAH	**(1.71)**	–	(31.30)	28	(11.77)	24
	1.71	–	31.30	(28)	11.77	(24)
RUB/UAH	**(9.94)**	**4**	(13.53)	2	(14.73)	(2)
	9.94	**(4)**	13.53	(2)	14.73	2

29. Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments

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

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

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

The Group held the following financial instruments measured at fair value:

	2010			**2009**			**2008**		
US$ million	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets measured at fair value									
Available for sale financial assets	**37**	–	–	43	–	–	33	–	–
Financial assets at fair value through profit or loss	–	–	–	–	–	–	18	–	–
Derivatives not designated as hedging instruments	–	**5**	–	–	–	–	–	–	–
Liabilities measured at fair value									
Liability at fair value through profit or loss	–	–	**16**	–	–	12	–	–	–
Derivatives not designated as hedging instruments	–	**38**	–	–	6	–	–	–	–
Deferred consideration payable for the acquisition of Inprom (Note 4)	**21**	–	–	–	–	–	–	–	–

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

29. Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

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

US$ million	2010		2009		2008	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Long-term fixed-rate bank loans	**$ 1,201**	**$ 1,198**	$ 1,234	$ 1,197	$ 369	$ 354
Long-term variable-rate bank loans	**1,807**	**1,663**	2,894	2,847	4,253	3,819
8.875 per cent notes due 2013	**1,144**	**1,248**	1,132	1,155	1,260	668
7.25 per cent convertible bonds due 2014	**551**	**650**	528	624	–	–
8.25 per cent notes due 2015	**555**	**615**	551	554	718	374
9.5 per cent notes due 2018	**499**	**565**	497	508	567	284
10.875 per cent notes due 2009	–	–	–	–	314	302
13.5 per cent bonds due 2014	**670**	**740**	674	667	–	–
9.25 per cent bonds due 2013	**502**	**498**	–	–	–	–
9.95 per cent bonds due 2015	**498**	**496**	–	–	–	–
Liabilities under 12.00 per cent rouble bonds due 2011 and 2013 assumed in business combination	**13**	**12**	–	–	–	–
	$ 7,439	**$ 7,685**	$ 7,510	$ 7,552	$ 7,481	$ 5,801

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

Currency in which financial instruments are denominated	2010	2009	2008
USD	**7.7 – 8.3%**	8.6 – 9.5%	10.0 – 16.8%
EUR	**2.8%**	7.0%	6.6%
RUB	**12.0%**	16.0%	23.0%

Capital Management

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

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of Directors reviews the Group's performance and establishes key performance indicators. In addition, the Group and certain of its subsidiaries are subject to externally imposed capital requirements (loans and bonds covenants) which are used for capital monitoring. There were no changes in the objectives, policies and processes during 2010.

29. Financial Risk Management Objectives and Policies (continued)

Capital Management (continued)

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

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

30. Non-cash Transactions

Transactions that did not require the use of cash or cash equivalents were as follows in the years ended December 31:

US$ million	**2010**	2009	2008
Liabilities for purchases of property, plant and equipment	**$ 70**	$ 49	$ 124
Purchases of property, plant and equipment settled by an offset with accounts receivable	**12**	–	–
Liabilities for purchases of shares in subsidiaries and other entities	**28**	2	15
Issue of shares to settle the liability for the acquisition of the Ukrainian businesses (Note 4)	–	–	757
Loans provided in the form of payments by banks for the subsidiaries acquired by the Group (Note 4)	–	–	938
Offset of income tax receivable/(payable) against other taxes	**17**	18	(52)

31. Commitments and Contingencies

Operating Environment of the Group

The Group is one of the largest vertically integrated steel producers globally and the largest steel producer in Russia. The Group's major subsidiaries are located in Russia, Ukraine, the European Union, the USA, Canada and the Republic of South Africa. Russia and Ukraine are considered to be emerging markets with higher economic and political risks.

In the wake of the global financial crisis, there are certain signs of general economic recovery. The stabilisation measures introduced by governments to provide liquidity and support debt refinancing have led to stronger customer demand, increased production levels and improved liquidity in the banking sector.

31. Commitments and Contingencies (continued)

Operating Environment of the Group (continued)

Nevertheless, in 2010, there was no material uplift in the ship-building, pipe-making, railway transportation, construction, oil and gas industries which are the major customers of the Group and pricing remains volatile. The global economic climate is unstable and this may negatively affect the Group's results and financial position in a manner not currently determinable.

Taxation

Russian and Ukrainian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

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

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities, which were identified by management at the end of the reporting period as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in these financial statements could be up to approximately $34 million.

Contractual Commitments

At December 31, 2010, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of $290 million.

Social Commitments

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group's assets are located. In 2011, the Group plans to spend approximately $106 million under these programmes.

31. Commitments and Contingencies (continued)

Environmental Protection

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

In the period from 2011 to 2015, the Group is committed to spend approximately $326 million under the environmental programmes.

Legal Proceedings

The Group has been and continues to be the subject of legal proceedings, none of which has had, individually or in aggregate, a significant effect on the Group's operations or financial position. Possible liabilities, which were identified by the Group at the end of the reporting period as those that can be subject to different interpretations of legislation and are not accrued in these financial statements could be up to approximately $29 million.

32. Subsequent Events

There were no significant events after the reporting date.