OAO Severstal
and subsidiaries

Consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007

OAO Severstal and subsidiaries

Consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007

Contents

ZAO KPMG
Naberezhnaya Tower Complex, Block C
10 Presnenskaya Naberezhnaya
Moscow 123317
Russia

Telephone +7 (495) 937 44 77
Fax +7 (495) 937 44 00/99
Internet www.kpmg.ru

Independent Auditors' Report

Board of Directors
OAO Severstal

We have audited the accompanying consolidated financial statements of OAO Severstal (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at 31 December 2009, 2008 and 2007, and the related consolidated income statements and consolidated statements of comprehensive income, consolidated statements of changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audits to obtain reasonable assurance whether the consolidated financial statements are free of 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 auditor's judgment, 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 auditor 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. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, 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 opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2009, 2008 and 2007, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO KPMG

ZAO KPMG
1 March 2010

OAO Severstal and subsidiaries

Consolidated income statements
Years ended December 31, 2009, 2008 and 2007

(Amounts expressed in thousands of US dollars, except as otherwise stated)

	Note	Year ended December 31, 2009	2008*	2007
Sales				
Sales - external		12,951,669	22,138,418	15,352,404
Sales - to related parties	11	102,830	254,299	150,984
	4	13,054,499	22,392,717	15,503,388
Cost of sales		(11,356,293)	(16,499,914)	(10,821,582)
Gross profit		1,698,206	5,892,803	4,681,806
General and administrative expenses		(735,561)	(1,026,790)	(766,890)
Distribution expenses		(864,225)	(1,117,776)	(942,533)
Other taxes and contributions		(171,601)	(178,886)	(154,070)
Share of associates' profit/(loss)		11,488	(3,400)	6,240
Net (loss)/gain from securities operations	6	(15,304)	(96,812)	25,564
Loss on disposal of property, plant and equipment		(32,001)	(43,278)	(35,525)
Net other operating (expenses)/income	7	(36,329)	790,580	(7,266)
(Loss)/profit from operations		(145,327)	4,216,441	2,807,326
Impairment of non-current assets	8	(219,019)	(1,540,263)	(28,895)
Negative goodwill	29	-	292,326	12,223
Net other non-operating (expenses)/income	9	(34,441)	238,945	(58,676)
(Loss)/profit before financing and taxation		(398,787)	3,207,449	2,731,978
Interest income		103,822	155,232	166,639
Interest expense		(601,244)	(508,369)	(325,580)
Foreign exchange difference		(205,028)	(274,920)	3,206
(Loss)/profit before income tax		(1,101,237)	2,579,392	2,576,243
Income tax expense	10	(17,858)	(517,466)	(700,153)
(Loss)/profit from continuing operations		(1,119,095)	2,061,926	1,876,090
Profit from discontinued operations	28	-	-	433
(Loss)/profit for the year		(1,119,095)	2,061,926	1,876,523
Attributable to:				
shareholders of OAO Severstal		(1,037,240)	2,028,972	1,849,531
non-controlling interests		(81,855)	32,954	26,992
Weighted average number of shares outstanding during the period (millions of shares)		1,005.2	1,007.2	1,007.7
Basic and diluted (loss)/earnings per share (US dollars)		(1.03)	2.01	1.84

* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29)

These consolidated financial statements were approved by the Board of Directors on March 1, 2010.

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

OAO Severstal and subsidiaries

Consolidated statements of comprehensive income
Years ended December 31, 2009, 2008 and 2007
(Amounts expressed in thousands of US dollars)

	Year ended December 31,		
	2009	**2008***	**2007**
(Loss)/profit for the year	(1,119,095)	2,061,926	1,876,523
Other comprehensive (loss)/income			
Foreign exchange difference	(114,714)	(1,097,365)	665,133
Changes in fair value of cash flow hedges	(2,860)	(13,428)	-
Deferred tax on changes in fair value of cash flow hedges	809	3,691	-
Revaluation of available-for-sale investments	40,466	4,864	-
Deferred tax on revaluation of available-for-sale investments	(4,398)	(2,511)	-
Fair value adjustment upon acquisition of subsidiary to previously held interest	-	33,020	-
Other comprehensive (loss)/income for the year, net of tax	(80,697)	(1,071,729)	665,133
Total comprehensive (loss)/income for the year	(1,199,792)	990,197	2,541,656
Attributable to:			
shareholders of OAO Severstal	(1,158,706)	996,061	2,457,955
non-controlling interests	(41,086)	(5,864)	83,701

* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29)

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

OAO Severstal and subsidiaries

Consolidated statements of financial position
December 31, 2009, 2008 and 2007
(Amounts expressed in thousands of US dollars)

	Note	December 31, 2009	December 31, 2008*	December 31, 2007
Assets				
Current assets:				
Cash and cash equivalents	13	2,853,376	2,652,888	1,622,542
Short-term bank deposits	14	95,533	818,545	666,327
Short-term financial investments	15	73,129	112,782	215,494
Trade accounts receivable	16	1,457,651	1,941,876	1,769,038
Accounts receivable from related parties	12	26,716	63,831	47,193
Inventories	17	2,974,227	4,271,886	2,720,634
VAT recoverable		288,032	361,542	284,122
Income tax recoverable		106,019	172,947	81,963
Other current assets	18	285,453	279,707	318,961
Assets held for sale	28	24,415	8,872	465,341
Total current assets		8,184,551	10,684,876	8,191,615
Non-current assets:				
Long-term financial investments	19	128,616	70,342	112,959
Investments in associates and joint ventures	20	143,857	110,907	202,987
Property, plant and equipment	21	9,485,480	9,827,392	8,289,116
Intangible assets	22	1,369,204	1,510,658	687,067
Restricted cash		17,541	21,703	13,810
Deferred tax assets	10	239,835	246,541	64,185
Other non-current assets		74,802	41,507	39,084
Total non-current assets		11,459,335	11,829,050	9,409,208
Total assets		19,643,886	22,513,926	17,600,823
Liabilities and shareholders' equity				
Current liabilities:				
Trade accounts payable		1,378,300	1,528,453	1,211,373
Accounts payable to related parties	12	16,656	71,960	91,547
Short-term debt finance	23	1,478,301	2,038,693	1,129,216
Income taxes payable		34,150	46,131	41,323
Other taxes and social security payable		209,084	213,315	199,349
Dividends payable		5,704	128,715	107,485
Other current liabilities	24	693,844	811,178	620,369
Liabilities related to assets held for sale	28	11,979	4	91,750
Total current liabilities		3,828,018	4,838,449	3,492,412
Non-current liabilities:				
Long- term debt finance	23	5,748,559	6,227,225	2,813,166
Deferred tax liabilities	10	394,990	496,379	509,409
Retirement benefit liabilities	25	787,714	779,296	387,398
Other non-current liabilities	26	508,266	619,961	324,652
Total non-current liabilities		7,439,529	8,122,861	4,034,625
Equity:				
Share capital	27	3,311,288	3,311,288	3,311,288
Treasury shares		(26,303)	(26,303)	-
Additional capital		1,165,530	1,165,530	1,165,530
Foreign exchange differences		(52,478)	84,987	1,145,499
Retained earnings		3,436,270	4,488,396	3,951,116
Other reserves		43,600	27,601	-
Total equity attributable to shareholders of parent		7,877,907	9,051,499	9,573,433
Non-controlling interests		498,432	501,117	500,353
Total equity		8,376,339	9,552,616	10,073,786
Total equity and liabilities		19,643,886	22,513,926	17,600,823

* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29)

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

OAO Severstal and subsidiaries

Consolidated statements of cash flows
Years ended December 31, 2009, 2008 and 2007
(Amounts expressed in thousands of US dollars)

	Year ended December 31,		
	2009	**2008***	**2007**
Operating activities:			
(Loss)/profit before financing and taxation	(398,787)	3,207,449	2,731,978
Adjustments to reconcile profit to cash generated from operations:			
Depreciation and amortization (Notes 21 and 22)	957,164	1,087,421	846,262
Impairment of non-current assets (Note 8)	219,019	1,540,263	28,895
Movements in provision for inventories, receivables and other provisions	(319,940)	537,466	53,603
Negative goodwill	-	(292,326)	(12,223)
Loss on disposal of property, plant and equipment	32,001	43,278	35,525
Gain on disposal of subsidiaries and associates (Note 29)	-	(314,435)	(31,507)
Loss/(gain) on remeasurement and disposal of financial investments	15,304	96,812	(25,564)
Share of associates' results less dividends from associates	(11,488)	3,400	(6,240)
Changes in operating assets and liabilities:			
Trade accounts receivable	472,283	79,654	(357,090)
Amounts receivable from related parties	32,708	(39,695)	2,110
VAT recoverable	80,076	(109,020)	110,677
Inventories	1,588,070	(945,707)	(235,891)
Trade accounts payable	(93,496)	(157,717)	107,116
Amounts payable to related parties	(37,446)	11,781	79,656
Other taxes and social security payables	(6,926)	7,673	(63,422)
Other non-current liabilities	(192,941)	(34,919)	(101,158)
Assets held for sale	(422)	38,609	(1,856)
Net other changes in operating assets and liabilities	(119,819)	131,140	123,815
Cash generated from operations	2,215,360	4,891,127	3,284,686
Interest paid (excluding banking operations)	(551,826)	(362,789)	(244,324)
Income tax paid	(52,345)	(1,094,472)	(804,223)
Net cash from operating activities	1,611,189	3,433,866	2,236,139
Investing activities:			
Additions to property, plant and equipment	(945,898)	(2,030,531)	(1,997,285)
Additions to intangible assets	(69,363)	(83,939)	(27,194)
Net decrease/(increase) in short-term bank deposits	668,121	(259,880)	580,706
Additions to financial investments and associates	(267,637)	(878,472)	(889,595)
Acquisition of non-controlling interests and entities under common control	(23,387)	(219,588)	(316,862)
Net cash outflow on acquisitions of subsidiaries (Note 29)	-	(3,068,693)	(643,279)
Net cash inflow on disposals of subsidiaries (Note 29)	5,010	671,717	235,978
Proceeds from disposal of property, plant and equipment	34,151	42,853	34,150
Proceeds from disposal of financial investments	224,374	860,549	773,090
Interest received (excluding banking operations)	120,606	155,233	150,583
Cash from investing activities	(254,023)	(4,810,751)	(2,099,708)
Financing activities:			
Proceeds from debt finance	4,354,767	7,542,083	3,677,480
Proceeds from grants	-	-	72
Repurchase of issued shares	-	(26,303)	-
Repayment of debt finance	(5,420,782)	(3,685,787)	(3,277,251)
Repayments under lease obligations	(30,652)	(24,994)	(3,915)
Dividends paid	(116,106)	(1,346,535)	(736,156)
Contributions of non-controlling interests	54,319	-	-
Dividend to the Majority shareholder paid by acquired entity under common control	-	(34,036)	-
Cash from financing activities	(1,158,454)	2,424,428	(339,770)
Effect of exchange rates on cash and cash equivalents	1,776	(17,197)	82,486
Net increase/(decrease) in cash and cash equivalents	200,488	1,030,346	(120,853)
Cash and cash equivalents at beginning of the year	2,652,888	1,622,542	1,743,395
Cash and cash equivalents at end of the year (Note 13)	2,853,376	2,652,888	1,622,542

* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29)

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

OAO Severstal and subsidiaries
Consolidated statements of changes in equity
Years ended December 31, 2009, 2008 and 2007
(Amounts expressed in thousands of US dollars)

	Attributable to the shareholders of OAO Severstal							Non-controlling interests	Total
	Share capital	Treasury shares	Additional capital	Foreign exchange differences	Retained earnings	Other reserves	Total		
Balances at December 31, 2006	3,311,288	-	1,165,530	537,075	2,939,334	-	7,953,227	573,083	8,526,310
Dividends	-	-	-	-	(801,462)	-	(801,462)	(12,028)	(813,490)
Effect of acquisitions and disposals	-	-	-	-	(36,287)	-	(36,287)	(144,403)	(180,690)
Total comprehensive income for the period	-	-	-	608,424	1,849,531	-	2,457,955	83,701	2,541,656
Balances at December 31, 2007	3,311,288	-	1,165,530	1,145,499	3,951,116	-	9,573,433	500,353	10,073,786
Dividends	-	-	-	-	(1,378,510)	-	(1,378,510)	(8,126)	(1,386,636)
Dividend to the Majority Shareholder paid by acquired entity under common control	-	-	-	-	(34,036)	-	(34,036)	-	(34,036)
Repurchase of issued shares	-	(26,303)	-	-	-	-	(26,303)	-	(26,303)
Effect of acquisitions and disposals*	-	-	-	-	(79,146)	-	(79,146)	14,754	(64,392)
Total comprehensive income for the period*	-	-	-	(1,060,512)	2,028,972	27,601	996,061	(5,864)	990,197
Balances at December 31, 2008*	3,311,288	(26,303)	1,165,530	84,987	4,488,396	27,601	9,051,499	501,117	9,552,616
Dividends	-	-	-	-	-	-	-	(3,501)	(3,501)
Effect of acquisitions and disposals	-	-	-	-	(14,886)	-	(14,886)	41,902	27,016
Total comprehensive income for the period	-	-	-	(137,465)	(1,037,240)	15,999	(1,158,706)	(41,086)	(1,199,792)
Balances at December 31, 2009	3,311,288	(26,303)	1,165,530	(52,478)	3,436,270	43,600	7,877,907	498,432	8,376,339

* These amounts reflect adjustments made in connection with the completion of purchase price allocations (Note 29)

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

1. Operations

These consolidated financial statements of OAO Severstal and subsidiaries comprise the parent company, OAO Severstal ('Severstal' or 'the Parent Company') and its subsidiaries (collectively 'the Group') as listed in Note 29.

Severstal began operations on August 24, 1955 and completed the development of an integrated iron and steel mill in Cherepovets during February 1959 when the first steel was rolled. On September 24, 1993, as a part of the Russian privatization program, Severstal was registered as a Joint Stock Company ('OAO') and privatized. Through participating in Severstal's privatization auctions and other purchases, Alexey Mordashov (the "Majority Shareholder") has purchased shares in Severstal such that as at December 31, 2009, 2008 and 2007 he controlled, directly or indirectly, 82.37% of Severstal's share capital.

Severstal's global depositary receipts (GDRs) have been quoted on the London Stock Exchange since November 2006. Severstal's shares are quoted on the Russian Trading System ('RTS') and on the Moscow Interbank Currency Exchange ('MICEX'). Severstal's registered office is located at Ul Mira 30, Cherepovets, Russia.

The Group comprises the following segments:

- *Severstal Resource* (formerly the Mining segment) – this segment comprises two iron ore complexes, Karelsky Okatysh and Olkon in northwest Russia, and two coal mining complexes, Vorkutaugol in northwest Russia and PBS Coals Ltd, located in the USA, as well as gold mining assets in the eastern part of Russia, in Africa and in Kazakhstan.
- *Russian Steel* – this segment consists primarily of the Group's steel production and high-grade automotive galvanizing facilities in Cherepovets, rolling mill 5000 in Kolpino, a large-diameter pipe mill in Izhora (previously reported within the former IPM segment), all in northwest Russia, metalware plants located in Russia, Ukraine, the United Kingdom and Italy (previously reported within the former Metalware segment), a ferrous scrap metal recycling business operating in northwest and central Russia, as well as various worldwide supporting functions for trading, maintenance and transportation.
- *Lucchini* – this segment comprises two integrated steel producers in Italy, four electric furnace based steel plants in France and several processing plants and joint ventures in Italy. All Lucchini segment assets are combined into Piombino and Ascometal business units based on geographical location (Italy and France respectively). Products of the segment include rails, wire rod, special and high quality bars and commercial slabs. The segment also includes a distribution network serving both business units from locations primarily in Western Europe and the engineering research center located in France.
- *Severstal North America* – this segment consists of four integrated iron and steel mills: Severstal Dearborn in the Midwest region, Sparrows Point in the South Atlantic located on the East Coast of the USA, Severstal Wheeling (formerly the Esmark group of companies) in the Midwest region of the USA, Severstal Warren Inc. (formerly WCI Steel Inc.) in the Midwest region of the USA, a mini-mill, Severstal Columbus LLC in the southeast of the USA and a coking coal production facility, Mountain State Carbon LLC, located on the border of the South and Midwest regions of the USA.
- *Financing segment* – this segment operated a retail bank until November 2007 when the bank was disposed of. This transaction was accounted for as a discontinued operation. The transaction is further discussed in Note 28 to these consolidated financial statements.

A segmental analysis of the consolidated statements of financial position and consolidated income statements is given in Note 30.

Economic environment

A large part of the Group is based in the Russian Federation and is consequently exposed to the economic and political effects of the policies adopted by the Russian government. These conditions and future policy changes could affect the operations of the Group and the realization and settlement of its assets and liabilities.

International sales of rolled steel from the Group's Russian operations have been the subject of several anti-dumping investigations. The Group has taken steps to address the concerns of such investigations and participates actively in their resolution. A brief description of protective measures effective at Severstal's key export markets is given below:

- Exports of hot-rolled coils and thin sheets from Russia to the USA are subject to the minimum prices issued quarterly by the US Department of Commerce and annual quotas.
- Exports of hot-rolled plates from Russia to the USA are subject to the minimum prices established based on the producer's actual cost and profit on the domestic market. Severstal is the first and currently only Russian company, for which since September 2005 the hot-rolled plates market is open.
- The European Union ('EU') market is protected by quotas. During the last few years quotas have been raised consistently after adjusting for the effects of EU enlargements, equaling 3.107 million tons in 2009. Severstal traditionally gets approximately 35% of the total Russian quota and strives to utilize it fully because the EU market is a key market for the Group.

2. Basis for preparation of the consolidated financial statements

Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

Basis of measurement

The consolidated financial statements are prepared on the historic cost basis except for financial instruments at fair value through profit and loss and available-for-sale financial assets stated at fair value.

The Group's statutory financial records are maintained in accordance with the legislative requirements of the countries in which the individual entities are located, which differ in certain respects from IFRS. The accounting policies applied in the preparation of these consolidated financial statements are set out in Note 3.

Critical accounting judgments, estimates and assumptions

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgments which are based on historical experience, current and expected economic conditions, and other available information. Actual results could differ from those estimates.

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

- useful lives of property, plant and equipment;
- impairment of assets;
- allowances for doubtful debts, obsolete and slow-moving inventories;
- decommissioning liability;
- retirement benefit liabilities;
- litigations; and
- deferred income tax assets.

Useful lives 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.

Impairment of assets

The Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that those assets are impaired. In making the assessments for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Subsequent changes to the cash generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Allowance for doubtful debts

The Group makes allowance 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 debts, 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.

Allowance for obsolete and slow-moving inventories

The Group makes allowance for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods of the Group are carried at net realizable value. Estimates of net realizable 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.

Decommissioning liability

The Group reviews its decommissioning liability, representing site restoration provisions, at each reporting date and adjusts it to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognized as a provision is the best estimate of the expenditures required to settle the present obligation at the reporting date 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 judgment 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.

Retirement benefit liabilities

The Group uses an 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.).

Litigations

The Group exercises judgment in measuring and recognizing 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. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or 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.

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 utilized. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected.

In the event that the assessment of future utilization of deferred tax assets must be reduced, this reduction will be recognized in the income statement.

Functional and presentation currency

The presentation currency of these consolidated financial statements is the US dollar.

The functional currency is determined separately for each of the Group's entities. For all Russian entities the functional currency is the Russian ruble. The functional currency of the Group's entities located in North America is the US dollar. The functional currency of the majority of the Group's entities located in Western Europe is the Euro.

The translation into the presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, are translated at the closing exchange rates at the dates of each statement of financial position presented;
- all income and expenses in each income statement are translated at the average exchange rates for the periods presented; and
- all resulting exchange differences are recognized as a separate component in other comprehensive income.

Any conversion of amounts into US dollars should not be construed as a representation that such amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rates used, or at any other exchange rate.

Adoption of new and revised IFRS

A number of new Standards, amendments to Standards and Interpretations were adopted for the year ended December 31, 2009, and have been applied in these consolidated financial statements.

The adoption of the pronouncements did not have a significant impact on the Group's consolidated financial statements except for those discussed below.

The Group implemented IFRS 8 "Operating segments" which requires segment disclosure based on the internal reporting system. The comparative information has been presented as if the implementation was adopted at the beginning of the earliest comparative period presented.

The Group applied revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. The revised standard requires all owner changes in equity to be presented in the statement of changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

(Amounts expressed in thousands of US dollars, except as stated otherwise)

New accounting pronouncements

A number of new Standards, amendments to Standards and Interpretations were not yet effective for the year ended December 31, 2009, and have not been applied in these consolidated financial statements.

Standarts and Interpretations	Effective for annual periods beginning on or after
IAS 1 (Amended) “Presentation of Financial Statements”	July 1, 2009 and January 1, 2010
IAS 7 (Amended) “Statement of cash flows”	July 1, 2009 and January 1, 2010
IAS 12 (Amended) “Income taxes”	July 1, 2009
IAS 16 (Amended) “Property, Plant and Equipment”	July 1, 2009
IAS 17 (Amended) “Leases”	January 1, 2010
IAS 21 (Amended) “The effects of changes in foreign exchange rates”	July 1, 2009
IAS 24 (Revised) “Related party disclosure”	January 1, 2011
IAS 27 (Amended) “Consolidated and Separate Financial Statements”	July 1, 2009
IAS 28 (Amended) “Investments in Associates”	July 1, 2009
IAS 31 (Amended) “Interests in Joint Ventures”	July 1, 2009
IAS 32 (Amended) “Financial instruments: Presentation”	July 1, 2009 and February 1, 2010
IAS 34 (Amended) “Interim financial reporting”	July 1, 2009
IAS 36 (Amended) “Impairment of Assets”	July 1, 2009 and January 1, 2010
IAS 38 (Amended) “Intangible Assets”	July 1, 2009
IAS 39 (Amended) “Financial Instruments: Recognition and Measurement”	July 1, 2009 and January 1, 2010
IFRS 1 (Revised, amended) “First-time Adoption of International Financial Reporting Standards”	July 1, 2009, January 1, 2010 and July 1, 2010
IFRS 2 (Amended) “Share-based Payment”	July 1, 2009 and January 1, 2010
IFRS 3 (Revised) “Business Combinations”	July 1, 2009
IFRS 5 (Amended) “Non-current Assets Held for Sale and Discontinued Operations”	July 1, 2009 and January 1, 2010
IFRS 7 (Amended) “Financial instruments: disclosures”	July 1, 2009
IFRS 8 (Amended) “Operating Segments”	January 1, 2010
IFRS 9 “Financial instruments”	January 1, 2013
IFRIC 9 “Reassessment of Embedded Derivatives”	July 1, 2009
IFRIC 14 “Prepayments of a Minimum Funding Requirement”	January 1, 2011
IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”	July 1, 2009
IFRIC 17 “Distributions of Non-cash Assets to Owners”	July 1, 2009
IFRIC 18 “Transfers of assets from customers”	July 1, 2009
IFRIC 19 “Extinguishing financial liabilities with equity”	July 1, 2010

The adoption of the pronouncements listed above is not expected to have a significant impact on the Group’s consolidated financial statements in future periods except for those discussed below.

Revised IFRS 3 *Business Combinations* incorporates the following changes that are likely to be relevant to the Group's operations:

- The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
- Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.
- Transaction costs, other than share and debt issue costs, will be expensed as incurred.
- Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.
- Any non-controlling interest will be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3 becomes mandatory for the Group's 2010 annual consolidated financial statements and will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010.

The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued.

Revised IAS 24 *Related party disclosure* provides a revised definition of a related party which includes new relationships and will likely lead to the increased number of related parties of the Group.

Revised IAS 24 becomes mandatory for the Group's 2011 annual consolidated financial statements and requires retrospective application. Management has not yet decided on the initial application date.

Restatement

As discussed in Note 29, these consolidated financial statements have been adjusted on the effects of the final purchase price allocation.

Change in an accounting estimate

During 2009 the Group revised the useful lives of its property, plant and equipment. The effect of the change in accounting estimate was a decrease in depreciation expense of US$ 55 million.

3. Summary of the principal accounting policies

The following significant accounting policies have been consistently applied in the preparation of these consolidated financial statements throughout the Group.

a. Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises controlled, directly or indirectly, by the Parent Company. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The non-controlling interests represent the non-controlling shareholders' proportion of the net identifiable assets of the subsidiaries, including the non-controlling shareholders' share of fair value adjustments on acquisitions. The non-controlling interests are presented in the statement of financial position within equity, separately from the parent's shareholders' equity.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing these consolidated financial statements; unrealized losses are also eliminated unless the transaction provides an evidence of impairment of the asset transferred.

Acquisition of Subsidiaries

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

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of acquisition. If the initial accounting for a business combination is incomplete by the end of the period in which the combination is effected, the Group accounts for the combination using the provisional values for the items for which the accounting is incomplete. The Group recognizes any adjustments to those provisional values as a result of completing the initial accounting within twelve months from the acquisition date. As a result goodwill or negative goodwill is adjusted accordingly.

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

Accounting for business combinations of entities under common control

IFRS provides no guidance on accounting for business combinations of entities under common control. Management adopted the accounting policy for such transactions based on the relevant guidance of accounting principles generally accepted in the United States ('US GAAP'). Management believes that this approach and the accounting policy disclosed below are in compliance with IFRS.

Acquisitions of controlling interests in companies that were previously under the control of the Majority Shareholder are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the Majority Shareholder. The assets and liabilities acquired are recognized at their book values. The components of equity of the acquired companies are added to the same components within Group equity except that any share capital of the acquired companies is recorded as a part of additional capital. The cash consideration for such acquisitions is recognized as a liability to or a reduction of receivables from related parties, with a corresponding reduction in equity, from the date the acquired company is included in these consolidated financial statements until the cash consideration is paid. Parent Company shares issued in consideration for the acquired companies are recognized from the moment the acquired companies are included in these financial statements.

No goodwill is recognized where the Group acquires additional interests in the acquired companies from the Majority shareholder. The difference between the share of net assets acquired and the cost of investment is recognized directly in equity.

Investments in associates

Associates are those enterprises in which the Group has significant influence, but does not have control over the financial and operating policies.

Investments in associates are accounted for under the equity method and are initially recognized at cost, from the date that significant influence commences until the date that significant influence ceases. 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, after adjustments to align the accounting policies with those of the Group. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

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

Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where a Group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognized in its financial statements and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on the accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognized when it is probable that the economic benefits associated with the transactions will flow to the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using 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 the joint venture. The income statement reflects the Group's share of the results of operations of the joint venture.

Unrealized gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the joint venture; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Goodwill

Goodwill arising on the acquisition of a subsidiary, associate or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill in respect of subsidiaries is disclosed as an intangible asset and goodwill relating to associates and jointly controlled entities is included within the carrying value of the investments in these entities.

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

Negative goodwill represents the excess of the Group's share in the fair value of acquired identifiable assets, liabilities and contingent liabilities over the cost of an acquisition. It is recognized in the income statement at the date of the acquisition.

b. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of each entity at the foreign exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency of each entity at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities denominated in foreign currencies are translated to the functional currency of the entity at the foreign exchange rate ruling at the date of the transaction. Foreign exchange gains and losses arising on the translation are recognized in the income statement.

c. Exploration for and evaluation of mineral resources

Expenditures associated with the search for specific mineral resources are recognized as exploration and evaluation assets. The following expenditures comprise the cost of exploration and evaluation assets:

- acquisition of rights to explore;
- researching and analyzing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods;
- compiling prefeasibility and feasibility studies.

If a project does not prove viable, all irrecoverable exploration and evaluation expenditure associated with the project net of any related impairment allowances is written off to the income statement.

The Group measures its exploration and evaluation assets at cost and classifies them as tangible or intangible according to the nature of the assets acquired and applies the classification consistently. Exploration and evaluation assets considered to be tangible are recorded as a component of property, plant and equipment at cost less impairment charges. Otherwise, they are recorded as intangible assets, such as licenses. To the extent that a tangible asset is consumed in developing an intangible asset, the amount reflecting that consumption is capitalized as a part of the cost of the intangible asset. As the asset is not available for use, it is not depreciated. All exploration and evaluation assets are monitored for indications of impairment.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a mineral resource are demonstrable and the development of the deposit is sanctioned by management. The carrying amount of such exploration and evaluation asset is reclassified into development asset.

d. Development expenditure

Development expenditure includes costs directly attributable to the construction of a mine and the related infrastructure and is accumulated separately for each area of interest. Development expenditure is capitalized and is recorded as a component of property, plant and equipment or intangible assets, as appropriate. No depreciation is charged on the development expenditure before the start of commercial production.

To the extent that revenue arises from test production during the development stage, an amount is charged from development expenditure to the cost of sales so as to reflect a zero net gross margin.

e. Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset and, for qualifying assets, borrowing costs capitalized. In the case of assets constructed by the Group, related works and direct project overheads are included in cost. The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Repair and maintenance expenses are charged to the income statement as incurred. Gains or losses on disposals of property, plant and equipment are recognized in the income statement.

Depreciation is provided so as to write off property, plant and equipment over its expected useful life. Depreciation is calculated using the straight line basis, except for depreciation on vehicles and certain metal-rolling equipment, which is calculated on the basis of mileage and units of production, respectively. The estimated useful lives of assets are reviewed regularly and revised when necessary.

The principal periods over which assets are depreciated are as follows:

Buildings and constructions	20 – 50 years
Plant and machinery	10 – 20 years
Other productive assets	5 – 20 years
Infrastructure assets	5 – 50 years

f. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement as a part of 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.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

g. Intangible assets (excluding goodwill)

Intangible assets acquired by the Group are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized over their estimated useful lives using the straight-line basis and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The table below presents the useful lives of intangible assets:

Mineral rights	12 - 25 years
Software	3 - 10 years
Other intangible assets	3 - 50 years

The major components of the other intangible assets include capitalized favorable contracts and land lease rights. Amortization of intangible assets is included in the caption “Cost of sales” in the consolidated income statement.

h. Impairment of assets

The carrying amount of goodwill is tested for impairment annually. At each reporting date the Group assesses whether there is any indication of impairment of the Group’s other assets. If any such indication exists, the asset’s recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Calculation of recoverable amount

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset’s carrying amount and its recoverable amount that is the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. For other assets the recoverable amount is the greater of the fair value less cost to sale and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held-to-maturity investment, loan or receivable is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

i. Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads. Allowances are recorded against slow-moving and obsolete inventories.

j. Financial assets

Financial assets include cash and cash equivalents, investments, and loans and receivables.

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

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity’ investments, ‘available-for-sale’ (AFS) financial assets and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the carrying value of a financial asset held at amortized cost and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial instruments, which are managed and performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in the income statement incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

AFS financial assets

Available for sale financial assets are those non-derivative financial assets that are not classified as financial assets at FVTPL, held-to-maturity or loans and receivables and are stated at fair value. Listed shares that are traded in an active market are stated at their market value. Investments in unlisted shares that do not have a quoted market price in an active market are measured at management’s estimate of fair value. Gains and losses arising from changes in fair value are recognized in other comprehensive income with the exception of impairment losses, which are recognized directly in the income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognized in the equity is included in the income statement for the period.

Dividends on AFS equity instruments are recognized in the income statement when the Group’s right to receive the dividends is established.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

k. Financial liabilities

Financial liabilities are classified as either financial liabilities ‘at FVTPL’ or ‘other financial liabilities’.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms a part of a group of financial instruments, which are managed and where performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Borrowing costs on loans specifically for the purchase or construction of a qualifying asset are capitalized as a part of the cost of the asset they are financing.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized in the income statement.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

l. Hedging instruments

The Group holds cash flow hedging instruments in order to hedge the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and which could affect profit or loss.

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognized in other comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognized in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss that has been previously recognized in other comprehensive income remains in equity until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount that has been recognized in other comprehensive income is transferred to the carrying amount of the asset when it is recognized. In other cases the amount recognized in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

m. Dividends payable

Dividends are recognized as a liability in the period in which they are authorized by the shareholders.

n. Other taxes and contributions

Other taxes and contributions are taxes and mandatory contributions paid to the government, or government controlled agencies, that are calculated on a variety of bases, but exclude taxes calculated on profits, value added taxes calculated on revenues and purchases and social security costs calculated on wages and salaries. Social security costs are included in cost of sales, distribution expenses and general and administrative expenses in accordance with the nature of related wages and salaries expenses.

o. Income tax

Income tax on the profit for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income, in which case it is recognized in other comprehensive income.

Current tax expense is calculated by each entity on the pre-tax income determined in accordance with the tax law of the country, in which the entity is incorporated, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting and taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which these assets can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is not recognized in respect of the following:

- investments in subsidiaries where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future;
- if it arises from the initial recognition of an asset or liability that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss,
- initial recognition of goodwill.

p. Provisions

Employee benefits

The Group pays retirement, healthcare and other long-term benefits to its employees.

The Group has two types of retirement benefits: defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts in respect of those benefits. The Group's only obligation is to pay contributions as they fall due, including contributions to the Russian Federation State pension fund. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans are post-employment benefits plans other than defined contribution plans. The calculation of the Group's net obligation in respect of defined retirement benefit plans is performed annually by management using the projected unit credit method. In accordance with this method, the Group's net obligation is calculated separately for each defined benefit plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value and the fair value of any plan assets is deducted. The discount rate used is the yield at the reporting date on high quality corporate bonds for a respective country that have maturity dates approximating the terms of the Group's obligations. Any actuarial gain or loss arising from the calculation of the retirement benefit obligation is fully recognized in the current year's income statement.

Other long-term employee benefits include various compensations, non-monetary benefits and long-term incentive program.

Decommissioning liability

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of certain of its production sites. Decommissioning liabilities are estimated case-by-case based on available information, taking into account applicable local legal requirements. The estimation is made using existing technology, at current prices, and discounted using a real discount rate. Future decommissioning costs, discounted to net present value, are capitalized and the corresponding decommissioning liability raised as soon as the constructive obligation to incur such costs arises. Future decommissioning costs are capitalized in property, plant and equipment and are depreciated over the life of the related asset. The unwinding of the decommissioning liability is included in the consolidated income statement as interest expense. Ongoing rehabilitation costs are expensed when incurred.

Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognizes any impairment loss on the assets associated with that contract.

Other provisions

Other provisions are recognized in the statement of financial position when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

q. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of issued shares

When share capital recognized as equity is repurchased, the amount of the consideration paid which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

r. Operating income and expenses

The Group presents profit or loss from operations, which includes various types of income and expenses arising in the course of production and sale of the Group's products, disposal of property, plant and equipment, participation in joint ventures and associates, securities operations and other Group's regular activities.

Certain items are presented separately from profit or loss from operations by virtue of their size, incidence or nature to enable a full understanding of the Group's financial performance. Such items, which are included in profit or loss before financing and taxation, primarily include impairment of non-current assets, negative goodwill and other non-operating income and expenses, as, for example, gain or loss from disposal of subsidiaries and associates and charitable donations.

s. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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 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.

Sale of goods

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognized by reference to the stage of completion of the contract.

t. Interest income

Interest income is recognized in the income statement on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

u. Interest expense

Interest expense is recognized in the income statement as it accrues, taking into account the effective yield on the liability.

v. Net income from securities operations

Net income from securities operations comprises dividend income (except for dividends from equity associates), realized and unrealized gains on financial assets at fair value through profit or loss, realized gains and impairment losses on available-for-sale and held-to-maturity investments.

w. Earnings per share

Earnings per share is calculated by dividing the net profit by the weighted average number of shares outstanding during the year, assuming that shares issued in consideration for the companies acquired from the Majority Shareholder were issued from the moment these companies are included in these consolidated financial statements.

x. Discontinued operations

Discontinued operations are disclosed when a component of the Group either has been disposed of during the reporting period, or is classified as held for sale at the reporting date. This condition is regarded as met only when the disposal is highly probable within one year from the date of classification.

The comparative income statement is presented as if the operation had been discontinued from the beginning of the comparative period.

Assets and liabilities of a disposal group are presented in the statement of financial position separately from other assets and liabilities. Comparative information related to discontinued operations is not amended in the balance sheet.

y. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The reportable segments' amounts in the disclosure are stated before the intersegment elimination and are measured on the same basis as those in the consolidated financial statements, except for non-monetary investments in subsidiaries reported within long-term financial investments, which are translated into the presentation currency at the historic exchange rate.

Inter-segment pricing is determined on an arm's length basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

z. Government grants

Government grants are recognized when there is a reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Government grants related to assets are presented as a deduction from the cost of the asset.

(Amounts expressed in thousands of US dollars, except as stated otherwise)

4. Sales

Sales by product were as follows:

	Year ended December 31,		
	2009	2008	2007
Hot-rolled strip and plate	3,003,808	5,952,558	3,797,586
Galvanized and other metallic coated sheet	1,920,051	2,350,259	1,323,406
Cold-rolled sheet	1,606,311	2,314,440	1,285,218
Long products	1,301,247	3,793,931	3,150,114
Metalware products	853,777	1,384,637	1,009,999
Large diameter pipes	777,303	819,727	530,726
Shipping and handling costs billed to customers	613,710	808,695	662,447
Semifinished products	582,094	1,667,294	1,101,800
Gold	512,335	190,415	-
Color coated sheet	316,300	388,160	289,687
Coal and coking coal concentrate	272,176	257,463	264,753
Others tubes and pipes, formed shapes	255,103	485,467	411,690
Pellets and iron ore	217,194	453,069	304,825
Scrap	58,303	321,317	290,752
Others	764,787	1,205,285	1,080,385
	13,054,499	22,392,717	15,503,388

Sales by delivery destination were as follows:

	Year ended December 31,		
	2009	2008	2007
North America	4,254,246	5,410,115	2,002,852
Russian Federation	3,955,953	8,878,900	6,879,437
Europe	2,834,052	6,336,431	5,317,895
China and Central Asia	698,635	399,029	353,916
The Middle East	554,478	556,413	450,360
South-East Asia	330,513	381,929	291,052
Africa	254,252	109,411	56,595
Central and South America	172,370	320,489	151,281
	13,054,499	22,392,717	15,503,388

5. Staff costs

Employment costs were as follows:

	Year ended December 31,		
	2009	2008	2007
Wages and salaries	(1,803,163)	(2,078,521)	(1,534,443)
Social security costs	(331,416)	(450,812)	(418,031)
Retirement benefit costs (Note 25)	(19,869)	(28,647)	(7,719)
	(2,154,448)	(2,557,980)	(1,960,193)
Actuarial (losses)/gains recognized (Note 25)	(18,888)	(33,141)	37,056
Staff costs	(2,173,336)	(2,591,121)	(1,923,137)

For the year ended December 31, 2009, key management's remuneration totalled US$ 20.8 million (2008: US$ 43.9 million; 2007: US$ 57.2 million).

(Amounts expressed in thousands of US dollars, except as stated otherwise)

6. Net (loss)/gain from securities operations

	Year ended December 31,		
	2009	2008	2007
Held-for-trading securities			
Profit on disposal	742	3,037	-
Remeasurement to fair value	(8,842)	(106,058)	3,864
Held-to-maturity securities and loans			
Remeasurement to fair value (discounting)	(3,782)	(2,308)	19,438
Available-for-sale securities			
Net gain on disposal transferred from equity	(5,565)	3,997	-
Dividends received	2,143	4,520	2,262
	(15,304)	(96,812)	25,564

7. Net other operating (expenses)/income

	Year ended December 31,		
	2009	2008	2007
Insurance proceeds	-	430,000	-
Compensation for damages	-	267,000	-
Gain on termination of a supply contract	-	177,000	-
Other	(36,329)	(83,420)	(7,266)
	(36,329)	790,580	(7,266)

In January 2008, an explosion occurred on one of Severstal Dearborn's furnaces, blast furnace "B". Following the accident, Severstal Dearborn ceased blast furnace “B” operation. Severstal Dearborn is insured against property damage and business interruption with a combined gross coverage of US$ 500.0 million, subject to customary deductibles. The business interruption insurance covers fixed costs and loss of profits. The entire amount of the insurance coverage of US$ 430.0 million was received in 2008.

In February 2008, a long term electricity supply contract between Severstal Dearborn and Dearborn Industrial Generation (“DIG”) was terminated with a lump sum payment from DIG to compensate Severstal Dearborn for the differential between the contract price and the price Severstal Dearborn will have to pay another electricity supplier for the duration of the original contract. This lump sum payment amounted to US$ 177.0 million.

In December 2008, a court decision was announced to award the Group the compensation of damages of US$ 267.0 million from A.T. Massey Coal Co. in connection with a breach of a contract for coal supply during the years 2004 – 2006.

Insurance proceeds, compensation for damages and gain on termination of supply contract relate to Severstal North America segment.

(Amounts expressed in thousands of US dollars, except as stated otherwise)

8. Impairment of non-current assets

	Year ended December 31,		
	2009	2008	2007
Impairment of property, plant and equipment (Note 21)	(176,243)	(1,079,124)	(28,895)
Impairment of intangible assets (Note 22)	(42,776)	-	-
Impairment of goodwill (Note 22)	-	(461,139)	-
	(219,019)	(1,540,263)	(28,895)

For the purpose of impairment testing, the recoverable amount of each cash-generating unit has been determined based on value in use calculations, except for Severstal Warren Inc. where the recoverable amount has been determined based on fair market value less costs to sell. The value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and a corresponding discount rate which reflects the time value of money and risks associated with each individual cash generating unit. Key assumptions management used in their value in use calculations are as follows:

- For all cash generating units apart from the Severstal Resource segment cash flow projections cover a period of five years. Cash flows beyond the five-year period have been extrapolated taking into account business cycles. Cash flow projections for cash generating units of Severstal Resource segment cover a period which corresponds to the contractual time of the respective mining licenses.
- Cash flow projections were prepared in nominal terms.
- Cash flow projections during the forecast period are based on long-term price trends for both sales prices and material costs specific for each segment and geographic region and operating cost inflation in line with consumer price inflation for each country. Consumer price inflation expectations (in local currency) during the forecast period are as follows in percentage terms:

	Year ended December 31,	
	2009	2008
Russia	6.2 - 8.2	12
USA	1.4 - 2.8	1.8 - 2.0
Italy	0.9 - 1.6	1.9 - 2.0
France	0.7 - 1.9	1.6 - 2.0
Kazakhstan	6.5 - 8.3	12
UK	n/a	2.3 - 2.0

- Discount rates for each cash-generating unit were estimated in nominal terms based on the weighted average cost of capital. These rates, presented by segment, are as follows in percentage terms:

	Year ended December 31,	
	2009	2008
Severstal Resource :		
Russia*	16.4	18.5 - 21.4
Kazakhstan*	17.0	23.6
USA	16.5	16.4
Russian Steel:		
Russia*	15.6	20.1 - 22.5
Italy*	17.0	10.5
Lucchini	11.0	12.6 - 13.1
Severstal North America	18.5 - 23.7	17.7 - 18.9

*US$ rate

Values assigned to key assumptions and estimates used to measure the unit's recoverable amount are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

Impairment

For the following cash generating units an impairment loss was identified:

Severstal Resource segment

Vorkutaugol

2008

An impairment loss was recognised in 2008 in the amount of US$ 128.8 million and was allocated to property, plant and equipment.

The following specific assumptions were used in the impairment test:

- the forecast extraction volumes grow on average at 5% p.a. during the five year period ending 2013 and remain constant thereafter;
- the forecast has the following growth rates for coking coal prices: an average decline of 16% p.a. in 2009 to 2011; an average growth of 29% p.a. during the next two years and constant at 80% of 2013 prices thereafter;
- the forecast has the following growth rates for steam coal prices: an average decline of 16% p.a. in 2009 to 2010; an average growth of 10% p.a. during the next three years and constant at 89% of 2013 prices thereafter;
- operating costs are forecast to decrease by 27% in 2009 compared to 2008 and then increase on average by 9% p.a. during the next four years; thereafter costs remain constant at the 2013 level;
- pre-tax discount rate of 18.5% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$ 21.3 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$ 341.8 million.

2009

An impairment loss was recognised in 2009 in the amount of US$ 3.7 million in relation to specific items of property, plant and equipment.

PBS Coals Limited

2008

An impairment loss was recognised in 2008 in the amount of US$ 361.1 million and was allocated fully to goodwill.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US$ 477.2 million as of December 31, 2008.

The following specific assumptions were used in the impairment test:

- the forecast extraction volumes increase by 22% in 2009, then increase by 10% in 2010 and remain constant at the 2010 level thereafter;
- the forecast coking coal prices increase by 1.1% p.a. during the five year forecast period and remain constant thereafter;
- the forecast steam coal prices increase on average by 2.5% p.a. during the five year forecast period and remain constant at the 2013 level thereafter;
- operating costs are forecast to increase by 9% in 2009 and then increase on average by 1% p.a. during the next four years; thereafter costs are assumed to be constant at the 2013 level;
- pre-tax discount rate of 16.4%.

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$ 44.7 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$ 222.8 million.

2009

As a result of value in use calculation no impairment loss was recognised in 2009.

The carrying amount of goodwill allocated to the cash generating unit was US$ 111 million as of December 31, 2009.

The following assumptions were used in the impairment test:

- the forecast extraction volumes increase by 30% p.a. in 2010, decrease on average by 2% in 2011 to 2012, increase on average by 26% in 2013 to 2014 and remain constant at the 2014 level thereafter;
- the forecast coking coal concentrate prices increase on average by 4% p.a. in 2010 to 2014 and remain constant at the 2014 level thereafter;
- the forecast steam coal prices increase on average by 2% p.a. during the five year forecast period and remain constant at the 2014 level thereafter;
- operating costs are forecast to increase by 23% in 2010, decrease on average by 2% p.a. in 2011 to 2012, increase on average by 22% p.a. in 2013 to 2014; thereafter costs are assumed to be constant at the 2014 level;
- pre-tax discount rate of 16.5% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$ 34.5 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$ 258.7 million.

Specific impairment loss in the amount of US$ 35 million was recognized in 2009 and was allocated to intangible assets.

Other units

2009

The impairment loss was recognised in 2009 in the amount of US$ 1.2 million in relation to specific items of property, plant and equipment.

Russian Steel segment

Neva-Metall

2008

An impairment loss was recognized in 2008 in the amount of US$ 29 million and was allocated fully to goodwill.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US$ 40 million as of December 31, 2008.

The following specific assumptions were used in the impairment test:

- cash flow projections are based on financial forecasts approved by management covering a four year period;
- volumes are assumed to be constant during the forecast period and thereafter;
- the forecast sales prices increase by 1% in 2009, increase by 7% p.a. in 2010 to 2012 and remain constant at the 2012 level thereafter;
- operating costs are forecast to increase on average by 11% p.a. in 2009 to 2012 and remain constant at the 2012 level thereafter;
- pre-tax discount rate of 22.1% (US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$ 3.0 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$ 17.0 million.

2009

No impairment loss was recognized in 2009.

Scrap processing companies

2008

No impairment loss was recognized in 2008.

2009

An impairment loss was recognized in 2009 in the amount of US$ 33.8 million and was allocated to property, plant and equipment in the amount of US$ 26 million and to intangible assets in the amount of US$ 7.8 million.

The following specific assumptions were used in the impairment test:

- the forecast sales volumes increase by 53% in 2010, increase on average by 5% p.a. in 2011 to 2014 and remain constant at the average level of the forecast period thereafter;
- the forecast scrap prices increase by 30% in 2010, increase on average by 2% p.a. in 2011 to 2014 and remain constant at the average level of the forecast period thereafter as above;
- operating costs are forecast to increase by 76% in 2010, increase on average by 8% p.a. in 2011 to 2014 and remain constant at the average level of the forecast period thereafter as above;
- pre-tax discount rate of 15.6% (US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$ 3.5 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$ 31.7 million.

Other units

2008

An impairment loss related to other cash generating units within the segment was recognized in the amount of US$ 13.1 million in 2008 and was allocated to specific items of property, plant and equipment.

2009

An impairment loss related to other cash generating units within the segment was recognized in the amount of US$ 5.7 million in 2009 and was allocated to specific items of property, plant and equipment

Lucchini segment

Ascometal

2008

No impairment loss was recognized in 2008.

2009

An impairment loss was recognised in 2009 in the amount of US$ 86.5 million and was allocated to property, plant and equipment.

The following specific assumptions were used in impairment test:

- the forecast sales volumes increase on average by 20% in 2010 to 2012, increase by 6% p.a. in 2013 and remain constant at the 2013 level thereafter;
- the forecast sales prices remain stable in 2010 to 2014 and thereafter;
- operating costs are forecast to increase on average by 14% in 2010 to 2012, decrease by 2% p.a. in 2013 and remain constant at the 2013 level thereafter;
- pre-tax discount rate of 11%.

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$ 91.2 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$ 547.2 million.

Additionally an impairment loss was recognised in 2009 in the amount of US$ 18.1 million in relation to specific items of property, plant and equipment.

Other units

2008

An impairment loss was recognised in 2008 in the amount of US$ 3.8 million in relation to specific items of property, plant and equipment.

2009

No impairment loss was recognised in 2009.

Severstal North America segment

Severstal Wheeling Holding Company

2008

An impairment loss was recognised in 2008 of US$ 621.8 million and was allocated to property, plant and equipment in the amount of US$ 557.4 million and to goodwill in the amount of US$ 64.4 million.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US$ 64.4 million as of December 31, 2008.

The following specific assumptions were used in impairment test:

- the forecast sales volumes decline by 49% in 2009, increase by 54% in 2010 and increase on average by 5% p.a. in 2011 to 2013; thereafter sales volumes remain constant at the average level of the forecast period;
- the forecast steel prices increase by 8% in 2009; decline by 2% in 2010 and remain stable till 2013; thereafter sales prices remain constant at the weighted average level of the forecast period;
- operating costs are forecast to decrease by 33% in 2009, increase by 32% in 2010 and then increase on average by 5% p.a. during the next three years; thereafter operating costs remain constant at the average level of the forecast period;
- pre-tax discount rate of 18.9%.

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate increases the impairment loss by US$ 21.1 million;
- a 10% decrease in future planned revenues increases the impairment loss by US$ 113.4 million.

2009

No impairment loss was recognised in 2009.

Severstal Warren Inc.

2008

The recoverable amount was determined as fair market value less costs to sell as of December 31, 2008.

An impairment loss was recognised in 2008 of US$ 382.6 million and was allocated to property, plant and equipment in the amount of US$ 376 million and to goodwill in the amount of US$ 6.6 million.

The carrying amount of goodwill allocated to the cash generating unit before the impairment loss was US$ 6.6 million as of December 31, 2008.

The following assumptions were used for the calculation of fair market value less cost to sell:

- the market value of the major production equipment is determined based on the most recent valuation performed by an independent appraiser when finalising the purchase price allocation (Note 29);
- the value of other items of property, plant and equipment is determined on current prices for scrap, adjusted for decommissioning costs;
- the fair value calculation includes site restoration and other related environmental expenditures based on the requirements of applicable regulation.

Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

2009

The recoverable amount was determined as fair market value less costs to sell as of December 31, 2009.

An additional impairment loss was recognized in 2009 in the amount of US$ 26.5 million and was allocated to property, plant and equipment.

Management believes that any reasonable possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

Results of Goodwill impairment testing

The goodwill allocated to the following cash generating units has been tested for impairment and no impairment loss was recognised as the result of those tests:

Severstal Resource segment

Neryungri Metallik and Mine Aprelkovo

2008

The carrying amount of goodwill allocated to the cash generating unit was US$ 54.5 million as of December 31, 2008.

The following assumptions were used in the impairment test:

- the forecast extraction volumes grow on average at 22% p.a. during 2009 to 2012 and remain constant thereafter;
- the forecast has the following growth rates for gold prices: decline of 16% in 2009; average growth of 12% p.a. in 2010 to 2013; average decline of 4% p.a. during the remaining contractual term of the respective licenses;

- operating costs are forecast to increase on average by 9% p.a. in 2009 to 2013 and to grow on average by 1% p.a. during the remaining contractual term of the respective licenses;
- pre-tax discount rate of 21% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 10% decrease in future planned revenues causes the carrying amount of the cash generating unit to exceed its recoverable amount by US$ 52.2 million.

2009

The carrying amount of goodwill allocated to the cash generating unit was US$ 52.3 million as of December 31, 2009.

The following assumptions were used in the impairment test:

- the forecast extraction volumes grow on average by 43% p.a. during 2010 to 2012, increase by 2% in 2013 and remain constant thereafter;
- the forecast has the following growth rates for gold prices: average growth of 2% p.a. in 2010 to 2014; average decline of 5% p.a. during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase on average by 29% p.a. in 2010 to 2012, increase on average by 8% p.a.in 2013 to 2014 and remain constant during the remaining contractual term of the respective licenses;
- pre-tax discount rates of 16.4%.

The above estimates are particularly sensitive in the following areas:

- a 10% decrease in future planned revenues causes the carrying amount of the cash generating unit to exceed its recoverable amount by US$ 62.4 million;

Celtic Resources Holdings Plc.

2008

The carrying amount of goodwill allocated to the cash generating unit was US$ 37.8 million as of December 31, 2008.

The following assumptions were used in the impairment test:

- the forecast extraction volumes increase on average by 54% p.a. in 2009 to 2010, decline on average by 10% in 2011 to 2012 and remain constant thereafter;
- the forecast has the following growth rates for gold prices: decline of 17% in 2009; average growth of 12% p.a. in 2010 to 2013; average decline of 5% p.a. during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase on average by 39% p.a. in 2009 to 2010, further grow on average by 5% p.a. in 2011 to 2012 and remain constant during the remaining contractual term of the respective licenses;
- pre-tax discount rate of 23.6% (in US$ terms).

Management believes that any reasonably possible change in any of these key assumptions would not cause the carrying amount of the cash generating unit to exceed its recoverable amount.

2009

The carrying amount of goodwill allocated to the cash generating unit was US$ 30.4 million as of December 31, 2009.

The following assumptions were used in the impairment test:

- the forecast extraction volumes increase by 21% in 2010, increase on average by 2% p.a. in 2011 to 2014 and remain constant at the 2014 level thereafter;
- the forecast has the following growth rates for gold prices: remain stable in 2010; average growth of 5% p.a. in 2011 to 2013; average decline of 4% p.a. in 2014 to 2016 and remain constant during the remaining contractual term of the respective licenses;
- operating costs are forecast to increase by 44% in 2010, grow on average by 8% p.a. in 2011 to 2014, further increase on average by 4% in 2015 and during the remaining contractual term of the respective licenses;
- pre-tax discount rate of 17.0% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 1% increase in discount rate gives an impairment loss of US$ 3.6 million;
- a 10% decrease in future planned revenues causes the carrying amount of the cash generating unit to exceed its recoverable amount by US$ 70.6 million.

An impairment loss was recognised in 2009 in the amount of US$ 8.5 million in relation to specific items of property, plant and equipment.

Russian Steel segment

Redaeli Techna S.p.A.

2008

The carrying amount of goodwill allocated to the cash generating unit was US$ 36.6 million.

The following specific assumptions were used in the impairment test:

- sales volumes are assumed to be stable during the forecast period and thereafter, except for 2010 where an increase of 3% is assumed;
- forecasted sales prices decrease by 22% in 2009 and then increase by 5% p.a. in 2009 to 2013; thereafter prices remain constant at the 2013 level;
- operating costs are forecast to increase on average by 7% p.a. in the forecast period and remain constant at the 2013 level thereafter;
- pre-tax discount rate of 10.5%.

The above estimates are particularly sensitive in the following areas:

- a 10% decrease in future planned revenues causes the carrying amount of the cash generating unit to exceed its recoverable amount by US$ 16.7 million.

(Amounts expressed in thousands of US dollars, except as stated otherwise)

2009

The carrying amount of goodwill allocated to the cash generating unit was US$ 33.9 million as of December 31, 2009.

The following assumptions were used in the impairment test:

- the forecast sales volumes increase on average by 19% p.a. in 2010 to 2011 and remain constant thereafter;
- forecasted sales prices increase on average by 4% p.a. in 2010 to 2014 and remain constant at the 2014 level thereafter;
- operating costs are forecast to increase by 23% p.a. in 2010, increase on average by 7% p.a. in 2011 to 2014 and remain constant thereafter;
- pre-tax discount rate of 17.0% (in US$ terms).

The above estimates are particularly sensitive in the following areas:

- a 10% decrease in future planned revenues causes the carrying amount of the cash generating unit to exceed its recoverable amount by US$ 77.9 million.

9. Net other non-operating (expenses)/income

	Year ended December 31,		
	2009	**2008**	**2007**
Social expenditure	(17,803)	(43,664)	(42,566)
Charitable donations	(14,239)	(32,277)	(41,276)
Depreciation of infrastructure assets	(2,496)	(4,293)	(6,341)
Gain on disposal of subsidiaries and associates (Note 29)	-	314,435	31,507
Other	97	4,744	-
	(34,441)	238,945	(58,676)

(Amounts expressed in thousands of US dollars, except as stated otherwise)

10. Taxation

The following is an analysis of the income tax expense:

	Year ended December 31,		
	2009	2008	2007
Current tax charge	(111,025)	(1,010,253)	(784,658)
Corrections to prior year's current tax charge	14,544	21,892	15,416
Deferred tax benefit	78,623	424,618	69,089
Effect of change in statutory tax rate	-	46,277	-
Income tax expense	(17,858)	(517,466)	(700,153)

In 2008, the Russian Government enacted a change in the Russian statutory tax rate from 24% to 20%. The new rate became effective beginning January 1, 2009.

The following table is a reconciliation of the reported net income tax expense and the amount calculated by applying the Russian statutory tax rate of 20% (24%: 2008 and 2007) to reported profit before income tax.

	Year ended December 31,		
	2009	2008	2007
(Loss)/profit before income tax	(1,101,237)	2,579,392	2,576,243
Tax charge at Russian statutory rate	220,247	(619,054)	(618,298)
Profits taxed at different rates	298,850	88,567	(19,305)
Corrections to prior years's current tax charge	14,544	21,892	15,416
Non-tax deductible expenses, net	(28,272)	(58,447)	(39,216)
Tax-loss carry forwards expired	(10,662)	(12,901)	(18,494)
Changes in non-recognized deferred tax assets	(522,456)	28,939	(20,256)
Reassessment of deferred tax liabilities	9,891	(12,739)	-
Effect of change in statutory tax rate	-	46,277	-
Income tax expense	(17,858)	(517,466)	(700,153)

The income tax charge for the year ended December 31, 2009 includes tax expense of nil (2008: nil, 2007: US$ 1.3 million) related to profits from discontinued operations (Note 28) and tax expense of nil related to gains on disposals of discontinued operations (2008: nil, 2007: US$ 9.0 million).

(Amounts expressed in thousands of US dollars, except as stated otherwise)

The composition of the net deferred tax liability based on the temporary differences arising between the fiscal and reporting balance sheets of the consolidated companies, is given below:

	Year ended December 31,		
	2009	**2008**	**2007**
Deferred tax assets:			
Tax-loss carry forwards	426,618	317,872	33,587
Property, plant and equipment	23,368	55,284	30,406
Intangible assets	12,401	15,515	3,867
Inventory	54,268	82,644	81,360
Accounts receivable	26,306	28,271	14,911
Provisions	372,907	349,782	128,493
Financial investments	28,292	53,387	5,173
Other	165,234	88,907	22,748
Gross deferred tax assets	1,109,394	991,662	320,545
Less offseting with deferred tax liabilities	(869,559)	(745,121)	(256,360)
Recognised deferred tax assets	239,835	246,541	64,185

	Year ended December 31,		
	2009	**2008**	**2007**
Deferred tax liabilities:			
Property, plant and equipment	(756,112)	(680,148)	(544,628)
Provisions	(4,635)	(1,560)	(5,868)
Intangible assets	(239,353)	(288,120)	(112,655)
Inventory	(97,032)	(103,213)	(43,510)
Investments in joint ventures	(75,096)	(79,714)	(25,012)
Accounts receivable	-	(275)	(2,949)
Financial liabilities	(19,050)	(43,669)	-
Other	(73,271)	(44,801)	(31,147)
Gross deferred tax liabilities	(1,264,549)	(1,241,500)	(765,769)
Less offseting with deferred tax assets	869,559	745,121	256,360
Recognised deferred tax liabilities	(394,990)	(496,379)	(509,409)
Net deferred tax liability	(155,155)	(249,838)	(445,224)

The movement in the net deferred tax liability is as follows:

	Year ended December 31,		
	2009	**2008**	**2007**
Opening balance	(249,838)	(445,224)	(363,953)
Recognized in income statement	78,623	470,895	69,089
Recognized in other comprehensive income	(3,589)	1,180	-
Business combinations	-	(350,816)	(111,276)
Business de-combinations	-	27	8,491
Reclassified to assets held for sale	-	-	(24,913)
Foreign exchange difference	19,649	74,100	(22,662)
Closing balance	(155,155)	(249,838)	(445,224)

The Group has recognized US$161 million of deferred tax assets at December 31, 2009 related to certain Group entities in the Severstal North America and Lucchini segments, which have a history of recent losses. Management believes that it is probable that these entities will have sufficient taxable profits against which deferred tax assets can be utilized.

The Group has not recognized cumulative tax-loss carry forwards in the following amounts and with the following expiry dates (stated in millions of US dollars):

	Year ended December 31,		
	2009	**2008**	**2007**
In the following year	2.1	-	44.4
Between one and five years	125.5	-	-
Between five and ten years	30.5	24.2	-
Between ten and twenty years	1,177.0	-	-
No expiry	109.6	105.1	84.2
	1,444.8	129.3	128.6

Taxable differences, related to investments in subsidiaries where the Group is able to control the timing of the reversal and it is probable that the temporary difference will not reverse in the foreseeable future, amounted to US$ 825.2 million at December 31, 2009 (December 31, 2008: US$ 897 million; December 31, 2007: US$ 1,689.2 million).

(Amounts expressed in thousands of US dollars, except as stated otherwise)

11. Related party transactions

	Year ended December 31,		
	2009	2008	2007
Sales to related parties:			
Sales to associates	3,866	10,420	3,473
Sales to joint ventures	50,084	77,517	-
Sales to other related parties	48,880	166,362	147,511
Interest income	17,909	18,082	13,931
	120,739	272,381	164,915
Purchases from related parties:			
Purchases from associates:			
Non-capital expenditures	54,550	71,206	1,810
Purchases from joint ventures:			
Non-capital expenditures	57,529	149,151	218,912
Purchases from other related parties:			
Non-capital expenditures	60,443	145,956	666,137
Capital expenditures	20,782	5,215	8,572
Interest expense	1,775	5,019	3,370
	195,079	376,547	898,801

(Amounts expressed in thousands of US dollars, except as stated otherwise)

12. Related party balances

	December 31,		
	2009	**2008**	**2007**
Joint ventures' balances			
Short-term trade accounts payable	6,136	5,267	16,353
Associates' balances			
Long-term loans to associates	21,804	3,886	3,740
Other related party balances			
Cash and cash equivalents at related party bank and pension fund	335,539	322,865	239,909
Short-term deposits with related party bank and pension fund	26,803	115,488	18,985
Accounts receivable from other related parties:			
Trade accounts receivable	12,560	27,796	12,659
Advances paid	10,606	4,812	6,546
Other receivables	3,550	31,223	27,988
Short-term loans	12,697	2,952	20,322
Short-term promissory notes	4,940	18,951	7,457
Long-term loans	3,563	15,269	13,707
Held-to-maturity securities and deposits	-	1,485	62,759
	47,916	102,488	151,438
Short-term trade accounts payable to other related parties:			
Trade accounts payable	7,972	38,644	36,886
Advances received	600	1,353	3,843
Short-term payables for acquisition of subsidiaries	-	10,211	32,592
Other accounts payable	1,948	16,485	1,873
	10,520	66,693	75,194
Debt financing includes the following balances with other related parties:			
Short-term debt financing	1,324	32,186	57,956
Long-term debt financing	20	1,675	21,685
	1,344	33,861	79,641

The amounts outstanding are expected to be settled in cash. The Group did not hold any collateral for amounts owed by related parties.

Loans given to related parties were provided at interest rates ranging from nil to 15% per annum, and were given to finance working capital and investments.

(Amounts expressed in thousands of US dollars, except as stated otherwise)

13. Cash and cash equivalents

	December 31,		
	2009	2008	2007
Petty cash	386	552	780
Cash at bank	1,810,790	2,044,048	1,251,782
Restricted cash accounts	30,065	119,487	82
Short-term deposits with maturity of less than 3 months	1,012,135	488,801	369,898
	2,853,376	2,652,888	1,622,542

14. Short-term bank deposits

Short-term bank deposits totaled US$ 95.5 million at December 31, 2009 (December 31, 2008: US$ 818.5 million, December 31, 2007: US$ 666.3 million) and consisted of deposits with an original maturity of more than three months but remaining period to maturity of less than one year. The majority of such deposits have an original maturity of less than 6 months, and such deposits are used by the Group to earn investment income, while preserving a high liquidity position. Substantially all such deposits can be withdrawn, in case of necessity, prior to the maturity date with no loss in principal but reduced interest income.

(Amounts expressed in thousands of US dollars, except as stated otherwise)

15. Short-term financial investments

	December 31,		
	2009	2008	2007
Held-for-trading securities:			
Promissory notes and bonds	25,505	27,982	44,035
Quoted equity securities	-	44,489	56,003
Other securities	-	-	56,270
Loans	30,893	24,712	58,368
Available-for-sale securities	567	6,254	818
Held-to-maturity securities	16,164	9,345	-
	73,129	112,782	215,494

16. Trade accounts receivable

	December 31,		
	2009	2008	2007
Customers	1,540,787	2,032,399	1,806,775
Allowance for doubtful debts	(83,136)	(90,523)	(37,737)
	1,457,651	1,941,876	1,769,038

17. Inventories

	December 31,		
	2009	2008	2007
Raw materials and supplies	1,472,724	2,377,183	1,382,607
Work-in-progress	540,942	731,591	479,358
Finished goods	960,561	1,163,112	858,669
	2,974,227	4,271,886	2,720,634

Of the above amounts US$ 434.3 million (December 31, 2008: US$ 1,987.4 million, December 31, 2007: US$ 264.4 million) are stated at net realizable value.

During the year ended December 31, 2009, the Group recognized a US$ 383.6 million release and a US$ 19.6 million allowance to reduce the carrying amount to a net realizable value (December 31, 2008: US$ 25.0 million and US$ 432.8 million respectively; December 31, 2007: US$ 24.9 million and US$ $ 25.5 million respectively).

(Amounts expressed in thousands of US dollars, except as stated otherwise)

18. Other current assets

	December 31,		
	2009	**2008**	**2007**
Advances paid and prepayments	193,564	188,484	236,778
Other taxes and social security prepaid	23,774	17,346	16,414
Other assets	68,115	73,877	65,769
	285,453	279,707	318,961

19. Long-term financial investments

	December 31,		
	2009	**2008**	**2007**
Available-for-sale securities	88,778	48,958	22,448
Loans	26,184	19,545	27,752
Held-to-maturity securities and deposits	13,654	1,839	62,759
	128,616	70,342	112,959

(Amounts expressed in thousands of US dollars, except as stated otherwise)

20. Investments in associates and joint ventures

The Group's investments in associated and joint ventures companies are described in the tables below. The Group structure and certain additional information on investments in associated and joint ventures, including ownership percentages, is presented in Note 29.

	December 31, 2009	December 31, 2008	December 31, 2007
Associates			
OOO Gestamp-Severstal-Kaluga	16,267	-	-
Stadco OOO	14,015	-	-
Air Liquide Severstal	6,117	6,297	7,537
Todlem S.L.	2,773	-	-
Others	11,730	6,018	1,276
Joint ventures			
Spartan Steel Coating LLC	49,082	51,552	53,978
Ohio Coatings Company	17,762	16,595	-
Double Eagle Steel Coating Company	15,623	19,354	22,936
Prognoz Serebro LLC	6,572	6,765	-
Bethlehem Roll Technologies, LLC	3,916	4,326	-
Mountain State Carbon LLC	-	-	117,260
	143,857	110,907	202,987

The following is summarized financial information in respect of associates and joint ventures:

	December 31, 2009	December 31, 2008	December 31, 2007
Current assets	136,432	87,144	171,647
Non-current assets	463,945	312,282	428,917
Short-term liabilities	89,184	70,658	87,477
Long-term liabilities	163,050	99,852	93,167
Equity	348,143	228,916	419,920

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007
Revenues	274,673	305,991	326,700
Net income	20,982	21,512	16,211

(Amounts expressed in thousands of US dollars, except as stated otherwise)

21. Property, plant and equipment

The movements in property, plant and equipment are as follows:

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total assets
Cost:						
December 31, 2006	2,137,374	5,684,772	267,619	82,005	1,200,673	9,372,443
Reclassifications	9,840	(25,979)	6,669	9,470	-	-
Additions	-	-	-	-	2,096,695	2,096,695
Business combinations	83,389	83,429	6,053	711	21,412	194,994
Disposals	(11,418)	(186,230)	(12,028)	(14,613)	(6,618)	(230,907)
Business de-combinations	(53,885)	(154,917)	(4,262)	(2,277)	(4,981)	(220,322)
Reclassified to assets held for sale	(182,171)	(166,972)	(13,863)	(152)	(56,508)	(419,666)
Transfer to other assets	-	(7,793)	-	-	(23,729)	(31,522)
Transfers	347,794	1,806,315	75,453	26,683	(2,256,245)	-
Foreign exchange difference	168,957	452,825	25,021	7,584	61,088	715,475
December 31, 2007	2,499,880	7,485,450	350,662	109,411	1,031,787	11,477,190
Reclassifications	(3,513)	(27,901)	23,677	7,737	-	-
Additions	-	-	-	-	2,057,876	2,057,876
Business combinations	449,623	2,064,508	75,259	141	78,561	2,668,092
Disposals	(14,207)	(156,022)	(9,353)	(1,355)	(28,490)	(209,427)
Business de-combinations	(3,827)	(5,056)	(344)	(336)	(2,178)	(11,741)
Reclassified to assets held for sale	-	(2,976)	(9)	-	(15)	(3,000)
Transfer to other assets	-	-	-	-	(22,343)	(22,343)
Transfers	228,441	965,953	95,916	7,766	(1,298,076)	-
Foreign exchange difference	(345,503)	(913,674)	(67,424)	(19,553)	(157,064)	(1,503,218)
December 31, 2008	2,810,894	9,410,282	468,384	103,811	1,660,058	14,453,429
Reclassifications	(1,902)	(41,591)	17,917	742	24,834	-
Additions	-	-	-	-	904,775	904,775
Offsetting with government grant	(29,717)	-	-	-	-	(29,717)
Disposals	(37,954)	(125,201)	(16,137)	(12,880)	(17,865)	(210,037)
Reclassified to assets held for sale	(20,566)	(8,592)	-	-	-	(29,158)
Reclassified from assets held for sale	-	2,976	-	-	-	2,976
Transfer to other assets	-	-	-	-	(16,401)	(16,401)
Transfers	164,600	571,352	57,128	17,295	(810,375)	-
Foreign exchange difference	(43,523)	(100,916)	(8,314)	(2,184)	(7,234)	(162,171)
December 31, 2009	2,841,832	9,708,310	518,978	106,784	1,737,792	14,913,696

Of the above amounts of additions to construction-in-progress US$ 23.6 million (2008: US$ 11.6 million, 2007: US$ 18.7 million) is interest capitalized.

(Amounts expressed in thousands of US dollars, except as stated otherwise)

	Land and buildings	Plant and machinery	Other productive assets	Infrastructure assets	Construction-in-progress	Total assets
Depreciation and impairment:						
December 31, 2006	402,164	1,741,534	114,142	55,530	88,208	2,401,578
Reclassifications	1,583	(4,650)	565	2,502	-	-
Depreciation expense	143,124	652,555	34,132	6,341	-	836,152
Business combinations	1,938	7,191	803	8	-	9,940
Disposals	(2,689)	(147,110)	(9,280)	(1,309)	(1,186)	(161,574)
Business de-combinations	(6,806)	(51,376)	(1,312)	(1,869)	(69)	(61,432)
Reclassified to assets held for sale	(22,223)	(63,321)	(5,190)	(17)	(6,043)	(96,794)
Transfers	3,215	304	58	4,956	(8,533)	-
Impairment of assets	2,112	15,012	(36)	2,441	9,366	28,895
Foreign exchange difference	40,517	167,105	11,081	4,751	7,855	231,309
December 31, 2007	562,935	2,317,244	144,963	73,334	89,598	3,188,074
Reclassifications	8,411	(20,891)	10,163	2,317	-	-
Depreciation expense	163,024	805,799	62,193	4,293	-	1,035,309
Disposals	(21)	(95,570)	(5,866)	(570)	(15,997)	(118,024)
Business de-combinations	(1,497)	(1,768)	(341)	(436)	-	(4,042)
Reclassified to assets held for sale	-	(1,096)	(9)	-	-	(1,105)
Transfers	-	(10)	(1)	1,941	(1,930)	-
Impairment of assets	146,625	876,020	11,914	3,702	40,863	1,079,124
Foreign exchange difference	(110,021)	(389,958)	(28,062)	(13,710)	(11,548)	(553,299)
December 31, 2008	769,456	3,489,770	194,954	70,871	100,986	4,626,037
Reclassifications	50	(7,435)	7,117	268	-	-
Depreciation expense	108,753	657,139	73,352	2,496	-	841,740
Disposals	(18,050)	(87,905)	(12,476)	(8,516)	(11,585)	(138,532)
Reclassified to assets held for sale	(14,150)	(5,678)	-	-	-	(19,828)
Transfers	1,510	7,495	199	119	(9,323)	-
Impairment of assets	89,019	57,356	837	469	28,562	176,243
Foreign exchange difference	(16,404)	(33,665)	(2,103)	(2,395)	(2,877)	(57,444)
December 31, 2009	920,184	4,077,077	261,880	63,312	105,763	5,428,216
Net book values:						
December 31, 2007	1,936,945	5,168,206	205,699	36,077	942,189	8,289,116
December 31, 2008	2,041,438	5,920,512	273,430	32,940	1,559,072	9,827,392
December 31, 2009	1,921,648	5,631,233	257,098	43,472	1,632,029	9,485,480

Other productive assets include transmission equipment, transportation equipment and tools.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

22. Intangible assets

	Goodwill	Mineral rights	Software	Evaluation and exploration assets	Other intangible assets	Total
Cost:						
December 31, 2006	1,440	36,885	32,504	-	9,297	80,126
Additions	-	916	13,927	11,202	5,391	31,436
Business combinations	150,702	245,653	-	156,582	72,274	625,211
Disposals	-	-	(6,161)	-	(966)	(7,127)
Reclassified to assets held for sale	-	(34,254)	-	-	-	(34,254)
Business de-combinations	-	-	(6,224)	-	(4,728)	(10,952)
Foreign exchange difference	4,804	3,280	2,701	1,137	3,157	15,079
December 31, 2007	156,946	252,480	36,747	168,921	84,425	699,519
Additions	-	3,005	28,058	33,650	28,149	92,862
Business combinations	588,351	418,935	604	113,853	206,844	1,328,587
Disposals	-	(168)	(1,014)	(121)	(13,270)	(14,573)
Business de-combinations	(3,621)	-	-	-	-	(3,621)
Foreign exchange difference	(20,747)	(4,809)	(1,580)	(30,502)	(12,754)	(70,392)
December 31, 2008	720,929	669,443	62,815	285,801	293,394	2,032,382
Additions	-	4,326	28,530	36,485	3,567	72,908
Disposals	-	(407)	-	(3,630)	(979)	(5,016)
Foreign exchange difference	(17,790)	(30,936)	312	(9,712)	2,936	(55,190)
December 31, 2009	703,139	642,426	91,657	308,944	298,918	2,045,084
Amortization and impairment:						
December 31, 2006	22	1,763	10,426	-	6,249	18,460
Amortization expense	-	3,046	3,756	-	3,308	10,110
Disposals	-	-	(6,161)	-	(396)	(6,557)
Reclassified to assets held for sale	-	(3,602)	-	-	-	(3,602)
Business de-combinations	-	-	(3,924)	-	(3,923)	(7,847)
Foreign exchange difference	2	215	844	-	827	1,888
December 31, 2007	24	1,422	4,941	-	6,065	12,452
Amortization expense	-	28,864	5,905	-	17,343	52,112
Impairment	461,139	-	-	-	-	461,139
Disposals	-	(172)	(367)	-	(981)	(1,520)
Foreign exchange difference	(4)	(1,165)	(489)	-	(801)	(2,459)
December 31, 2008	461,159	28,949	9,990	-	21,626	521,724
Amortization expense	-	44,165	8,849	-	62,410	115,424
Impairment	-	-	-	-	42,776	42,776
Disposals	-	-	-	-	(113)	(113)
Foreign exchange difference	(848)	(3,316)	228	-	5	(3,931)
December 31, 2009	460,311	69,798	19,067	-	126,704	675,880
Net book values:						
December 31, 2007	156,922	251,058	31,806	168,921	78,360	687,067
December 31, 2008	259,770	640,494	52,825	285,801	271,768	1,510,658
December 31, 2009	242,828	572,628	72,590	308,944	172,214	1,369,204

(Amounts expressed in thousands of US dollars, except as otherwise stated)

23. Debt finance

	December 31, 2009	2008	2007
Eurobonds 2009	-	325,000	325,000
Eurobonds 2013	1,250,000	1,250,000	-
Eurobonds 2014	375,000	375,000	375,000
Ruble bonds	495,963	-	-
Other issued notes and bonds	31,780	14,150	-
Bank financing	4,960,512	5,957,041	2,932,570
Factoring of receivables	71,592	191,623	201,909
Other financing	53,549	144,912	119,361
Accrued interest	102,232	104,449	41,807
Unamortized balance of transaction costs	(113,768)	(96,257)	(53,265)
	7,226,860	8,265,918	3,942,382
Total debt is denominated in the following currencies:			
US Dollars	4,389,704	4,967,699	1,960,275
Euro	2,152,251	2,616,523	1,432,490
Rubles	669,616	653,339	547,866
Other currencies	15,289	28,357	1,751
	7,226,860	8,265,918	3,942,382
Total debt is contractually repayable after the balance sheet date as follows:			
Less than one year	1,478,301	2,038,693	1,129,216
Between one and five years	5,602,895	5,342,449	1,923,336
After more than five years	145,664	884,776	889,830
	7,226,860	8,265,918	3,942,382

Debt finance arising from banks and unused long term credit lines are secured by the following charges:

- US$ 2,081 million (December 31, 2008: US$ 2,837 million; December 31, 2007: US$ 1,142 million) of the net book value of plant and equipment;
- US$ 1,267 million (December 31, 2008: US$ 2,303.6 million; December 31, 2007: US$ 679.1 million) of current assets and revenues from export contracts;
- all Group's ownership in Berezitovy Rudnik LLC, Societe Des Mines de Taparko, 99.56% of Group's ownership in OJSC Buryatzoloto, 50% of Group's ownership in Mountain State Carbon, the Group's subsidiaries, and investments in Spartan Steel Coating LLC and Double Eagle Steel Coating Company, the Group's joint ventures, at December 31, 2009;
- all Group's ownership in Berezitovy Rudnik LLC, Societe Des Mines de Taparko, 99.56% of Group's ownership in OJSC Buryatzoloto, 50% of Group's ownership in Mountain State Carbon and 50% ownership in IPM, the Group's subsidiaries, and investments in other associates and joint ventures in the Severstal North America segment at December 31, 2008 and December 31, 2007.

A part of the Group's debt financing is subject to certain covenants. The Group complied with all debt covenants, including equity ratios, during the years ended December 31, 2008 and 2007. During the year ended December 31, 2009, the Group had no instances of non-compliance with debt covenants, which had not been duly rectified before the reporting date.

At the reporting date the Group had US$ 537 million (December 31, 2008: US$ 950.6 million; December 31, 2007: US$ 1,082.7 million) of unused long term credit lines available to it.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

24. Other current liabilities

	December 31, 2009	2008	2007
Amounts payable to employees	273,832	396,578	248,231
Advances received	172,855	105,611	221,612
Provisions (Note 26)	101,919	80,918	43,974
Accrued expenses	31,778	63,718	34,166
Derivative financial liabilities	22,448	19,110	-
Onerous contracts	20,415	71,509	-
Decommissioning liability (Note 26)	17,123	5,308	-
Lease liabilities	12,896	23,280	9,753
Deferred income	5,227	3,321	-
Payable for acquisition of subsidiaries	-	7,320	-
Other liabilities	35,351	34,505	62,633
	693,844	811,178	620,369

25. Retirement benefit liabilities

The Group provides for its employees the following retirement benefits, which are actuarially calculated as defined benefit obligations: lump sums payable to employees on retirement, monthly pensions, jubilee benefits, invalidity and death lump sums, burial expenses compensations, healthcare benefits, life insurance and other benefits.

The following assumptions have been used to calculate the retirement benefit liability:

	December 31, 2009	2008	2007
Discount rates:			
Russia	8.5% to 8.7%	8.5% to 10.6%	6.5%
USA	5.3% to 6.1%	5.3% to 6.5%	5.3%
UK	5.7%	6.7%	3.1%
Italy and France	4.7%	4.4% to 5.3%	5.1% to 5.6%
Future rates of benefit increase:			
Russia	6.6% to 7.4%	6.3% to 8.2%	5.8% to 6.2%
USA	Fixed at 0% or 3.5% to 10.0%	Fixed at 0% or 4.0% to 10.0%	Fixed at 0% or 9.0%
UK	2.7%	2.7%	3.4%
Italy and France	2.5%	3.0% to 6.0%	2.0% to 3.0%

The present value of the defined benefit obligation less the fair value of plan assets is recognized as a retirement benefit liability in the statement of financial position.

	December 31, 2009	2008	2007	2006	2005
Present value of the defined benefit obligation	1,008,654	987,418	495,713	549,009	387,657
Fair value of the plan assets	(220,940)	(208,122)	(108,315)	(106,055)	(49,171)
Retirement benefit liability	787,714	779,296	387,398	442,954	338,486

Notes to the consolidated financial statements
for the years ended December 31, 2009, 2008 and 2007
(Amounts expressed in thousands of US dollars, except as otherwise stated)

The movements in the defined benefit obligation are as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance	987,418	495,713	549,009
Business combinations/(de-combinations)	-	526,630	(33,612)
Reclassified to assets held for sale	-	-	(9,260)
Benefits paid	(69,282)	(60,698)	(55,238)
Interest cost	56,496	33,065	27,589
Service cost (Note 5)	35,867	27,602	18,640
Curtailment	(12,010)	-	-
Actuarial loss/(gain) (Note 5)	13,701	25,889	(37,497)
Foreign exchange (gain)/loss	(3,536)	(60,783)	36,082
Closing balance	1,008,654	987,418	495,713

The movements in the plan assets are as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance	208,122	108,315	106,055
Business combinations/(de-combinations)	-	117,215	(10,122)
Contributions made during the year	40,711	38,637	11,534
Benefits paid	(39,053)	(28,232)	(14,852)
Return on assets (Note 5)	15,998	(1,045)	10,921
Actuarial loss (Note 5)	(5,187)	(7,252)	(441)
Foreign exchange (loss)/gain	349	(19,516)	5,220
Closing balance	220,940	208,122	108,315

The defined benefit obligation analysis is as follows:

	December 31,		
	2009	2008	2007
Wholly unfunded	361,101	497,129	258,926
Partly funded	647,553	490,289	236,787
Total	1,008,654	987,418	495,713

The plan assets analysis is as follows:

	December 31,		
	2009	2008	2007
Equity instruments	55,160	38,161	44,448
Deposits	8,953	14,946	3,037
Shares in mutual funds	14,760	34,531	-
Cash	54,260	75,565	1,170
Government bonds	30,264	11,557	28,548
Corporate bonds	55,607	14,335	14,964
Other investments	1,936	19,027	16,148
Total	220,940	208,122	108,315

The Group's best estimate of contributions expected to be paid to the plan in 2010 is US$ 70 million.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

The overall expected rate of return on pension plan assets is calculated based on the expected long-term investment returns for each category of assets that forms the portfolio. The assessment of expected returns is based on historical returns and predictions of the market for each category of assets in the portfolio in the next twelve months. Expected and actual rates of return on plan assets is presented in the table below:

	2009		2008		2007	
	Actual	Expected	Actual	Expected	Actual	Expected
Russia	3.7% to 5.5%	4.0% to 9.6%	4.0%	16.0%	16.1%	17.0%
USA	7.5% to 13.1%	7.5% to 7.8%	-10.0% to 0%	0% to 3.0%	n/a	n/a
UK	3.6%	3.6%	-15.0%	3.6%	5.0%	5.0%

The retirement benefit expenses recognized in the income statement are contained in the caption: ‘Cost of sales’, ‘General and administrative expenses’ allocated proportionally to related salary expenses, except for the interest cost, which is recognized in the caption ‘Interest expense’.

26. Other non-current liabilities

	December 31,		
	2009	2008	2007
Decommissioning liability	262,303	254,740	108,961
Provisions	101,119	139,445	66,902
Amounts payable to employees	45,755	66,479	-
Lease liabilities	38,211	53,174	14,515
Other liabilities	28,651	62,591	79,636
Derivative financial liabilities	26,508	11,183	-
Deferred income	3,908	31,591	29,660
Restructured tax liabilities	1,811	758	24,978
	508,266	619,961	324,652

Decommissioning liability

The Group has environmental liabilities related to restoration of soil and other related works, which are due upon the closures of its mines and production facilities. These costs are expected to be incurred between 2010 – 2050. The present value of expected cash outflows were estimated using existing technology, and discounted using a real discount rate. These rates, presented by segment, are as follows:

	Discount rates, %		
	2009	2008	2007
Severstal Resource:			
Russia	0.1 - 2.4	2.0 - 2.8	2.0
Kazakhstan	0.2 - 0.4	1.0	n/a
USA	1.7 - 2.9	2.4 - 6.8	n/a
Severstal North America	1.7 - 2.9	1.8	n/a

(Amounts expressed in thousands of US dollars, except as otherwise stated)

The movements in the decommissioning liability are as follows:

	Year ended December 31,		
	2009	2008	2007
Opening balance	260,048	108,961	128,209
Additional accrual	25,666	-	-
Change in assumptions	-	(3,841)	-
Interest cost	9,998	18,173	19,062
Business combinations	-	160,775	14,927
Usage of decommissioning liability	(12,157)	(4,709)	-
Reclassified to assets held for sale	-	-	(63,314)
Foreign exchange difference	(4,129)	(19,311)	10,077
Closing balance	279,426	260,048	108,961

	December 31,		
	2009	2008	2007
Current portion	17,123	5,308	-
Non-current portion	262,303	254,740	108,961
	279,426	260,048	108,961

Provisions

The current portion of provisions is included in the caption 'Other current liabilities'. The total amount of the provisions is presented in the table below:

	December 31,		
	2009	2008	2007
Environmental claims	36,708	42,730	24,459
Restructuring	43,671	12,664	8,284
Social security claims	36,713	32,421	30,259
Other employee related	28,013	22,089	16,075
Legal claims	18,633	40,034	27,423
Other	39,300	70,425	4,376
	203,038	220,363	110,876

	December 31,		
	2009	2008	2007
Current portion	101,919	80,918	43,974
Non-current portion	101,119	139,445	66,902
	203,038	220,363	110,876

These provisions represent management's best estimate of the potential losses arising in these cases, calculated based on available information and appropriate assumptions used. The actual outcome of those cases is currently uncertain and might differ from the recorded provisions.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

The movements in the provisions are as follows:

	Year ended December 31,		
	2009	**2008**	**2007**
Opening balance	220,363	110,876	79,150
Charge to the income statement	58,764	95,875	32,907
Business combinations	-	49,114	781
Usage of provisions	(72,705)	(27,648)	(5,821)
Business de-combinations	-	-	(6,321)
Foreign exchange difference	(3,384)	(7,854)	10,180
Closing balance	203,038	220,363	110,876

27. Share capital

The Parent Company's share capital consists of ordinary shares with a nominal value of RUR 0.01 each. Authorized share capital of Severstal at December 31, 2009, 2008 and 2007 comprised 1,007,701,355 issued and fully paid shares.

The nominal amount of initial share capital was converted into US dollars using exchange rates during the Soviet period, when the Government contributed the original capital funds to the enterprise. These capital funds were converted into ordinary shares on September 24, 1993 and sold by the Government at privatization auctions.

The total value of issued share capital presented in these consolidated financial statements comprises:

	Number of shares, thsd.	**US$'000**
Share capital at December 31, 2007	1,007,701	3,311,288
Share capital at December 31, 2008	1,007,701	3,311,288
Share capital at December 31, 2009	1,007,701	3,311,288

All shares carry equal voting and distribution rights.

During 2008, the Parent Company repurchased 2,499 thousand of issued shares for a total consideration of US$ 26.3 million.

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. This policy includes compliance with certain externally imposed minimum capital requirements. The Group's management constantly monitors profitability and leverage ratios and compliance with the minimum capital requirements. The Group uses the return on assets ratio which is defined as profit from operations divided by total assets (averaged over the measurement period) and the leverage ratio calculated as net debt, comprising of long-term and short-term indebtedness less cash, cash equivalents and short-term bank deposits, divided by shareholder's equity. The level of dividends is also monitored by the Board of Directors of the Group.

There were no changes in the Group's approach to capital management during the year.

Dividends

The maximum dividend payable is restricted to the total accumulated retained earnings of the Parent Company determined according to Russian law. As at the reporting date, reserves available for distribution of US$ 5,443.9 million, were not yet approved by the Board of Directors (December 31, 2008: US$ 6,744.0 million; December 31, 2007: US$ 5,894.9 million).

On June 15, 2007 a Meeting of Shareholders approved the annual dividend of 5.0 rubles (US$ 0.2 at June 15, 2007 exchange rate) per share and per GDR in respect of 2006.

On June 29, 2007 a Meeting of Shareholders approved an interim dividend of 2.6 rubles (US$ 0.1 at June 29, 2007 exchange rate) per share and per GDR for the first quarter of 2007.

On September 28, 2007 a Meeting of Shareholders approved an interim dividend of 10.0 rubles (US$ 0.4 at September 28, 2007 exchange rate) per share and per GDR for the first half of 2007.

On December 20, 2007 a Meeting of Shareholders approved an interim dividend of 2.5 rubles (US$ 0.1 at December 20, 2007 exchange rate) per share and per GDR for the third quarter of 2007.

On June 27, 2008 a Meeting of Shareholders approved the annual dividend of 4.0 rubles (US$ 0.2 at June 27, 2008 exchange rate) per share and per GDR in respect of 2007.

On June 27, 2008 a Meeting of Shareholders approved an interim dividend of 5.2 rubles (US$ 0.2 at June 27, 2008 exchange rate) per share and per GDR for the first quarter of 2008.

On September 30, 2008 a Meeting of Shareholders approved an interim dividend of 18.35 rubles (US$ 0.7 at September 30, 2008 exchange rate) per share and per GDR for the first half of 2008.

On December 26, 2008 a Meeting of Shareholders approved an interim dividend of 7.17 rubles (US$ 0.2 at December 26, 2008 exchange rate) per share and per GDR for the third quarter of 2008.

On June 15, 2009, a Meeting of Shareholders approved the decision not to pay the annual dividend in respect of 2008.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

28. Discontinued operations and assets held for sale

The Group's discontinued operations consisted of OAO Metallurgical Commercial Bank (representing the Group's Financing segment) which was disposed of in November 2007, and Lucchini companies which were classified as held for sale as at December 31, 2007. The post-tax loss on the disposal of OAO Metallurgical Commercial Bank amounted to US$ 10.2 million.

The results of discontinued operations and net cash flows were as follows:

	Year ended December 31,		
	2009	2008	2007
Revenue	-	-	831
Expenses	-	-	(2,914)
Other income	-	-	3,821
Profit before income tax	-	-	1,738
Income tax expense	-	-	(1,305)
Profit for the year	-	-	433
Net cash from operating activities	-	-	(64,446)
Net cash from financing activities	-	-	-

The Group's assets held for sale as at December 31, 2007 were primarily the Kuzbass coal mines, a group of subsidiaries, which the Group disposed of in the first half of 2008, and the Lucchini and Metalware segments' companies.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

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 at December 31, 2009, 2008 and 2007 were as follows:

	December 31,		
	2009	**2008**	**2007**
Current assets:			
Cash and cash equivalents	1,267	46	6,199
Short-term financial investments	-	-	18,550
Trade accounts receivable	5,868	-	2,365
Accounts receivable from related parties	-	-	2,732
Inventories	1,617	5,525	9,182
VAT recoverable	263	1,406	1,808
Income tax recoverable	-	-	422
Other current assets	1,627	-	5,160
Total current assets	10,642	6,977	46,418
Non-current assets:			
Long-term financial investments	-	-	2,540
Investments in associates	-	-	1
Property, plant and equipment	13,773	1,895	332,632
Intangible assets	-	-	30,710
Deferred tax assets	-	-	24,913
Other non-current assets	-	-	28,127
Total non-current assets	13,773	1,895	418,923
Total assets	24,415	8,872	465,341
Current liabilities:			
Trade accounts payable	2,870	-	7,938
Other taxes and social security payable	111	4	3,862
Other current liabilities	8,360	-	6,980
Total current liabilities	11,341	4	18,780
Non-current liabilities:			
Retirement benefit liabilities	-	-	9,260
Other non-current liabilities	638	-	63,710
Total non-current liabilities	638	-	72,970
Total liabilities	11,979	4	91,750

(Amounts expressed in thousands of US dollars, except as otherwise stated)

29. Subsidiaries, associates and joint ventures

The following is a list of the Group's significant subsidiaries, associates and joint ventures and the effective ownership holdings therein:

Company	December 31, 2009	2008	2007	Location	Activity
Russian Steel segment:					
Subsidiaries:					
ZAO Severgal	100.0%	100.0%	100.0%	Russia	Hot dip galvanizing
ZAO Severstal SMZ-Kolpino	100.0%	100.0%	100.0%	Russia	Steel constructions
ZAO Severstal TPZ-Sheksna	100.0%	100.0%	100.0%	Russia	Steel constructions
ZAO Severstal Steel Solutions	100.0%	100.0%	100.0%	Russia	Steel constructions
OOO SSM-Tyazhmash	100.0%	100.0%	100.0%	Russia	Repairs&construction
OAO Domnaremont	82.7%	82.7%	82.7%	Russia	Repairs&construction
ZAO Firma Stoik	99.9%	99.9%	100.0%	Russia	Repairs&construction
OAO Metallurgremont	n/a	n/a	79.8%	Russia	Repairs&construction
OOO Energoremont	100.0%	100.0%	100.0%	Russia	Repairs&construction
OOO Electroremont	100.0%	100.0%	93.3%	Russia	Repairs&construction
Victory Industries, Inc	99.9%	100.0%	100.0%	USA	Repairs&construction
OOO AviaCompany Severstal	100.0%	100.0%	100.0%	Russia	Air transport
Severstal Export GmbH	99.8%	100.0%	100.0%	Switzerland*	Steel sales
AS Severstallat	84.2%	50.5%	50.5%	Latvia*	Steel sales
Latvijas Metals	84.2%	50.5%	50.5%	Latvia*	Steel sales
ZAO SeverStalBel	100.0%	100.0%	80.6%	Belarus*	Steel sales
Severstal-Ukraine LLC.	51.0%	51.0%	51.0%	Ukraine*	Steel sales
Armaturu Servisa Centrs SIA	84.2%	50.5%	25.2%	Latvia*	Steel service center
ZAO Neva-Metall Trans	n/a	n/a	100.0%	Russia	Shipping operations
ZAO Neva-Metall	100.0%	100.0%	100.0%	Russia	Shipping operations
Upcroft Limited	100.0%	100.0%	100.0%	Cyprus*	Holding company**
Varndell Limited	100.0%	100.0%	100.0%	Cyprus*	Holding company**
ZAO Vtorchermet	71.2%	85.6%	84.8%	Russia	Processing scrap
ZAO Rospromresursy	100.0%	100.0%	100.0%	Russia	Processing scrap
OAO Murmanskvtormet	50.9%	75.1%	75.1%	Russia	Processing scrap
OAO Arhangelskii vtormet	50.0%	75.0%	75.0%	Russia	Processing scrap
ZAO Trade House Severstal-Invest	100.0%	100.0%	100.0%	Russia	Metal sales
ZAO North Steel Company	99.9%	99.0%	99.0%	Russia	Leasing
OAO Rostovmetall	94.6%	87.0%	87.0%	Russia	Leasing
ZAO PPTK-1	100.0%	99.0%	99.0%	Russia	Leasing
ZAO Izhora Pipe Mill	100.0%	100.0%	100.0%	Russia	Wide pipes
OAO Severstal-Metiz	100.0%	100.0%	97.0%	Russia	Steel machining
OAO Dneprometiz	98.7%	96.8%	58.2%	Ukraine	Steel machining
Carrington Wire Ltd	n/a	100.0%	97.0%	UK	Steel machining
Redaelli Tecna S.p.A.	100.0%	100.0%	n/a	Italy	Steel machining
OOO UniFence	100.0%	100.0%	97.0%	Russia	Steel machining
OOO ChSPZ MKR (UniSpring)	100.0%	100.0%	97.0%	Russia	Mattress springs
OOO "Severstal-metiz: welding consumables"	100.0%	n/a	n/a	Russia	Welding consumables
Associates:					
Air Liquide Severstal	25.0%	25.0%	25.0%	Russia	Production liquid oxygen
Todlem S.L.	25.0%	n/a	n/a	Spain	Holding company
OOO Gestamp-Severstal-Kaluga	25.0%	n/a	n/a	Russia	Production car body components
Stadco OOO	22.5%	n/a	n/a	Russia	Production car body components
Companies classified as held for sale:					
OOO "Severstal-metiz: welding consumables"	n/a	100.0%	n/a	Russia	Welding consumables
Carrington Wire Ltd	100.0%	n/a	n/a	UK	Steel machining

(*) – Russian Steel segment contains Russian production entities, foreign trading companies, which are selling products primarily produced in Russia, and other foreign companies, which either provide services to Russian production entities or are managed from Russia.

(**) – Upcroft is holding 29.0% of Lucchini SpA and Varndell is holding 50.8% of Lucchini SpA.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Company	December 31, 2009	2008	2007	Location	Activity
Severstal North America segment:					
Subsidiaries:					
Severstal US Holdings LLC	100.0%	100.0%	100.0%	USA	Holding company
Baracom Limited	100.0%	100.0%	100.0%	Cyprus	Holding company
Severstal Dearborn, Inc	100.0%	100.0%	100.0%	USA	Iron & steel mill
Severstal Columbus LLC	100.0%	91.8%	74.2%	USA	Steel mill
Severstal Warren Inc	100.0%	100.0%	n/a	USA	Steel mill
Severstal Wheeling Holding Company	100.0%	100.0%	n/a	USA	Steel mill
Severstal Sparrows Point LLC	100.0%	100.0%	n/a	USA	Steel mill
Mountain State Carbon LLC	100.0%	100.0%	50.0%	USA	Coking coal
Northern Steel Group Inc	100.0%	100.0%	n/a	USA	Steel service center
Associates:					
Delaco Processing LLC	49.0%	49.0%	49.0%	USA	Steel slitting
Joint ventures:					
Spartan Steel Coating LLC	48.0%	48.0%	48.0%	USA	Hot dip galvanizing
Double Eagle Steel Coating company	50.0%	50.0%	50.0%	USA	Electro-galvanizing
Bethlehem Roll Technologies LLC	50.0%	50.0%	n/a	USA	Grinding steel mill rolls
Ohio Coatings Company	50.0%	50.0%	n/a	USA	Tin plate steel
Lucchini segment:					
Subsidiaries:					
Lucchini SpA	79.8%	79.8%	79.8%	France	Holding company
Ascometal SAS	79.8%	79.8%	79.8%	France	Steel manufacturing
Ascometal GmbH	79.8%	79.8%	79.8%	Germany	Sales
Bari Fonderie Meridionali SpA	79.8%	79.8%	79.8%	Italy	Forgings
Bi-Mec Srl	n/a	n/a	79.8%	Italy	Maintenance
GSI Lucchini SpA	55.3%	55.3%	55.3%	Italy	Steel spheres
Lucchini Asia Pacific Pte Ltd	79.8%	79.8%	79.8%	Singapore	Sales
Lucchini Holland BV	79.8%	79.8%	79.8%	The Netherlands	Investment holding
Lucchini Iberia SI	79.8%	79.8%	79.8%	Spain	Sales
Lucchini Servizi Srl	79.8%	79.8%	79.8%	Italy	Dormant
Lucchini Siderprodukte AG	n/a	51.9%	51.9%	Switzerland	Sales
Luchini USA Inc	79.8%	79.8%	79.8%	USA	Sales
Servola SpA	79.8%	79.8%	79.8%	Italy	Asset holding
Sideris Steel SAS	79.8%	79.8%	79.8%	France	Investment holding
Simmofos Sarl	n/a	n/a	79.8%	France	Asset holding
Vertek Srl	n/a	n/a	79.8%	Italy	Steel finishing
Siderco SpA	n/a	n/a	79.8%	Italy	Slag processor
Associates:					
ESPRA SAS	27.9%	27.9%	27.9%	France	Steel scrap
Logistica Servola Srl	39.9%	39.9%	39.9%	Italy	Dormant
Tecnologie Ambientali Pulite Srl	19.9%	19.9%	19.9%	Italy	Enviromental services
GICA SA	19.9%	19.9%	19.9%	Switzerland	Carbon dioxide trading
Companies classified as held for sale:					
Relco Spzoo	n/a	n/a	79.8%	Poland	Land holding
Coimpex Spzoo	n/a	n/a	31.9%	Poland	Land holding

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Company	December 31, 2009	2008	2007	Location	Activity
Severstal Resource segment:					
Subsidiaries:					
OAO Karelsky Okatysh	100.0%	100.0%	94.8%	Russia	Iron ore pellets
OAO Olkon	100.0%	100.0%	92.7%	Russia	Iron ore concentrate
Severstal Liberia Iron Ore Ltd	61.5%	61.5%	n/a	Liberia	Iron ore
OAO Vorkutaugol	94.0%	94.0%	93.1%	Russia	Coking coal concentrate
OAO Mine Vorgashorskaya	75.0%	75.0%	75.0%	Russia	Coking coal concentrate
PBS Coals Limited	100.0%	100.0%	n/a	Canada	Coking coal concentrate
OAO Mine Pervomaiskaya	n/a	n/a	99.4%	Russia	Coking coal concentrate
OAO Mine Berezovskaya	n/a	n/a	97.5%	Russia	Coking coal concentrate
OAO SShEMK	n/a	n/a	75.6%	Russia	Engineering
OAO Severokuzbasskoe PTU	n/a	n/a	87.3%	Russia	Transportation
OAO Anzhero-Sudzhenskoe PTU	n/a	n/a	94.4%	Russia	Transportation
OOO Neryungri Metallic	100.0%	100.0%	100.0%	Russia	Gold mining
ZAO Mine Aprelkovo	100.0%	100.0%	100.0%	Russia	Gold mining
Celtic Resources Holdings Ltd	100.0%	100.0%	86.3%	Ireland	Holding company
JSC FIC Alel	100.0%	100.0%	86.3%	Kazakhstan	Gold mining
Zherek LLP	100.0%	100.0%	86.3%	Kazakhstan	Gold mining
High River Gold Mines Ltd	50.1%	53.8%	n/a	Canada	Holding company
OJSC Buryatzoloto	42.6%	45.7%	n/a	Russia	Gold mining
Berezitovy Rudnik LLC	49.6%	53.3%	n/a	Russia	Gold mining
Societe Des Mines de Taparko	45.1%	48.4%	n/a	Burkina Faso	Gold mining
Semgeo LLP	100.0%	100.0%	n/a	Kazakhstan	Gold mining
OOO SPB-Giproshakht	100.0%	100.0%	100.0%	Russia	Engineering
Mining Holding Company LLC	100.0%	100.0%	100.0%	Russia	Holding company
Lybica Holding B.V.	100.0%	100.0%	n/a	The Netherlands	Holding company
7029740 Canada Limited	100.0%	100.0%	n/a	Canada	Holding company
Severstal Gold N.V.	100.0%	n/a	n/a	The Netherlands	Holding company
Altcom Limited	100.0%	n/a	n/a	The Netherlands	Holding company
Joint ventures:					
Prognoz Serebro LLC	50.0%	50.0%	n/a	Russia	Silver project

In addition, at the reporting date, a further 45 (December 31, 2008: 42; December 31, 2007: 46) subsidiaries and associates, which are not material to the Group, either individually or in aggregate, have been included in these consolidated financial statements.

Information on carrying amounts of associated companies is disclosed in Note 20 of these consolidated financial statements.

Acquisitions from Majority Shareholder

During 2008 and 2007, Severstal completed acquisitions of controlling stakes in a number of companies previously controlled by Severstal's Majority Shareholder. These consolidated financial statements take account of such acquisitions as if they had occurred at the beginning of the earliest comparative period presented or, if later, at the date on which control was obtained by the common controlling shareholder.

In July 2007, the Group acquired a 100.0% stake in each of the companies OOO Petrovtormet and OOO Severstalskrap-Komi, for a total consideration of US$ 0.02 million and US$ 0.2 million, respectively, and a 75.01% and a 75.1% stake in OAO Arhangelskii vtormet and in OAO Murmanskvtormet, for a total consideration of US$ 2.2 million and US$ 2.9 million, respectively.

In January 2008, the Group completed the acquisition of a 100% stake in Baracom Limited for a total consideration of US$ 84.4 million. Baracom Limited owns 79.9% of the voting stock of the holding structure which controls 74.2% of Severstal Columbus, LLC (former SeverCorr, LLC). Severstal Columbus is a mini-mill which produces high quality steel for motor-car, construction, pipe and engineering industries.

In December 2008, the Group completed the acquisition of a 100.0% stake of a trading company, ZAO Trade House Severstal-Invest, for a total consideration of US$ 27.4 million. ZAO Trade House Severstal-Invest owns a 99.0% stake in OOO North Steel Company, a 87.0% stake in OAO Rostovmetall, and a 99.0% in ZAO PPTK-1.

Acquisitions of subsidiaries from third and other related parties

Acquisitions in 2007

In January 2007, the Group completed the acquisition of 84.8% of the share capital of ZAO Vtorchermet and its wholly-owned subsidiaries and certain related companies for a total consideration of US$ 45.4 million. ZAO Vtorchermet is a scrap processing and wholesale company, and the majority of its operations are located in Saint Petersburg.

In March 2007, the Group purchased 100.0% of the share capital of Siderco SpA from the Lucchini family for € 1.4 million (US$ 1.8 million at the transaction date exchange rate).

In May 2007, the Group completed the acquisition of a 100.0% stake in a stevedore company, ZAO Neva-Metall, for US$ 98.7 million and 100.0% of the shipping agency ZAO Neva-Metall Trans for US$ 1.3 million from a related party. The majority of their operations are located in Saint Petersburg.

In July 2007, the Group acquired a 100.0% stake in each of the companies OOO Georesurs, OOO Severstal-Vtormet, and OOO SPB-Giproshakht for a total consideration of US$ 2.1 million, US$ 24.9 million, and US$ 6.3 million, respectively.

In October 2007, the Group acquired a 100.0% stake in OOO Nerengri-Metallik and a 100.0% stake in ZAO Mine Aprelkovo for a total consideration of US$ 105.0 million and US$ 153.0 million, respectively. OOO Nerengri-Metallik mines gold from the Tabornoye deposit in the Sakha-Yakutiya Republic, ZAO Mine Aprelkovo mines from the Pogromnoye gold deposit in the Chita Region. Both deposits are operated as open-pit mines with gold extracted utilizing heap leaching technology.

The acquirees' profits since the acquisition dates included in the Group's profit for 2007, as well as the revenue and profit of the acquired entities from the beginning of the period to the dates of acquisition, individually and in the aggregate, are insignificant to the Group's revenue and profit for 2007.

During August – December 2007, the Group acquired an 86.3% stake in Celtic Resources Holdings Plc. for a total consideration of US$ 264.6 million. Celtic Resources Holdings is a mining company based in Dublin, Ireland. CRH owns and operates gold mines, including the Suzdal Mine (JSC FIK Alel) and Zherek Mine (Zherek LLP) in Kazakhstan.

The acquirees' profit since the acquisition dates included in the Group's profit for 2007, is insignificant to the Group's profit for the period. The acquirees' revenue and profit from the beginning of the period to the dates of acquisition comprised US$ 62.0 million and US$ 7.0 million respectively.

Acquisitions in 2008

In January 2008, the Group acquired a 91.6% stake in OAO StalMag for a total consideration of US$ 17.6 million. OAO StalMag is a ferroniobium producer whose production will be used by the Group's entities.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit of the acquired entity from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

In May 2008, the Group acquired a 100% stake in Severstal Sparrows Point, LLC ("Sparrows Point"), for a total consideration of US$ 818 million, subject to certain adjustments of US$ 48 million, resulting in a final consideration paid of US$ 770 million. Sparrows Point is an integrated steel plant on the East Coast of USA with its own deep water port and rail connection to the main East Coast rail networks.

The acquiree's loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for 2008. The loss since the acquisition date included in the Group's profit for 2008 amounted to US$ 130.8 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$ 766.1 million.

In July 2008, the Group acquired a 100% stake in WCI Steel Inc. (re-named to Severstal Warren Inc.) for a total consideration of US$ 443.1 million. WCI Steel Inc. operates a steel mill in Warren, Ohio, and is an integrated producer of flat-rolled steel products, including high carbon, alloy, ultra high strength, and heavy-gauge galvanized steel.

The acquiree's loss from the beginning of the period to the date of acquisition is insignificant to the Group's profit for 2008. The loss since the acquisition date included in the Group's profit for 2008 amounted to US$ 41.7 million. In addition an impairment loss of US$ 382.6 million has been recognized and was allocated to property, plant and equipment in the amount of US$ 376.0 million and to goodwill in the amount of US$ 6.6 million, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$ 498 million.

In July 2008, the Group acquired a 100% stake in Redaelli Tecna SpA for an approximate total consideration of € 35 million (US$ 54.8 million at the transaction date exchange rate). Redaelli Tecna SpA is a manufacturer of high performance wire ropes for industrial hoisting, mining, cableways, material transportation, etc.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

In August 2008, the Group acquired a 100% stake in Esmark (re-named to Severstal Wheeling Inc.) for a total consideration of US$ 977.8 million. Esmark was a manufacturer and distributor of flat rolled and other steel products in the United States. The Group acquired all of Esmark's business, including the remaining 50% stake in Mountain State Carbon LLC previously accounted for under the equity method.

The acquiree's profit from the beginning of the period to the date of acquisition comprised US$ 29.6 million. The profit since the acquisition date included in the Group's profit for 2008 amounted to US$ 166.9 million. In addition an impairment loss of US$ 621.8 million has been recognized and was allocated to property, plant and equipment in the amount of US$ 557.4 million and to goodwill in the amount of US$ 64.4 million, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$ 1,629.0 million.

In August 2008, the Group acquired a 100% stake in Semgeo LLP, operating a gold mine Balazhal in East Kazakhstan for a total consideration of US$ 38.9 million. Management determined that the fair value of the net identifiable assets and liabilities acquired was substantially the same as the book value.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

In November 2008, the Group acquired a 100.0% stake in PBS Coals Ltd, a U.S. coal mining company, for a total cash consideration of US$ 876.8 million.

The acquiree's profit from the beginning of the period to the date of acquisition comprised US$ 8.4 million. The loss since the acquisition date included in the Group's profit for 2008 amounted to US$ 4.1 million. In addition an impairment loss of US$ 361.1 million has been recognized and was allocated fully to goodwill, as discussed in Note 8. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$ 184.9 million.

In November 2008, the Group acquired a 53.8% stake in High River Gold Mines Ltd. for a total cash consideration of US$ 62.5 million. High River is a gold company with interests in producing mines, mines under development and advanced exploration projects in Burkina Faso and Russia. Two producing mines, Zun-Holba and Irokinda (OJSC "Buryatzoloto"), are situated in the Lake Baikal region of Russia. Two new open pit gold mines, Taparko-Bouroum (Societe Des Mines de Taparko) in Burkina Faso, and Berezitovy (Berezitovy Rudnik LLC) in Russia, were put into full production in 2008.

The acquiree's loss from the beginning of the period to the date of acquisition comprised US$ 38.9 million. The loss since the acquisition date included in the Group's profit for 2008 amounted to US$ 5.8 million. The acquiree's revenue from the beginning of the period to the date of acquisition comprised US$ 177.0 million.

In December 2008, the Group acquired a 61.5% stake in African Iron Ore Group Ltd (re-named to Severstal Liberia Iron Ore Ltd) for a total cash consideration of US$ 32.0 million. Severstal Liberia Iron Ore Ltd. is performing geological survey and exploration of the iron ore deposits in Putu Range, Liberia. Management determined that the fair value of the net identifiable assets and liabilities acquired was substantially the same as the book value.

The acquiree's profit since the acquisition date included in the Group's profit for 2008, as well as the revenue and profit from the beginning of the period to the date of acquisition are insignificant to the Group's revenue and profit for 2008.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

A summary of assets and liabilities acquired from third and other related parties excluding acquisitions from the Majority Shareholder during 2008 and 2007 is presented below:

	Year ended December 31,	
	2008	**2007**
Cash and cash equivalents	180,048	26,480
Trade accounts receivable	579,804	19,772
Inventories	1,397,780	64,296
Deferred tax assets	33,364	11,208
Property, plant and equipment	2,668,092	185,054
Intangible assets	740,236	474,509
Assets held for sale	-	18,789
Other current assets	147,887	76,162
Other non-current assets	60,521	-
Trade accounts payable	(585,642)	(16,213)
Other taxes and social security payable	(2,929)	(5,466)
Deferred tax liabilities	(384,180)	(122,484)
Retirement benefit liability	(410,532)	-
Debt finance	(579,822)	(63,223)
Other current liabilities	(296,792)	(41,906)
Other non-current liabilitites	(271,639)	(16,715)
Net identifiable assets and liabilities acquired	3,276,196	610,263
Non-controlling interests	(152,821)	(45,662)
Severstal's share of net identifiable assets and liabilities acquired	3,123,375	564,601
Investments in Mountain State Carbon at equity	(112,809)	-
Fair value adjustment upon acquisition of subsidiary to previously held interest	(33,020)	-
Consideration:		
Consideration in cash	(3,255,971)	(669,759)
Consideration of other financial assets	(17,600)	(33,321)
Consideration payable	7,230	-
Positive goodwill on acquisition of subsidiaries	(588,351)	(150,702)
Negative goodwill on acquisition of subsidiaries	292,326	12,223
Net change in cash and cash equivalents	(3,068,693)	(643,279)

Included in negative goodwill is US$ 197 million which is the difference between the purchase price and fair market value of the acquired net assets of Sparrows Point LLC. This difference arose primarily due to Severstal’s competitive position in negotiations based on exclusive USW's (United Steelworkers of America) support in bidding and time restrictions in the administered sales process.

Also included in negative goodwill is US$ 78 million which is the difference between the purchase price and fair value of the acquired consolidated net assets of High River Gold Mines Ltd. This difference arose primarily due to a lack of High River`s and its prior shareholders’ ability to service its debt.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Final purchase price allocation

During the year ended December 31, 2009, management completed the purchase price allocation of PBS Coals Limited, Redaelli Tecna S.p.A., High River Gold Mines Ltd acquired during July – December 2008. The effect of the final purchase price allocation on these consolidated financial statements is the following:

	Increase/(decrease) compared to the provisional purchase price allocation at December 31, 2008 US$, thousand
Cash and cash equivalents	(854)
Trade accounts receivable	(392)
Inventories	(6,668)
VAT recoverable	703
Other current assets	(375)
Long-term financial investments	360
Investment in associates and joint ventures	6,765
Property, plant and equipment	(40,913)
Intangible assets	56,172
Deferred tax assets	19,049
Other non-current assets	(108)
Trade accounts payable	1,635
Short-term debt finance	61,180
Income taxes payable	(827)
Other taxes and social security payable	2,323
Other current liabilities	5,559
Long- term debt finance	(50,779)
Deferred tax liabilities	(12,948)
Other non-current liabilities	28,671
Foreign exchange differences	1,175
Retained earnings	(7,063)
Other reserves	9,104
Non-controlling interests	(4,291)

The comparative information at December 31, 2008, has been restated as if the accounting for the business combination had been completed at the acquisition date.

Acquisitions of non-controlling interests

In March 2007, the Group acquired a 2.01%, a 0.04%, and a 0.05% stake in OAO Karelsky Okatysh, OAO Olkon, and in OAO Vorkutaugol for a total consideration of US$ 35.4 million, US$ 0.1 million, and US$ 0.4 million, respectively.

In May 2007, the Group acquired an additional 9.0% stake in Lucchini SpA from a Lucchini family company for a total consideration of € 85.2 million (US$ 114.8 million at the transaction date exchange rate). After the acquisition, the Group's share in the capital of Lucchini SpA was 79.8%.

In May 2007, the Group completed the acquisition of a 100.0% stake in ZAO Severgal by acquiring the remaining 25.01% stake for a total consideration of US$ 20 million.

In June 2007, the Group acquired a 1.9%, a 0.6%, a 3.6%, a 1.2%, and a 1.0% stake in OAO Karelsky Okatysh, OAO Olkon, OAO Vorkutaugol, OAO Mine Vorgashorskaya, and in OAO Mine

Berezovskaya for a total consideration of US$ 23.5 million, US$ 1.9 million, US$ 29.3 million, US$ 0.6 million, and US$ 0.7 million, respectively.

In January 2008, the Group completed the acquisition of a 100% stake in Celtic Resources Holdings Plc. by acquiring the remaining 13.7% stake in the company for a total consideration of US$ 44 million. Celtic Resources Holdings is a mining company based in Dublin, Ireland, which owns and operates gold mines, including the Suzdal Mine (JSC FIC Alel) and Zherek Mine (Zherek LLP) in Kazakhstan.

In April 2008, the Group acquired an additional 9.4% stake in Columbus from the former management and a 34.6% stake in OAO Dneprometiz from third parties for a total consideration of US$ 40 million.

In August 2008, the Group acquired an additional 4.1% stake in Columbus from the former management for a total consideration of US$ 16 million.

In August - September 2008, the Group acquired a 0.9% stake in OAO Vorkutaugol for a total consideration of US$ 5.3 million.

In August - October 2008, the Group completed the acquisition of 100% stakes in OAO Karelsky Okatysh, OAO Olkon and in OAO Severstal-Metiz by acquiring the remaining 5.2%, 7.3% and 3.0% stakes in entities for a total consideration of US$ 70.6 million, US$ 32.7 million and US$ 9.7 million, respectively.

In June 2009, the Group acquired all newly issued shares in High River Gold Mines, Ltd. resulting in a 3.5% stake increase. Furthermore, in August 2009, the Group acquired an additional 4.5% stake in High River Gold Mines, Ltd. from non-controlling shareholders for a total consideration of US$ 8 million.

In June 2009, the Group completed the acquisition of a 100% stake in Columbus by acquiring the remaining 8.2% stake in the company from the former management for a total consideration of US$ 14.9 million.

Disposals of subsidiaries

In June 2007, the Group sold 100.0% (effective ownership was 79.8%) of Lucchini Sidermeccanica SpA and its wholly owned subsidiaries (Lucchini UK Ltd, Lucchini Sweden AB and Lucchini Poland Spzoo) to members of the founding Lucchini family for a total consideration of € 127.8 million (US$ 172.5 million at the transaction date exchange rate).

In July 2007, the Group sold 100.0% (effective ownership was 79.8%) of Nitruvid SAS to a third party for a total consideration of € 6.5 million (US$ 8.9 million at the transaction date exchange rate).

In October 2007, the Group sold 100.0% (effective ownership was 79.8%) participation in Ascoforge Safe SAS to a third party for a total consideration of one Euro (US$ 1.3 at the transaction date exchange rate).

In November 2007, the Group sold its 73.1% participation in OAO Metallurgical Commercial Bank to a company controlled by Severstal's Majority Shareholder for a total consideration of US$ 43.0 million.

In December 2007, the Group sold 100.0% of OOO URALMASH-Metallurgicheskoe Oborudovanie to a third party for a total consideration of US$ 14.9 million.

As part of the realization of the disposal plan identified in 2003, in August, 2005 the Group sold its interest in Huta LW Spzoo and its subsidiaries to Arcelor. The proceeds comprised an immediate cash payment and a deferred consideration of € 61.4 million (US$ 73.0 million at December 31, 2005 exchange rate). In August 2007, the Group received a payment in the amount of US$ 83.8 million.

In February 2008, the Group sold 100.0% of OOO Georesurs to a third party for a total consideration of RUR 100,000 (US$ 4 thousands at the transaction date exchange rate).

In April 2008, the Group sold its 97.9%, 99.5% and 100.0% participation in OAO Mine Berezovskaya, OAO Mine Pervomaiskaya and ZAO Zhernovskaya-3 respectively to ArcelorMittal for a total consideration of US$ 652 million.

In June 2008, the Group sold its 100% and 40.0% participation in Relco Spzoo and Coimpex Spzoo respectively for a total consideration of € 12 million (US$ 18 million at the transaction date exchange rate).

In December 2008, the Group sold its 59.4% participation in OAO Metallurgremont to a company controlled by Severstal's Majority Shareholder for a total consideration of RUR 75.9 million (US$ 2.7 million at the transaction date exchange rate).

(Amounts expressed in thousands of US dollars, except as otherwise stated)

A summary of assets and liabilities disposed during 2008 and 2007 is presented below:

	Year ended December 31,	
	2008	**2007**
Cash and cash equivalents	(1,498)	(235,220)
Trade accounts receivable	(3,885)	(151,658)
Inventories	(7,725)	(108,238)
Financial investments	(551)	(237,408)
Other assets	(13,470)	(30,537)
Property, plant and equipment	(7,699)	(158,890)
Intangible assets	(3,621)	(3,105)
Deferred tax assets	-	(759)
Assets held for sale	(443,021)	-
Trade accounts payable	4,833	205,171
Bank customer accounts	-	345,753
Income tax payable	-	9,375
Other taxes and social security payable	945	13,369
Deferred tax liabilities	27	9,250
Retirement benefit liability	1,117	23,490
Debt finance	3,150	66,108
Liabilities held for sale	88,942	-
Other liabilities	21,634	30,743
Net identifiable assets	(360,822)	(222,556)
Non-controlling interests	2,042	16,315
Sub-total	(358,780)	(206,241)
Consideration in cash	673,215	239,308
Selling costs	-	(1,560)
Net gain on disposal	314,435	31,507
Deferred consideration received	-	83,842
Group's cash and cash equivalents in Metcombank	-	149,608
Net change in cash and cash equivalents	671,717	235,978

Dilution of Group ownership

In December 2009, Group’s share in High River Gold Mines Ltd decreased from 61.7% to 50.1% as a result of a private placement of 150 million common shares to a third party for a total consideration of US$ 54.3 million.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

30. Segment information

Segmental statements of financial position as at December 31, 2009:

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Inter segment balances	Conso-lidated
Assets						
Current assets:						
Cash and cash equivalents	126,550	2,063,808	473,765	189,253	-	2,853,376
Short-term bank deposits	136	89,597	-	5,800	-	95,533
Short-term financial investments	19,318	315,927	567	-	(262,683)	73,129
Trade accounts receivable	80,993	670,978	411,831	293,849	-	1,457,651
Amounts receivable from related parties	84,284	28,875	3,726	3,063	(93,232)	26,716
Inventories	258,952	1,129,755	600,883	996,344	(11,707)	2,974,227
VAT recoverable	52,179	172,336	63,517	-	-	288,032
Income tax recoverable	9,491	18,440	5,594	72,494	-	106,019
Other current assets	57,588	127,102	18,180	82,583	-	285,453
Assets held for sale	-	23,115	-	1,300	-	24,415
Total current assets	689,491	4,639,933	1,578,063	1,644,686	(367,622)	8,184,551
Non-current assets:						
Long-term financial investments	70,830	5,942,956	8,438	11,752	(5,905,360)	128,616
Investment in associates and joint ventures	6,572	48,738	2,164	86,383	-	143,857
Property, plant and equipment	1,379,835	3,391,735	1,481,522	3,262,165	(29,777)	9,485,480
Intangible assets	1,109,294	113,576	37,197	109,137	-	1,369,204
Restricted cash	17,541	-	-	-	-	17,541
Deferred tax assets	30,321	45,563	73,951	90,000	-	239,835
Other non-current assets	1,272	24,072	3,932	45,526	-	74,802
Total non-current assets	2,615,665	9,566,640	1,607,204	3,604,963	(5,935,137)	11,459,335
Total assets	3,305,156	14,206,573	3,185,267	5,249,649	(6,302,759)	19,643,886
Liabilities						
Current liabilities:						
Trade accounts payable	116,088	326,088	423,598	512,526	-	1,378,300
Amounts payable to related parties	7,355	92,792	233	9,756	(93,480)	16,656
Short-term debt finance	240,224	648,419	156,672	560,015	(127,029)	1,478,301
Income taxes payable	2,603	25,454	4,786	1,307	-	34,150
Other taxes and social security payable	56,116	75,490	57,004	20,474	-	209,084
Dividends payable	32	5,672	-	-	-	5,704
Other current liabilities	106,984	258,123	126,880	201,857	-	693,844
Liabilities related to assets held for sale	-	11,979	-	-	-	11,979
Total current liabilities	529,402	1,444,017	769,173	1,305,935	(220,509)	3,828,018
Non-current liabilities:						
Long-term debt finance	674,419	4,198,250	1,009,304	1,097,674	(1,231,088)	5,748,559
Deferred tax liabilities	251,004	143,053	3,143	-	(2,210)	394,990
Retirement benefit liabilities	24,572	122,679	127,165	513,298	-	787,714
Other non-current liabilities	187,625	25,242	75,910	219,489	-	508,266
Total non-current liabilities	1,137,620	4,489,224	1,215,522	1,830,461	(1,233,298)	7,439,529
Equity	1,638,134	8,273,332	1,200,572	2,113,253	(4,848,952)	8,376,339
Total equity and liabilities	3,305,156	14,206,573	3,185,267	5,249,649	(6,302,759)	19,643,886

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental statements of financial position as at December 31, 2008:

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Inter segment balances	Conso-lidated
Assets						
Current assets:						
Cash and cash equivalents	151,122	1,543,215	663,171	295,380	-	2,652,888
Short-term bank deposits	147	812,598	-	5,800	-	818,545
Short-term financial investments	4,476	260,303	6,163	-	(158,160)	112,782
Trade accounts receivable	89,221	809,718	695,522	347,415	-	1,941,876
Amounts receivable from related parties	62,978	70,190	8,286	7,041	(84,664)	63,831
Inventories	261,145	1,436,198	893,736	1,696,077	(15,270)	4,271,886
VAT recoverable	51,336	233,164	77,042	-	-	361,542
Income tax recoverable	16,489	137,558	7,508	11,392	-	172,947
Other current assets	45,154	132,463	19,099	82,991	-	279,707
Assets held for sale	-	8,872	-	-	-	8,872
Total current assets	682,068	5,444,279	2,370,527	2,446,096	(258,094)	10,684,876
Non-current assets:						
Long-term financial investments	27,401	5,010,356	10,993	-	(4,978,408)	70,342
Investment in associates and joint ventures	6,765	10,223	2,112	91,807	-	110,907
Property, plant and equipment	1,467,180	3,475,931	1,597,947	3,313,302	(26,968)	9,827,392
Intangible assets	1,237,963	114,121	25,744	132,830	-	1,510,658
Restricted cash	12,734	-	-	8,969	-	21,703
Deferred tax assets	44,802	25,837	29,369	146,533	-	246,541
Other non-current assets	(41)	18,444	3,521	19,583	-	41,507
Total non-current assets	2,796,804	8,654,912	1,669,686	3,713,024	(5,005,376)	11,829,050
Total assets	3,478,872	14,099,191	4,040,213	6,159,120	(5,263,470)	22,513,926
Liabilities						
Current liabilities:						
Trade accounts payable	126,672	365,282	529,653	506,846	-	1,528,453
Amounts payable to related parties	3,921	132,194	4,875	16,120	(85,150)	71,960
Short-term debt finance	288,693	1,221,740	247,014	438,663	(157,417)	2,038,693
Income taxes payable	12,121	9,656	24,354	-	-	46,131
Other taxes and social security payable	58,272	63,838	74,890	16,315	-	213,315
Dividends payable	33	128,682	-	-	-	128,715
Other current liabilities	96,856	279,925	141,279	293,118	-	811,178
Liabilities related to assets held for sale	-	4	-	-	-	4
Total current liabilities	586,568	2,201,321	1,022,065	1,271,062	(242,567)	4,838,449
Non-current liabilities:						
Long-term debt finance	801,189	3,900,255	1,069,548	1,452,437	(996,204)	6,227,225
Deferred tax liabilities	320,404	103,856	75,514	-	(3,395)	496,379
Retirement benefit liabilities	50,504	122,959	132,246	473,587	-	779,296
Other non-current liabilities	182,436	8,029	125,543	303,953	-	619,961
Total non-current liabilities	1,354,533	4,135,099	1,402,851	2,229,977	(999,599)	8,122,861
Equity	1,537,771	7,762,771	1,615,297	2,658,081	(4,021,304)	9,552,616
Total equity and liabilities	3,478,872	14,099,191	4,040,213	6,159,120	(5,263,470)	22,513,926

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental statements of financial position as at December 31, 2007:

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Inter segment balances	Conso-lidated
Assets						
Current assets:						
Cash and cash equivalents	142,063	899,774	507,714	72,991	-	1,622,542
Short-term bank deposits	350	665,977	-	-	-	666,327
Short-term financial investments	126,403	689,422	23,127	-	(623,458)	215,494
Trade accounts receivable	57,383	745,196	813,534	152,925	-	1,769,038
Amounts receivable from related parties	91,523	53,136	2,836	2,831	(103,133)	47,193
Inventories	162,682	1,393,250	694,939	530,016	(60,253)	2,720,634
VAT recoverable	36,643	215,095	32,384	-	-	284,122
Income tax recoverable	17,066	40,148	12,245	12,504	-	81,963
Other current assets	57,958	202,441	35,169	23,393	-	318,961
Assets held for sale	440,686	6,937	17,718	-	-	465,341
Total current assets	1,132,757	4,911,376	2,139,666	794,660	(786,844)	8,191,615
Non-current assets:						
Long-term financial investments	2,772	2,167,879	21,656	-	(2,079,348)	112,959
Investment in associates and joint ventures	-	7,530	1,278	194,179	-	202,987
Property, plant and equipment	1,319,991	3,946,484	1,495,614	1,551,552	(24,525)	8,289,116
Intangible assets	526,378	135,159	19,045	6,485	-	687,067
Restricted cash	-	-	-	13,810	-	13,810
Deferred tax assets	16,048	10,194	37,943	-	-	64,185
Other non-current assets	1,008	17,418	2,948	17,710	-	39,084
Total non-current assets	1,866,197	6,284,664	1,578,484	1,783,736	(2,103,873)	9,409,208
Total assets	2,998,954	11,196,040	3,718,150	2,578,396	(2,890,717)	17,600,823
Liabilities						
Current liabilities:						
Trade accounts payable	52,242	246,018	610,982	302,131	-	1,211,373
Amounts payable to related parties	2,788	172,935	5,766	18,395	(108,337)	91,547
Short-term debt finance	707,900	645,518	328,391	16,293	(568,886)	1,129,216
Income taxes payable	8,729	17,529	15,065	-	-	41,323
Other taxes and social security payable	57,798	52,818	87,071	1,662	-	199,349
Dividends payable	-	107,485	-	-	-	107,485
Other current liabilities	79,440	379,901	130,020	30,379	629	620,369
Liabilities related to assets held for sale	91,599	-	151	-	-	91,750
Total current liabilities	1,000,496	1,622,204	1,177,446	368,860	(676,594)	3,492,412
Non-current liabilities:						
Long-term debt finance	391,878	1,139,557	650,105	843,495	(211,869)	2,813,166
Deferred tax liabilities	160,629	215,459	85,194	60,843	(12,716)	509,409
Retirement benefit liabilities	71,821	128,472	138,504	48,601	-	387,398
Other non-current liabilities	140,319	1,674	79,471	103,188	-	324,652
Total non-current liabilities	764,647	1,485,162	953,274	1,056,127	(224,585)	4,034,625
Equity	1,233,811	8,088,674	1,587,430	1,153,409	(1,989,538)	10,073,786
Total equity and liabilities	2,998,954	11,196,040	3,718,150	2,578,396	(2,890,717)	17,600,823

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental income statements for the year ended December 31, 2009:

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Inter segment transactions	Conso-lidated
Sales						
Sales - external	1,146,856	6,081,434	1,750,029	3,973,350	-	12,951,669
Sales - to related parties	723,931	97,706	7,105	49,712	(775,624)	102,830
	1,870,787	6,179,140	1,757,134	4,023,062	(775,624)	13,054,499
Cost of sales	(1,405,604)	(4,081,420)	(1,948,050)	(4,697,487)	776,268	(11,356,293)
Gross profit/(loss)	465,183	2,097,720	(190,916)	(674,425)	644	1,698,206
General and administrative expenses	(107,560)	(340,902)	(128,195)	(162,106)	3,202	(735,561)
Distribution expenses	(141,936)	(638,735)	(72,720)	(13,470)	2,636	(864,225)
Other taxes and contributions	(85,827)	(64,011)	(13,573)	(8,190)	-	(171,601)
Share of associates' (loss)/profit	(2)	5,084	(372)	6,778	-	11,488
Net (loss)/gain from securities operations	(2,045)	3,592	(3,144)	-	(13,707)	(15,304)
(Loss)/gain on disposal of property, plant and equipment	(19,955)	(10,906)	(1,159)	40	(21)	(32,001)
Net other operating (expenses)/income	(16,755)	(16,114)	48,136	(48,929)	(2,667)	(36,329)
Profit/(loss) from operations	91,103	1,035,728	(361,943)	(900,302)	(9,913)	(145,327)
Impairment of non-current assets	(48,691)	(39,364)	(104,489)	(26,475)	-	(219,019)
Net other non-operating expenses	(7,978)	(26,591)	(2,651)	-	2,779	(34,441)
Profit/(loss) before financing and taxation	34,434	969,773	(469,083)	(926,777)	(7,134)	(398,787)
Interest income	1,259	303,507	8,342	4,547	(213,833)	103,822
Interest expense	(226,492)	(346,705)	(61,710)	(177,592)	211,255	(601,244)
Foreign exchange difference	(52,047)	(152,324)	(657)	-	-	(205,028)
(Loss)/profit before income tax	(242,846)	774,251	(523,108)	(1,099,822)	(9,712)	(1,101,237)
Income tax benefit/(expense)	25,896	(169,672)	111,603	15,501	(1,186)	(17,858)
(Loss)/profit from continuing operations	(216,950)	604,579	(411,505)	(1,084,321)	(10,898)	(1,119,095)
(Loss)/profit for the year	(216,950)	604,579	(411,505)	(1,084,321)	(10,898)	(1,119,095)
Additional information:						
depreciation and amortization expense	282,506	272,726	158,002	246,113	(2,183)	957,164
capital expenditures	242,325	368,627	133,247	238,476	(4,992)	977,683
intersegment sales (incl. in sales to related parties)	723,925	44,595	7,105	(1)	(775,624)	-

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental income statements for the year ended December 31, 2008:

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Inter segment transactions	Conso-lidated
Sales						
Sales - external	1,069,261	11,850,733	3,975,893	5,242,531	-	22,138,418
Sales - to related parties	1,383,443	213,051	13,599	76,912	(1,432,706)	254,299
	2,452,704	12,063,784	3,989,492	5,319,443	(1,432,706)	22,392,717
Cost of sales	(1,376,371)	(7,388,040)	(3,372,444)	(5,841,559)	1,478,500	(16,499,914)
Gross profit/(loss)	1,076,333	4,675,744	617,048	(522,116)	45,794	5,892,803
General and administrative expenses	(173,906)	(506,222)	(176,477)	(173,810)	3,625	(1,026,790)
Distribution expenses	(180,911)	(798,564)	(122,044)	(16,401)	144	(1,117,776)
Other taxes and contributions	(78,850)	(74,221)	(25,815)	-	-	(178,886)
Share of associates' profit/(loss)	-	3,632	(713)	(6,319)	-	(3,400)
Net gain/(loss) from securities operations	2,548	(82,223)	3,064	-	(20,201)	(96,812)
(Loss)/gain on disposal of property, plant and equipment	(7,608)	(29,836)	484	(6,453)	135	(43,278)
Net other operating (expenses)/income	(31,906)	(10,165)	(27,283)	870,443	(10,509)	790,580
Profit from operations	605,700	3,178,145	268,264	145,344	18,988	4,216,441
Impairment of non-current assets	(489,874)	(42,101)	(3,870)	(1,004,418)	-	(1,540,263)
Negative goodwill	79,862	-	-	212,464	-	292,326
Net other non-operating income/(expenses)	293,797	(59,504)	-	-	4,652	238,945
Profit/(loss) before financing and taxation	489,485	3,076,540	264,394	(646,610)	23,640	3,207,449
Interest income	16,318	187,104	25,244	6,287	(79,721)	155,232
Interest expense	(105,084)	(282,058)	(73,046)	(122,900)	74,719	(508,369)
Foreign exchange difference	97,073	(359,847)	(12,151)	5	-	(274,920)
Profit/(loss) before income tax	497,792	2,621,739	204,441	(763,218)	18,638	2,579,392
Income tax (expense)/benefit	(183,557)	(642,141)	(72,634)	390,211	(9,345)	(517,466)
Profit/(loss) from continuing operations	314,235	1,979,598	131,807	(373,007)	9,293	2,061,926
Profit from discontinued operations	-	-	4,652	-	(4,652)	-
Profit/(loss) for the year	314,235	1,979,598	136,459	(373,007)	4,641	2,061,926
Additional information:						
depreciation and amortization expense	232,943	467,129	162,056	225,293	-	1,087,421
capital expenditures	413,074	709,199	337,828	693,926	(3,289)	2,150,738
intersegment sales (incl. in sales to related parties)	1,379,629	39,478	13,599	-	(1,432,706)	-

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Segmental income statements for the year ended December 31, 2007:

	Severstal Resource	Russian Steel	Lucchini	Severstal North America	Financing segment	Inter segment transactions	Conso-lidated
Sales							
Sales - external	732,620	9,189,481	3,624,913	1,805,390	-	-	15,352,404
Sales - to related parties	1,116,448	155,100	131,595	53	-	(1,252,212)	150,984
	1,849,068	9,344,581	3,756,508	1,805,443	-	(1,252,212)	15,503,388
Cost of sales	(1,182,055)	(5,781,511)	(3,194,377)	(1,848,282)	-	1,184,643	(10,821,582)
Gross profit/(loss)	667,013	3,563,070	562,131	(42,839)	-	(67,569)	4,681,806
General and administrative expenses	(136,810)	(373,590)	(188,016)	(70,808)	-	2,334	(766,890)
Distribution expenses	(163,673)	(662,175)	(117,998)	(2,152)	-	3,465	(942,533)
Other taxes and contributions	(64,617)	(57,265)	(32,188)	-	-	-	(154,070)
Share of associates' profit/(loss)	-	1,450	(548)	5,338	-	-	6,240
Net gain from securities operations	33	21,186	10,827	-	-	(6,482)	25,564
Loss on disposal of property, plant and equipment	(12,118)	(19,928)	(508)	(3,485)	-	514	(35,525)
Net other operating (expenses)/income	(7,833)	14,786	(17,343)	2,556	-	568	(7,266)
Profit/(loss) from operations	281,995	2,487,534	216,357	(111,390)	-	(67,170)	2,807,326
Impairment of non-current assets	(3,059)	(9,941)	(15,895)	-	-	-	(28,895)
Negative goodwill	-	117	507	-	-	11,599	12,223
Net other non-operating (expenses)/income	(20,492)	(42,240)	24,374	-	-	(20,318)	(58,676)
Profit/(loss) before financing and taxation	258,444	2,435,470	225,343	(111,390)	-	(75,889)	2,731,978
Interest income	14,530	170,041	21,978	4,811	-	(44,721)	166,639
Interest expense	(69,026)	(163,720)	(72,793)	(37,500)	-	17,459	(325,580)
Foreign exchange difference	(3,089)	6,551	(535)	(5)	-	284	3,206
Profit/(loss) before income tax	200,859	2,448,342	173,993	(144,084)	-	(102,867)	2,576,243
Income tax (expense)/benefit	(47,050)	(610,480)	(64,808)	9,470	-	12,715	(700,153)
Profit/(loss) from continuing operations	153,809	1,837,862	109,185	(134,614)	-	(90,152)	1,876,090
(Loss)/profit from discontinued operations	-	-	(15,660)	-	16,093	-	433
Profit/(loss) for the year	153,809	1,837,862	93,525	(134,614)	16,093	(90,152)	1,876,523
Additional information:							
depreciation and amortization expense	207,093	382,473	199,155	57,541	-	-	846,262
capital expenditures	384,281	566,635	199,267	977,948	-	-	2,128,131
intersegment sales (incl. in sales to related parties)	1,098,011	22,606	131,595	-	-	(1,252,212)	-

(Amounts expressed in thousands of US dollars, except as otherwise stated)

The following is a summary of non-current assets other than financial instruments and deferred tax assets by location:

	December 31,		
	2009	2008	2007
Russian Federation	4,830,744	4,960,427	5,545,850
North America	3,978,452	4,139,364	1,565,702
Europe	1,618,873	1,775,158	1,637,308
Africa	262,206	246,720	-
The Middle East	256,752	279,591	280,217
	10,947,027	11,401,260	9,029,077

The locations are primarily represented by the following countries: Italy and France in Europe, the USA in North America, Burkina Faso in Africa, and Kazakhstan in the Middle East.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

31. Financial instruments

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's Board of Directors oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Group's business. The Severstal Resource segment of the Group has not used derivative financial instruments to reduce exposure to fluctuations in foreign exchange rates and interest rates. The use in the Russian Steel, Severstal North America and Lucchini segments of derivatives to hedge their interest rates, commodity inputs and foreign exchange rate exposures were not material to these consolidated financial statements.

Management believes that the fair value of its financial assets and liabilities approximates their carrying amounts except for the following borrowings:

	December 31, 2009		
	Market value	**Book value**	**Difference**
Ruble bonds	518,331	495,963	22,368
Eurobonds 2013	1,265,663	1,250,000	15,663
Eurobonds 2014	377,858	375,000	2,858
	2,161,852	2,120,963	40,889

	December 31, 2008		
	Market value	**Book value**	**Difference**
Eurobonds 2009	325,858	325,000	858
Eurobonds 2013	689,584	1,250,000	(560,416)
Eurobonds 2014	197,048	375,000	(177,952)
Bank financing	5,448,072	5,809,349	(361,277)
	6,660,562	7,759,349	(1,098,787)

	December 31, 2007		
	Market value	**Book value**	**Difference**
Eurobonds 2009	330,513	325,000	5,513
Eurobonds 2014	398,781	375,000	23,781
	729,294	700,000	29,294

The above amounts exclude accrued interest.

The market value of the Group's Eurobonds was determined based on London Stock Exchange quotations. The market value of the Group's Ruble bonds was determined based on Moscow Interbank Currency Exchange.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Credit risk

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position and guarantees (see note 32e). The Group has developed policies and procedures for the management of credit exposures, including the establishment of credit committees that actively monitors credit risk.

The maximum exposure to credit risk for financial instruments including accounts receivable from related parties was:

	December 31,		
	2009	**2008**	**2007**
Cash and cash equivalents	2,853,376	2,652,888	1,622,542
Loans and receivables	1,653,386	2,158,186	1,982,931
Held-to-maturity securities and deposits	125,351	829,729	729,086
Available-for-sale financial assets	89,345	55,212	23,266
Held-for-trading securities	25,505	72,471	156,308
Restricted cash	17,541	21,703	13,810
	4,764,504	5,790,189	4,527,943

The maximum exposure to credit risk for trade receivables including trade receivables from related parties by geographic region was:

	December 31,		
	2009	**2008**	**2007**
Europe	568,448	878,778	981,178
Russian Federation	404,500	601,362	520,922
North America	324,492	395,736	173,021
China and Central Asia	99,159	32,564	19,018
Africa	28,062	24,178	34,343
The Middle East	25,943	27,040	38,397
Central and South America	16,065	7,879	1,604
South-East Asia	9,245	3,353	13,214
	1,475,914	1,970,890	1,781,697

The maximum exposure to credit risk for trade receivables including trade receivables from related parties by type of customer was:

	December 31,		
	2009	**2008**	**2007**
Industrial consumers	1,253,325	1,633,117	1,442,890
Wholesale customers	159,040	296,016	294,720
Retail customers	39,956	5,813	1,289
Other customers	23,593	35,944	42,798
	1,475,914	1,970,890	1,781,697

The Group holds bank and other guarantees provided as collateral for financial assets. Amount of collateral held does not fully cover Group’s exposure to credit risk.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Impairment losses

The aging of trade receivables including trade receivables from related parties was:

	December 31,					
	2009		2008		2007	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	1,178,117	(6,432)	1,302,128	(2,238)	1,070,031	(2,731)
Past due 0-30 days	143,154	(484)	376,301	(2,854)	549,362	(4,758)
Past due 31-90 days	55,568	(3,023)	247,305	(36,976)	131,164	(3,507)
Past due 91-180 days	89,670	(3,118)	84,930	(12,650)	34,701	(20,908)
Past due 180-365 days	30,394	(19,284)	11,310	(2,275)	13,844	(1,811)
More than one year	64,660	(53,308)	50,280	(44,371)	29,565	(13,255)
	1,561,563	(85,649)	2,072,254	(101,364)	1,828,667	(46,970)

The impairment allowance at December 31, 2009 included the impairment allowance in respect of trade receivables from related parties for the total amount of US$ 2 million (December 31, 2008: US$ 10.8 million; December 31, 2007: US$ 9.2 million).

At December 31, 2009 trade receivables included accounts in the amount of US$ 4.5 million (December 31, 2008: US$ 170.2 million; December 31, 2007: nil) whose terms of settlements were renegotiated during 2009. Management of the Group believes that receivables will be repaid in full, thus no impairment loss was recognized as at December 31, 2009.

The movement in allowance for impairment in respect of trade receivables including trade receivables from related parties during the years was as follows:

	Year ended December 31,		
	2009	2008	2007
Balance at 1 January	(101,364)	(46,970)	(35,222)
Impairment loss recognised	(36,333)	(72,802)	(15,033)
Impairment loss reversed	51,023	23,654	1,352
Foreign exchange difference	1,025	(5,246)	1,933
Balance at 31 December	(85,649)	(101,364)	(46,970)

The allowance account in respect of trade receivables including trade receivables from related parties is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

The allowance for doubtful debts contains primarily individually impaired trade receivables from debtors placed under liquidation or companies which are in breach of contract terms.

No impairment allowance was recognized by the Group in respect of other financial assets.

Concentration of credit risk

The Group has a concentration of cash and short-term bank deposits with a related party commercial bank that at December 31, 2009 represented US$ 306.9 million (December 31, 2008: US$ 384.0 million, December 31, 2007: US$ 258.9 million) of total cash and bank deposit balance. The Group has a concentration of cash and short-term bank deposits with bank AB Russia and OAO

Bank VTB that at December 31, 2009 represented US$ 363 million and US$ 454.7 million accordingly. The Group has a concentration of cash and short-term bank deposits with bank AB Russia that at December 31, 2008 represented US$ 449 million.

The Group has a concentration of short-term loans with a related party commercial bank that at December 31, 2009 represented US$ 10.6 million and with Titan Service Limited that at December 31, 2009 represented US$ 10 million. The Group has a concentration of held-for-trading securities with OAO MVC Severstal that at December 31, 2009 represented US$ 35.1 million.

The Group has a concentration of long-term financial investments with OOO Gestamp-Severstal-Kaluga and with OOO Stadco that at December 31, 2009 represented US$ 10.6 million and US$ 7 million accordingly. The Group has a concentration of long-term bank deposits with a related party non-state pension fund that at December 31, 2007 represented US$ 62.4 million of total long-term financial investments.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Liquidity risk

The Group manages liquidity risk with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due by preparing an annual budgets, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The following are the contractual maturities of financial liabilities, excluding estimated interest payments and excluding the impact of netting agreements:

December 31, 2009

	Carrying amount*	Contractual cash flows*	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	7,124,628	(7,128,681)	(1,385,105)	(1,060,172)	(4,537,740)	(145,664)
Lease liabilities	51,107	(51,107)	(12,896)	(16,687)	(15,160)	(6,364)
Trade and other payables	1,454,830	(1,454,830)	(1,435,411)	(18,635)	(741)	(43)
Derivative financial liabilities	48,956	(48,956)	(22,448)	(6,262)	(20,246)	-
	8,679,521	(8,683,574)	(2,855,860)	(1,101,756)	(4,573,887)	(152,071)

December 31, 2008

	Carrying amount*	Contractual cash flows*	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	8,161,469	(8,174,018)	(1,899,434)	(1,004,455)	(4,385,353)	(884,776)
Lease liabilities	76,454	(76,454)	(23,280)	(11,893)	(40,086)	(1,195)
Trade and other payables	1,813,473	(1,813,473)	(1,771,444)	(5,156)	(34,999)	(1,874)
Derivative financial liabilities	30,293	(30,293)	(19,110)	(4,473)	(6,710)	-
	10,081,689	(10,094,238)	(3,713,268)	(1,025,977)	(4,467,148)	(887,845)

December 31, 2007

	Carrying amount*	Contractual cash flows*	less than 1 year	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Debt finance	3,900,575	(3,900,575)	(1,093,511)	(815,776)	(1,102,844)	(888,444)
Lease liabilities	24,268	(24,268)	(9,753)	(8,765)	(4,042)	(1,708)
Trade and other payables	1,548,831	(1,548,831)	(1,469,195)	(79,636)	-	-
	5,473,674	(5,473,674)	(2,572,459)	(904,177)	(1,106,886)	(890,152)

* The above amounts exclude accrued interest.

At December 31, 2009, the Group has a concentration of bank financing with Deutsche Bank AG of US$ 1,201.2 million and with European Bank for Reconstruction and Development of US$ 803.8 million. In 2008 the Group had a concentration of bank financing with Deutsche Bank AG of US$ 1,201.5 million and with European Bank for Reconstruction and Development of US$ 848.5 million. There was no significant concentration of risk in relation to bank financing in 2007.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Currency risk

Currency risk arises when a Group entity enters into transactions and balances not denominated in its functional currency. The Group has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	December 31, 2009					
	Euro	**USD**	**GBP**	**CHF**	**CAD**	**Other**
Available-for-sale financial assets	22	-	-	-	-	-
Held-to-maturity securities and deposits	57,898	9,356	-	-	-	-
Loans and receivables	158,922	148,275	1,926	2,858	2,300	4,879
Cash and cash equivalents	325,831	519,778	1,170	4,083	-	259
Debt finance	(958,450)	(3,468,221)	-	-	-	-
Finance lease liabilities	(774)	(2,185)	-	-	-	-
Trade and other payables	(40,498)	(66,050)	(562)	(140)	(68)	(326)
Derivative financial liabilities	-	(39,949)	-	-	-	-
Net exposure	(457,049)	(2,898,996)	2,534	6,801	2,232	4,812

	December 31, 2008					
	Euro	**USD**	**GBP**	**CHF**	**CAD**	**Other**
Available-for-sale financial assets	-	3,994	350	-	284	-
Held-to-maturity securities and deposits	275,898	259,678	-	-	-	147
Loans and receivables	177,151	64,066	7,005	-	4,223	8,721
Cash and cash equivalents	367,549	713,667	353	16,795	895	1,075
Debt finance	(1,263,411)	(3,646,206)	-	-	-	(19)
Finance lease liabilities	(1,870)	(5,888)	-	-	-	-
Trade and other payables	(39,497)	(65,297)	(260)	(10)	(2,567)	(687)
Derivative financial liabilities	-	(11,490)	-	-	-	-
Net exposure	(484,180)	(2,687,476)	7,448	16,785	2,835	9,237

	December 31, 2007					
	Euro	**USD**	**GBP**	**CHF**	**CAD**	**Other**
Available-for-sale financial assets	-	530	-	-	-	-
Held-to-maturity securities and deposits	373,225	104,316	-	-	-	-
Held-for-trading securities	-	210	-	-	-	-
Loans and receivables	108,018	150,063	14,265	1,326	5,192	14
Cash and cash equivalents	185,692	348,020	115	734	2,045	2,680
Debt finance	(453,993)	(1,318,029)	-	-	-	-
Finance lease liabilities	(1,396)	(7,080)	-	-	-	-
Trade and other payables	(17,879)	(97,717)	(13,001)	(4,249)	(5,829)	(346)
Net exposure	193,667	(819,687)	1,379	(2,189)	1,408	2,348

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Sensitivity analysis

A 10 percent strengthening of the following currencies against the functional currency at December 31, 2009 would have increased/(decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant and no translation difference into the presentation currency is included. The analysis is performed on the same basis for 2008 and 2007.

	Year ended December 31,		
	2009	2008	2007
Net profit			
Euro	(36,564)	(36,798)	14,331
USD	(231,920)	(204,248)	(65,482)
GBP	203	566	22
CHF	544	1,276	(166)
CAD	179	215	94
Other	385	702	178

A 10 percent weakening of these currencies against the functional currency at December 31, 2009 would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest rates on the Group’s debt finance are either fixed or variable, at a fixed spread over LIBOR or Euribor for the duration of each contract. Changes in interest rates impact primarily loans and borrowings by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group’s exposure should be to fixed or variable rates. However, at the time of raising new loans or borrowings management uses its judgment to decide whether it believes that a fixed or variable rate would be more favorable to the over the expected period until maturity.

The Group’s interest-bearing financial instruments at variable rates were:

	December 31,		
	2009	2008	2007
Financial assets	539,818	414,398	434,600
Financial liabilities	(4,280,828)	(4,915,822)	(2,357,826)
	(3,741,010)	(4,501,424)	(1,923,226)

Other Group's interest-bearing financial assets and liabilities are at fixed rate.

(Amounts expressed in thousands of US dollars, except as otherwise stated)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates would have increased/(decreased) profit and equity by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008 and 2007.

	Net profit	
	100 bp increase	**100 bp decrease**
December 31, 2009		
Financial assets	4,319	(4,319)
Financial liabilities	(34,249)	34,249
Cash flow sensitivity (net)	(29,930)	29,930
December 31, 2008		
Financial assets	3,149	(3,149)
Financial liabilities	(37,360)	37,360
Cash flow sensitivity (net)	(34,211)	34,211
December 31, 2007		
Financial assets	2,912	(2,912)
Financial liabilities	(13,636)	13,636
Cash flow sensitivity (net)	(10,724)	10,724

32. Commitments and contingencies

a. For litigation, tax and other liabilities

The taxation system and regulatory environment of the Russian Federation are relatively new and characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to varying interpretations between the differing regulatory authorities and jurisdictions, who are empowered to impose significant fines, penalties and interest charges. Events during recent years suggest that the regulatory authorities within the Russian Federation are adopting a more assertive stance regarding the interpretation and enforcement of legislation. This situation creates substantial tax and regulatory risks. Management believes that it has complied in all material respects with all relevant legislation.

At the reporting date, the Russian tax authorities had made claims for taxes, fines and penalties in the amount of approximately US$ 6.3 million (December 31, 2008: US$ 4 million, December 31, 2007: US$ 32 million), mostly related to income tax by certain of the Group's entities in the Severstal Resource segment. Management does not agree with the tax authorities' claims and believes that the Group has complied with existing legislation in all material respects. Management is unable to assess the ultimate outcome of the claims and the outflow of financial sources to settle such claims, if any. Management believes that it has made adequate provisions for other possible tax claims.

b. Long term purchase and sales contracts

In the normal course of business group companies enter into long term purchase contracts for raw materials, and long term sales contracts. These contracts allow for periodic adjustments in prices dependent on prevailing market conditions.

c. Capital commitments

At the reporting date the Group had contractual capital commitments of US$ 1,142 million (December 31, 2008: US$ 1,275.3 million; December 31, 2007: US$ 472.7 million).

d. Insurance

The Group has insured its property and equipment to compensate for expenses arising from accidents. In addition, the Group has insurance for business interruption on a basis of reimbursement of certain fixed costs. The Group has also insured third party liability in respect of property or environmental damage. However, the Group does not have full insurance coverage.

e. Guarantees

At the reporting date the Group had US$ 43.5 million (December 31, 2008: US$ 42.3 million; December 31, 2007: US$ 143.2 million) of guarantees issued, including guarantees issued for associates in amount of US$ 26.8 million (December 31, 2008: US$ 18.5 million; December 31, 2007: US$ 23.5 million).

33. Subsequent events

In February 2010, the Group issued US$ 525 million bonds denominated in US dollars maturing in eight years. Bonds bear an interest rate of 10.25% per annum, which is payable semi-annually in February and August each year, beginning August 2010. Proceeds from the bonds issuance were used to refinance outstanding debt obligations originally incurred to finance construction at Severstal Columbus LLC.

In February 2010, the Group issued US$ 498 million bonds denominated in rubles maturing in 2013. Bonds bear an interest rate of 9.75% per annum, which is payable semi-annually in February and August each year, beginning August 2010. Proceeds from the bonds issuance will be used for optimization of credit portfolio and refinancing of short-term loan facilities.

In February 2010, the Group acquired a 26.59% stake in Crew Gold Corporation for a total consideration of US$ 90.3 million. Crew Gold Corporation is a mining company based in London, UK. CGC owns and operates a gold mining project in Guinea, West Africa.