

**OJSC “Corporation VSMPO-AVISMA”**

**Consolidated Financial Statements  
for the year ended 31 December 2008**

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**ZAO KPMG**  
10 Presnenskaya Naberezhnaya  
Moscow, Russia 123317

Telephone +7 (495) 937 4477  
Fax +7 (495) 937 4400/99  
Internet www.kpmg.ru

## **Independent Auditors' Report**

To the Board of Directors  
Open Joint Stock Company "Corporation VSMPO-AVISMA"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Corporation VSMPO-AVISMA" (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 audit. Except as described in the Basis for Qualified Opinion paragraph, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

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

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

*Basis for Qualified Opinion*

We were not provided with sufficient appropriate audit evidence to satisfy ourselves as to the carrying amount of loans receivable in amount of USD 109 655 thousand as at 31 December 2008. Accordingly, we were unable to determine whether any adjustments might be necessary to loans receivable, interest income, net profit and retained earnings as at and for the year ended 31 December 2008.

*Opinion*

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had it been practicable to obtain sufficient appropriate audit evidence as described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without further qualifying our opinion, we draw attention to the fact that the corresponding figures presented, excluding the adjustments described in Note 3 (a) are based on the preliminary special purpose consolidated financial information of the Group as at and for the year ended 31 December 2007, which were audited by other auditors whose report dated 4 December 2008 expressed a qualified opinion on those statements, because the predecessor auditors were unable to satisfy themselves whether the Group had an ultimate controlling party and, therefore, were unable to determine the sufficiency of the disclosures with respect to balances and transactions with related parties. We have audited the adjustments described in Note 3 (a) that were applied to restate the 31 December 2007 preliminary special purpose consolidated financial information. In our opinion, such adjustments are appropriate and have been properly applied.

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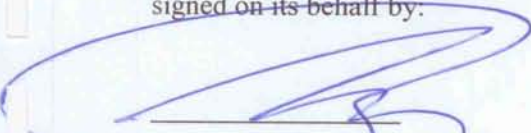
ZAO KPMG


16 February 2010

**OJSC "Corporation VSMPO-AVISMA"**  
*Consolidated Income Statement for the year ended 31 December 2008*

	Note	2008 '000 USD	2007 '000 USD (as restated)
Revenue	6	1 219 404	1 310 585
Cost of sales	7	(746 174)	(726 011)
<b>Gross profit</b>		<b>473 230</b>	<b>584 574</b>
Distribution expenses	8	(40 896)	(30 206)
General and administrative expenses	9	(212 556)	(178 392)
<b>Operating profit</b>		<b>219 778</b>	<b>375 976</b>
Financial income	11	7 546	2 348
Share in profit of equity accounted investees		7 043	15 184
Financial expenses	11	(57 874)	(23 040)
Foreign currency exchange loss		(40 117)	(7 116)
<b>Profit before income tax</b>		<b>136 376</b>	<b>363 352</b>
Income tax expense	12	(37 340)	(127 579)
<b>Profit for the year</b>		<b>99 036</b>	<b>235 773</b>
Attributable to:			
Shareholders of the Company		100 235	236 959
Minority interest		(1 199)	(1 186)
		<b>99 036</b>	<b>235 773</b>
 Earnings per share attributable to shareholders of the Company, basic and diluted (expressed in USD per share)	 21	 <b>8.693</b>	 <b>20.552</b>

These consolidated financial statements were approved by management on 15/02/2010 and were signed on its behalf by:

  
 \_\_\_\_\_  
 Voevodin M.V.  
 General Director

  
 \_\_\_\_\_  
 Sannikov D.Yu.  
 Chief Accountant



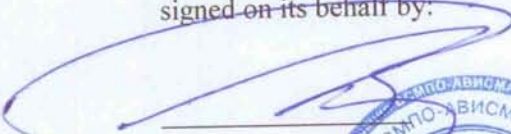
*OJSC "Corporation VSMPO-AVISMA"*  
*Consolidated Balance Sheet as at 31 December 2008*

	Note	2008 '000 USD	2007 '000 USD (as restated)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	820 593	756 627
Goodwill	13	54 490	65 222
Other intangible assets		762	2 198
Investments in associates and jointly controlled entities	14	34 406	26 758
Other investments and loans receivable	15	4 108	7 831
Other non-current assets		65 763	76 307
<b>Total non-current assets</b>		<b>980 122</b>	<b>934 943</b>
<b>Current assets</b>			
Inventories	17	599 784	551 749
Other investments and loans receivable	15	131 540	36 250
Trade and other receivables	18	342 538	395 192
Income tax receivable		10 897	2 305
Cash and cash equivalents	19	39 469	41 317
Restricted cash	19	-	2 362
Other current assets		7 254	7 112
<b>Total current assets</b>		<b>1 131 482</b>	<b>1 036 287</b>
<b>Total assets</b>		<b>2 111 604</b>	<b>1 971 230</b>

**OJSC "Corporation VSMPO-AVISMA"**  
*Consolidated Balance Sheet as at 31 December 2008*

	2008	2007
	'000 USD	'000 USD
Note	<u>                    </u>	<u>(as restated)</u>
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Share capital	20	22 785
Share premium		158 054
Retained earnings		945 732
Cumulative currency translation difference		<u>(71 573)</u>
<b>Total equity attributable to shareholders of the Company</b>	<b>1 054 998</b>	<b>1 186 995</b>
Minority interest		<u>1 199</u>
<b>Total equity</b>	<b>1 054 998</b>	<b>1 188 194</b>
<b>Non-current liabilities</b>		
Long-term borrowings	22	134 380
Defined benefit pension plan	23	32 349
Other long-term liabilities		6 566
Deferred tax liability	16	4 189
<b>Total non-current liabilities</b>		<u>177 484</u>
<b>Current liabilities</b>		
Accounts payable, and accrued expenses	24	152 280
Current income tax payable		2 033
Other taxes payable		9 304
Short-term borrowings	22	650 213
Advances received from customers		30 162
Dividends payable		35 130
<b>Total current liabilities</b>		<u>879 122</u>
<b>Total liabilities</b>		<u>1 056 606</u>
<b>Total equity and liabilities</b>		<u>2 111 604</u>

These consolidated financial statements were approved by management on 15/02/2010 and were signed on its behalf by:

  
 \_\_\_\_\_  
 Voevodin M.V.  
 General Director

  
 \_\_\_\_\_  
 Sannikov D.Yu.  
 Chief Accountant



The consolidated balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 53.

**OJSC "Corporation VSMPO-AVISMA"**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2008*

	<b>2008</b>	<b>2007</b>
	<b>'000 USD</b>	<b>'000 USD</b>
		<b>(as restated)</b>
<b>Cash flows from operating activities</b>		
Profit before tax	136 376	363 352
<i>Adjustments for:</i>		
Depreciation	95 862	50 356
Impairment of accounts receivable	(4 673)	22 975
Impairment of property, plant and equipment, net	-	654
Share of profit in equity accounted investees	(7 043)	(15 184)
Interest income	(7 546)	(2 348)
Foreign currency translation loss	26 142	-
Interest expense	57 874	23 040
Provision for write-down on inventory	17 265	(2 558)
Loss on disposal of property, plant and equipment	6 194	-
Pension obligations	10 595	6 248
<b>Operating profit before changes in working capital and provisions</b>	<b>331 046</b>	<b>446 583</b>
Change in gross trade receivables	17 717	(86 613)
Change in advances to suppliers	30 298	(19 445)
Change in inventories	(65 299)	(94 268)
Change in restricted cash balance	(2 362)	48
Change in trade and other payables	37 550	(15 403)
Change in other current assets	2 582	(7 645)
Change in other long-term liabilities	-	(1 019)
<b>Cash flows from operations before income taxes and interest paid</b>	<b>351 532</b>	<b>222 190</b>
Income taxes paid	(58 719)	(153 816)
Interest paid	(66 505)	(23 040)
<b>Net cash provided from operating activities</b>	<b>226 308</b>	<b>45 334</b>



**OJSC "Corporation VSMPO-AVISMA"**  
*Consolidated Statement of Cash Flows for the year ended 31 December 2008*

	<b>2008</b>	<b>2007</b>
	<b>'000 USD</b>	<b>'000 USD</b>
		<b>(as restated)</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment, including advances	(346 783)	(234 707)
Proceeds from disposal of property, plant and equipment	12 387	-
Acquisition of other investments	(196 122)	(45 400)
Proceeds from disposal of investments	99 298	9 986
Prepayment for acquisition of additional interest in associate	-	(75 000)
	<b>(431 220)</b>	<b>(345 121)</b>
<b>Cash flows from financing activities</b>		
Dividends paid to shareholders	(887)	(5 906)
Distributions from associate	5 296	7 876
Net proceeds from short-term borrowings	7 924	230 566
Proceeds from long-term borrowings	203 305	63 001
Repayment of long-term borrowings	(5 776)	(6 544)
	<b>209 862</b>	<b>288 993</b>
Effect of exchange rate changes on cash and cash equivalents	(6 798)	9 479
	<b>(1 848)</b>	<b>(1 315)</b>
<b>Net decrease in cash and cash equivalents</b>		
<b>Cash and cash equivalents at the beginning of the year</b>	<b>41 317</b>	<b>42 632</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>39 469</b>	<b>41 317</b>

	Attributable to the Shareholders of the Company				Minority interest	Total equity	
	Share capital	Share premium	Retained earnings	Cumulative translation reserve			
'000 USD				Total			
<b>Balance at 1 January 2007 (as previously reported)</b>	22 785	158 054	646 412	59 004	886 255	2 385	888 640
Impact of restatement (Note 2(b))	-	-	11 593	-	11 593	-	11 593
<b>Balance at 1 January 2007 (as restated)</b>	22 785	158 054	658 005	59 004	897 848	2 385	900 233
Foreign currency translation difference	-	-	-	74 862	74 862	-	74 862
Profit for the year	-	-	236 959	-	236 959	(1 186)	235 773
Total recognised income and expense	-	-	(22 674)	-	311 821	(1 186)	310 635
Dividends declared	-	-	-	-	(22 674)	-	(22 674)
<b>Balance at 31 December 2007 (as restated)</b>	22 785	158 054	872 290	133 866	1 186 995	1 199	1 188 194
<b>Balance at 1 January 2008 (as restated)</b>	22 785	158 054	872 290	133 866	1 186 995	1 199	1 188 194
Foreign currency translation difference	-	-	-	(205 439)	(205 439)	-	(205 439)
Profit for the year	-	-	100 235	-	100 235	(1 199)	99 036
Total recognised income and expense	-	-	(26 793)	-	(105 204)	(1 199)	(106 403)
Dividends declared	-	-	-	-	(26 793)	-	(26 793)
<b>Balance at 31 December 2008</b>	22 785	158 054	945 732	(71 573)	1 054 998	-	1 054 998

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 11 to 53.

## **1 Background**

### **(a) Organisation and operations**

Open Joint Stock Company "Corporation VSMPO-AVISMA" ("VSMPO-AVISMA" or the "Company") and its subsidiaries (together referred to as the "Group") is one of the world's leading titanium producers. The Company was originally established as a state owned enterprise in 1933 in the Moscow region and re-allocated to Verkhnya Salda (Sverdlovsk region) in 1941. The Company was privatized in the form of a joint stock company in 1992 and registered as an open joint stock company "Verkhnesaldinskoye Metallurgicheskoe Proizvodstvennoe Obyedinenie" ("VSMPO") in accordance with the Law on Joint Stock Companies of the Russian Federation.

In 1998 VSMPO acquired a controlling interest in open joint stock company "AVISMA" ("AVISMA"). In January 2005 VSMPO was renamed to open joint stock company "Corporation VSMPO-AVISMA". In July 2005 following the acquisition of the outstanding minority interest AVISMA was reorganized in the form of a merger into the Company.

The Company's main operations are based on two production sites located in Verkhnya Salda (Sverdlovsk region) and in Berezniki (Perm region) of the Russian Federation. The production site at Berezniki (referred to as AVISMA) produces titanium sponge and primary magnesium. Titanium sponge is then used in the production of titanium products at the Verkhnya Salda site. The Company's final products are titanium melted and mill products; as well as forgings and press forming for aerospace, industrial and other applications. It also produces ferrotitanium, aluminium extrusions and specialty steel mill products and forgings. These products are sold both in the Russian Federation and abroad.

VSMPO-AVISMA and its subsidiaries form a vertically integrated operation.

The Company's registered address is: Parkovaya St. 1, Verkhnyaya Salda, Sverdlovsk region, Russia, 624760.

### **(b) Russian business environment**

The Russian Federation has been experiencing political and economic change that has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks that typically do not exist in other markets. In addition, the recent contraction in the capital and credit markets has further increased the level of economic uncertainty in the environment. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

### **(c) Explanation of transition to IFRS**

As stated in note 2(b) these are the Group's first consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended 31 December 2008, the comparative information presented in these consolidated financial statements for the year ended 31 December 2007 and in the preparation of an opening IFRS balance sheet at 1 January 2007 (the Group's date of transition).

In preparing its opening IFRS Balance sheet, the Group has adjusted amounts reported previously in its consolidated financial statements prepared in accordance with its old basis of accounting (US GAAP).

## 2 Basis of preparation

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

### (b) Basis of preparation and measurement

These consolidated financial statements have been prepared in accordance with IFRS 1 "First-time Adoption of IFRS" and are the Group's first consolidated financial statements in accordance with IFRSs.

The consolidated financial statements of the Group as at 31 December 2006 and for the year then ended, which were issued by the Company on 28 December 2007, were prepared in accordance with the requirements of accounting principles generally accepted in the United States of America ("US GAAP"). These were considered to be the previous GAAP as defined in IFRS 1 "First-time Adoption of IFRS" for the preparation of the preliminary opening IFRS balance sheet as at 1 January 2007. The Group has not prepared consolidated US GAAP financial statements for the periods after 31 December 2006.

The consolidated financial statements are prepared on the historical cost basis except that the carrying amounts of non-monetary assets, liabilities and equity items in existence at 31 December 2006 include adjustments for the effects of hyperinflation, which were calculated using conversion factors derived from the Russian Federation Consumer Price Index published by the Russian Statistics Agency, *GosKomStat*. Russia ceased to be hyperinflationary for IFRS purposes as at 1 January 2003.

An explanation of how the transition from previous GAAP to IFRSs has affected the Group's consolidated financial position is set out below:

	Note	1 January 2007 '000 USD
<b>Total equity as previously reported under US GAAP</b>		<b>879 487</b>
Adjustments resulting from changes in accounting policies		
Property, plant and equipment adjustment	(i)	(7 137)
IFRS deferred tax	(ii)	1 713
Re-assessment of pension obligation	(iii)	17 699
Application of IAS 12 "Income Taxes" – tax effect on unrealised profit in intercompany transactions	(iv)	(6 075)
Other adjustments resulting from changes in accounting policies		2 953
<b>Total equity under IFRS (as previously reported)</b>		<b>888 640</b>
Impact of changes in accounting for spare parts used for more than one year	(v)	11 593
<b>Total equity as of 1 January 2007 (as restated)</b>		<b>900 233</b>

- i) **Property plant and equipment.** Under US GAAP the property, plant and equipment of VSMPO were recorded at historical cost. In contrast, under IFRS the property, plant

and equipment acquired prior to 1 January 2003 are recorded at cost, restated where applicable in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" to the equivalent purchasing power of the Russian Rouble at 31 December 2002.

ii) **Deferred taxes.** US GAAP prohibits recognition of a deferred tax liability or asset for differences related to assets and liabilities, that, under SFAS 52, *Foreign Currency Translation*, are remeasured from the local currency into the functional currency using exchange rates and that result from (1) change in exchange rate or (2) indexing for tax purpose. In contrast, IAS 12 (revised) "Income Taxes" requires recognition of a deferred tax liability or asset for those temporary differences.

iii) **Reassessment of the post retirement program for IFRS purposes.** The difference is due to different rules applicable to post retirement program run by the Group under US GAAP and IFRS. IAS 19 is similar in many aspects to the equivalent post-employment benefit accounting standards under US GAAP. The actuarial valuation methodology and assumptions are similar under both IFRS and US GAAP.

The main difference is primarily due to a differing recognition of the funded status on the balance sheet. Under FAS 158, the Group is required to recognise on its balance sheet the funded status, i.e. the present value of pension obligations less plan assets. As allowed under IAS 19, the Group has adopted the accounting policy to defer recognition of actuarial corridor gains and losses. The balance sheet liability is the net total of the following amounts: (1) the present value of the defined benefit obligation at the balance sheet date, (2) plus any actuarial gains not yet recognised, (3) minus any past service cost not yet recognised, (4) minus the fair value of plan assets at the balance sheet date (if any).

The difference between pension expense amounts for the Group under IFRS and US GAAP is insignificant.

iv) **Tax effect on unrealised profit in intercompany transactions.** Under US GAAP and IFRS, unrealized profits resulting from inter-company transactions are eliminated from the carrying amount of assets, such as inventory. In accordance with US GAAP, the Group calculated the tax effect with the reference to the local tax rate in the seller's jurisdiction. However, IAS 12 (revised) "Income Taxes" requires the tax effect to be calculated with the reference to the local tax rate of the company that holds the inventory (the buyer) at period end.

v) **Capitalization of spare parts used for more than one year**

As described in note 3(a) during 2008 the Company started capitalizing spare parts which are expected to be used during more than one period are capitalized as part of property, plant and equipment instead of immediate charge to the income statement. This change was adopted retrospectively to the consolidated financial statements.

Because the Group ceased to prepare consolidated US GAAP financial statements from 1 January 2007 no further explanations are provided in these consolidated IFRS financial statements to present effects on transition to IFRSs for the profit, cash flows or subsequent balance sheet dates' changes in equity.

**(c) Functional and presentation currency**

The functional currency of the Company and its trading subsidiaries is considered to be the Russian Rouble (RUR). The functional currency of Ukrainian "Plant SETAB Nikopol" company is the US Dollar. The accompanying financial statements have been prepared using the US Dollar ("USD") as the Group's presentation currency, which the management believes is the most useful currency to adopt for users of the consolidated financial statements. All amounts in the consolidated financial statements are presented in thousands of USD, unless otherwise stated.

**(d) Use of judgments, estimates and assumptions**

Management has made a number of judgments, estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with IFRSs. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 13– Property, plant and equipment;
- Note 13 – Goodwill impairment;
- Note 17 – Inventories;
- Note 18 – Trade and other receivables;
- Note 28 – Contingencies.

**3 Significant accounting policies**

The significant accounting policies applied in the preparation of the consolidated financial statements are described in note 3(a) to 3(q). These accounting policies have been consistently applied.

**(a) Restatement of comparatives**

The following restatements to the comparative data have been made during preparation of 2008 financial statements:

- i. As part of the main production activity the Group uses certain spare parts (special rigging) as part of the main production equipment for a period of more than one year. Previously these spare parts were immediately charged to expenses. During 2008 management started capitalized spare parts which are expected to be used for more than one year as part of property, plant and equipment.
- ii. During the preparation of 2008 financial statements management identified errors in the previously reported preliminary financial statements which resulted in an understatement of cost of sales and an overstatement of work-in progress by USD 24 474 thousand.

- iii. In 2007 the Company issued an advance for the acquisition of an 18% share in the capital of "Mining Company Uralskoye zoloto" LLC in the amount of USD 75 000 thousand. As part of the preparation of these financial statements the advance was reclassified to other non-current assets.

The impact of restating the 31 December 2007 special purpose financial statements is presented below.

**Consolidated Balance Sheet**

Note	As originally presented	Changes due to correction of errors (ii)	Reclassifications (iii)	Change in accounting for spare parts (i)	As restated
Property, plant and equipment	722 708	-	-	33 919	756 627
Inventories	576 223	(24 474)	-	-	551 749
Other non current assets	1 307	-	75 000	-	76 307
Accounts receivable	472 497	-	(75 000)	-	397 497
<b>Total</b>	<b>1 772 735</b>	<b>(24 474)</b>	<b>-</b>	<b>33 919</b>	<b>1 782 180</b>
Retained earnings	865 378	(17 851)	-	24 763	872 290
Cumulative currency translation difference	133 219	(749)	-	1 396	133 866
Deferred tax liability	12 045	(5 874)	-	7 760	13 931
<b>Total</b>	<b>1 010 642</b>	<b>(24 474)</b>	<b>-</b>	<b>33 919</b>	<b>1 020 087</b>

**Consolidated Income Statement**

	As originally presented	Changes due to correction of errors	Reclassification	Change in accounting for spare parts	As restated
Materials and consumables used	404 546	23 489	-	(17 330)	410 705
Income tax expense	129 057	(5 638)	-	4 160	127 579
<b>Total</b>	<b>-</b>	<b>17 851</b>	<b>-</b>	<b>(13 170)</b>	<b>-</b>

Certain other reclassifications were made in the Consolidated Financial Statements to be consistent with 2008.

**(b) Basis of consolidation**

**(i) Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of

subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries except for those acquired as a result of business combinations under common control. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest. Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

**(ii) *Associates and joint venture (equity accounted investees)***

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

Joint venture arrangements that involve the establishment of a separate entity in which each venture has an interest are referred to as jointly controlled entities. The Group reports its interest 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 joint ventures.

**(iii) *Transactions eliminated on consolidation***

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.



**(c) Foreign currency**

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at the exchange rate of transactions or by applying average exchange rate for a period of transactions, if deemed appropriate. Monetary assets and liabilities, denominated in foreign currencies at the reporting dates, are translated into each entity's functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end rates are recognised in profit or loss.

*Translation from functional to presentation currency.* The results and financial position of each group entity are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

The exchange rates used for the foreign currency translation into RUR were as follows:

	31 December 2008	Average for 12m 2008	31 December 2007	Average for 12m 2007
USD	29.3804	24.8553	24.5462	25.5759
EURO	41.4411	36.4291	35.9332	35.0173

**(d) Financial instruments**

**(i) Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts are shown within borrowings in the balance sheet. Restricted cash balances are excluded from cash and cash equivalents for the purpose of Statement of Cash Flows.

Accounting for finance income and expenses is discussed in note 3(o).

*Held-to-maturity investments*

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

*Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

**(e) Share capital**

*Ordinary shares*

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

**(f) Property, plant and equipment**

**(i) Recognition and measurement**

Property, plant and equipment is recorded at cost, restated where applicable to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired prior to 1 January 2003, less accumulated depreciation and provision for impairment, where required.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is calculated to allocate the cost of property, plant and equipment to their residual values on a straight-line basis over estimated useful lives of each part of an item of property, plant and equipment. The depreciation periods, which approximate the estimated useful economic lives of the respective assets, are as follows:

	<u>Number of years</u>
Buildings and constructions	25 - 40 years
Plant and equipment	15 years
Transport	10 years
Transfer devices	20 years
Other	3 - 5 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement or disposal of property, plant and equipment are included in the statement of income as incurred.

Borrowing costs related to the acquisition or construction of qualifying assets are recognised in the income statement as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are recognised net in "other income" in the income statement.

**(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised 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 derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

**(g) Intangible assets**

**(i) Goodwill**

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquiree at the date of exchange.

Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates and joint ventures is included in the investment in associates and joint ventures. Goodwill is carried at cost less accumulated impairment losses, if any.

**(ii) Other intangible assets**

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

**(iii) Subsequent expenditure**

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement as incurred.

**(iv) Amortisation**

Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. Intangible assets useful lives range between 3 and 20 years.

**(h) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's balance sheet.

**(i) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in 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 based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(j) Impairment**

**(i) Financial assets**

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

**(ii) Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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 the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 amortisation, if no impairment loss had been recognised.

**(k) Employee benefits**

**(i) *Defined contribution plans***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

**(ii) *Short-term benefits***

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

**(iii) *Defined benefit plans***

The Group operates defined benefit pensions and other post-employment benefits (such as additional material support to former employees, lump-sum payments upon death or retirement, jubilee benefits). The program is unfunded: the Group pays benefits on pay-as-you-go basis. The pension accounting costs are assessed each year by a qualified actuary using the projected unit credit method. Under this method, the cost of providing pensions is charged to the income statement, so as to attribute the total pension cost over the service life of employees, in accordance with the benefit formula of the plan. Actuarial gains and losses are amortised over the remaining working lives of employees, to the extent to which these exceed 10% of the greater of the defined benefit obligation and plan assets. Past service cost is recognized immediately to the extent the

benefits are already vested, or otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

**(l) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are evaluated and re-estimated annually, and are included in the financial statements at their expected net present values using discount rates appropriate to the Company or its subsidiaries in applicable economic environment at each balance sheet date.

**(m) Revenue**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates and VAT. Revenues from sales of the Group's titanium products and related by-products are recognised when risks and rewards of ownership of the goods have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

**(i) Services**

Revenue from services rendered is recognised in profit or loss in the period when such services were provided.

**(n) Other expenses**

**(i) Lease payments**

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the contingency no longer exists and the lease adjustment is known.

**(ii) Social expenditure**

To the extent that the Group's contributions to social programs benefit the community at large and are not restricted to the Group's employees, they are recognised in the income statement as incurred.

**(o) Finance income and expenses**

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income and foreign currency gains. Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest rate method.

Foreign currency gains and losses are reported on a net basis.

**(p) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. 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 assets and liabilities, 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 realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. 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 realised.

**(q) Earnings per share**

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

**(r) New Standards and Interpretations not yet adopted**

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2008, and have not been applied in preparing these consolidated financial statements.

Of these pronouncements potentially the following will have an impact on the Group's operations. The Group plans to adopt these pronouncements when they become effective.

- IFRS 8 *Operating Segments* introduces the "management approach" to segment reporting.  
IFRS 8 *Operating Segments*, which becomes mandatory for the Group's 2009 consolidated financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.
- Revised IAS 1 *Presentation of Financial Statements (2007)* which becomes mandatory for the Group's 2009 consolidated financial statements is expected to have a significant impact on the presentation of the consolidated financial statements. The Standard introduces the concept of total comprehensive income and requires presentation of all owner changes in equity in the statement of changes in equity, separately from non-owner changes in equity.
- Revised IAS 23 *Borrowing Costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised IAS 23 will become mandatory for the Group's 2009 consolidated financial statements and will constitute a change in accounting policy for the Group.
- Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27 will become mandatory for the Group's 2010 consolidated financial statements.
- Revised IFRS 3 *Business Combinations (2008)* and amended IAS 27 (2008) *Consolidated and Separate Financial Statements*, which come into effect on 1 July 2009 (i.e. become mandatory for the Group's 2010 consolidated financial statements). The revisions address, among others, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove exception for changes in contingent consideration to be accounted by adjusting goodwill. The revisions also address how non-controlling interests in subsidiaries should be measured upon acquisition and require to recognise the effects of transactions with non-controlling interest directly in equity.



- The amendment to International Financial Reporting Standard IFRS 7 "Financial Instruments: Disclosures", which is effective from 1 January 2009, introduces additional requirements for disclosure of fair values of financial instruments.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purpose, will come into effect not earlier than 1 January 2009.

The Group has not yet analysed the likely impact of the new Standards and improvements on its financial position or performance.

#### **4 Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

##### **(a) Inventories**

The fair value of inventories is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

##### **(b) Investments in equity and debt securities**

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments is determined for disclosure purposes only.

##### **(c) Trade and other receivables**

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

##### **(d) Non-derivative financial liabilities**

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

## 5 Segment reporting

The Group has one primary reportable segment, which is manufacturing and sale of titanium products which have similar risks and rewards. The Group evaluates performance and makes investment and strategic decisions based upon a review of profitability for the Group as a whole.

Sales are based on the geographical area in which the customer is located. Production assets and the majority of assets and liabilities of the Group are located in the Russian Federation.

<i>Revenue</i>	<b>2008</b> <b>'000 USD</b>	<b>2007</b> <b>'000 USD</b>
North America	443 622	478 149
Russia	397 171	468 270
Europe	241 718	229 047
Asia	98 492	81 011
Other countries	20 926	34 884
Other CIS countries	17 475	19 224
	<b>1 219 404</b>	<b>1 310 585</b>

## 6 Revenue

	<b>2008</b> <b>'000 USD</b>	<b>2007</b> <b>'000 USD</b>
Revenue from sales of goods	1 148 306	1 231 407
Revenue from services provided	16 662	11 935
Other revenue	54 436	67 243
<b>Total</b>	<b>1 219 404</b>	<b>1 310 585</b>

## 7 Cost of sales

	<b>2008</b> <b>'000 USD</b>	<b>2007</b> <b>'000 USD</b> <b>(as restated)</b>
Materials and consumables used	(429 761)	(410 705)
Personnel cost	(153 113)	(120 997)
Utilities	(107 326)	(90 335)
Depreciation	(90 819)	(47 337)
Social costs	(39 845)	(32 028)
Provision on inventory obsolescence	(17 265)	2 558
Pension cost	(10 595)	(8 342)
Repairs and maintenance	(3 533)	(5 038)
Production overheads	(3 042)	(5 017)
Change in finished goods and WIP	138 868	20 922
Other costs	(29 743)	(29 692)
<b>Total</b>	<b>(746 174)</b>	<b>(726 011)</b>

**8 Distribution expenses**

	<u>2008</u>	<u>2007</u>
	<u>'000 USD</u>	<u>'000 USD</u>
Transport	(12 112)	(11 078)
Customs	(11 860)	(4 153)
Materials	(3 159)	(3 001)
Certification expenses	(1 475)	(1 613)
Advertising expenses	(1 364)	(2 190)
Personnel cost	(674)	(759)
Consulting expense	(628)	-
Brokers and commission expenses	(226)	(510)
Others	(9 398)	(6 902)
<b>Total</b>	<b>(40 896)</b>	<b>(30 206)</b>

**9 General and administrative expenses**

	<u>2008</u>	<u>2007</u>
	<u>'000 USD</u>	<u>'000 USD</u>
Personnel costs	(61 859)	(59 814)
Social costs	(38 121)	(26 748)
Materials	(15 194)	(6 887)
Taxes other than income tax	(14 939)	(11 740)
Repair and maintenance	(7 652)	(848)
Insurance	(7 577)	(7 141)
Unified social tax	(6 328)	(5 095)
Loss on disposal of property, plant and equipment	(6 194)	(11 954)
Depreciation	(5 043)	(3 022)
Advertising expenses	(3 263)	(897)
Rent expenses	(2 555)	(1 689)
Consulting expenses	(1 890)	(1 262)
Research and development expenses	(736)	(2 880)
Business trips	(441)	(1 358)
Provision for impairment of receivables	4 673	(22 975)
Other expenses	(45 437)	(14 082)
<b>Total</b>	<b>(212 556)</b>	<b>(178 392)</b>

**10 Personnel costs**

	<u>2008</u>	<u>2007</u>
	<u>'000 USD</u>	<u>'000 USD</u>
Payroll and Contributions to State pension fund	(254 817)	(217 937)
Pension cost	(10 595)	(8 342)
<b>Total</b>	<b>(265 413)</b>	<b>(226 279)</b>

## 11 Financial income and expenses

	2008 <u>'000 USD</u>	2007 <u>'000 USD</u>
<b>Financial income</b>		
Interest income	7 546	2 348
<b>Total financial income</b>	<u>7 546</u>	<u>2 348</u>
<b>Financial expenses</b>		
Interest expense	(57 874)	(23 040)
<b>Total financial expenses</b>	<u>(57 874)</u>	<u>(23 040)</u>

## 12 Income tax expense

The Group's applicable tax rate is the income tax rate of 24% for Russian companies (2007: 24%). With effect from 1 January 2009, the income tax rate for Russian companies has been reduced to 20%. This rate has been used in the calculation of deferred tax assets and liabilities attributable to Russian companies in the Group.

	2008 <u>'000 USD</u>	2007 <u>'000 USD</u>
<b><i>Current tax expense</i></b>		
Current year	35 462	130 738
Under provided in prior years	1 976	-
Impact of restatement	8 907	-
	<u>46 345</u>	<u>130 738</u>
<b><i>Deferred tax expense</i></b>		
Origination and reversal of temporary differences	(8 015)	(3 159)
Change in tax rate	(990)	-
	<u>(9 005)</u>	<u>(3 159)</u>
	<u>37 340</u>	<u>127 579</u>

### Reconciliation of effective tax rate:

	2008 <u>'000 USD</u>	2007 <u>'000 USD</u>
Profit before income tax	136 376	363 352
Income tax at applicable tax rate	(32 730)	(87 204)
Effect of income taxed at higher rates	(2 348)	(14 570)
Change in tax rate	990	-
Non-deductible expenses	(1 276)	(25 805)
Under provided in prior years	(1 976)	-
	<u>(37 340)</u>	<u>(127 579)</u>

## 13 Property, plant and equipment

'000 USD	Buildings and construc- tions	Plant and equipment	Transport	Transfer devices	Other	Assets under construc- tion	Total
<i>Cost</i>							
<b>Balance at 1 January 2007 (as restated)</b>	284 397	503 156	18 743	49 108	64 476	127 846	1 047 726
Additions (as restated)	-	23 841	2 809	802	20 213	200 730	248 395
Transfers	4 139	40 802	-	-	-	(44 941)	-
Disposals	(4 087)	(2 746)	(230)	(102)	(12 480)	-	(19 645)
Translation difference as restated	20 682	39 158	1 472	3 601	5 013	15 839	85 765
<b>Balance at 31 December 2007 (as restated)</b>	<b>305 131</b>	<b>604 211</b>	<b>22 794</b>	<b>53 409</b>	<b>77 222</b>	<b>299 474</b>	<b>1 362 241</b>
<i>Accumulated depreciation</i>							
<b>Balance at 1 January 2007 (as restated)</b>	(154 163)	(287 942)	(8 667)	(36 307)	(33 504)	-	(520 583)
Depreciation charge (as restated)	(14 049)	(31 475)	(790)	(3 309)	(3 052)	-	(52 675)
Disposals	2 765	1 992	192	54	2 371	-	7 374
Translation difference (as restated)	(11 684)	(22 149)	(656)	(2 776)	(2 465)	-	(39 730)
<b>Balance at 31 December 2007 (as restated)</b>	<b>(177 131)</b>	<b>(339 574)</b>	<b>(9 921)</b>	<b>(42 338)</b>	<b>(36 650)</b>	<b>-</b>	<b>(605 614)</b>
<i>Net Book Value</i>							
<b>Balance at 1 January 2007 (as restated)</b>	<b>130 234</b>	<b>215 214</b>	<b>10 076</b>	<b>12 801</b>	<b>30 972</b>	<b>127 846</b>	<b>527 143</b>
<b>Balance at 31 December 2007</b>	<b>128 000</b>	<b>264 637</b>	<b>12 873</b>	<b>11 071</b>	<b>40 572</b>	<b>299 474</b>	<b>756 627</b>

'000 USD	Buildings and construc- tions	Plant and equipment	Transport	Transfer devices	Other	Assets under construc- tion	Total
<i>Cost</i>							
<b>Balance at 1 January 2008</b>	305 131	604 211	22 794	53 409	77 222	299 474	1 362 241
Additions	-	64 450	-	-	-	311 105	375 555
Transfers	3 235	118 498	6 171	761	32 691	(161 356)	-
Disposals	(116)	(24 127)	(1 619)	(40)	(12 199)	(3 867)	(41 968)
Translation difference	(50 686)	(142 214)	(4 452)	(8 900)	(15 863)	(73 069)	(295 184)
<b>Balance at 31 December 2008</b>	<b>257 564</b>	<b>620 818</b>	<b>22 894</b>	<b>45 230</b>	<b>81 851</b>	<b>372 287</b>	<b>1 400 644</b>
<i>Accumulated depreciation</i>							
Balance at 1 January 2008	(177 131)	(339 574)	(9 921)	(42 338)	(36 650)	-	(605 614)
Depreciation charge	(4 136)	(68 405)	(2 247)	(962)	(20 112)	-	(95 862)
Disposals	83	12 296	1 473	36	9 499	-	23 387
Translation difference	29 769	51 743	1 752	7 109	7 665	-	98 038
<b>Balance at 31 December 2008</b>	<b>(151 415)</b>	<b>(343 940)</b>	<b>(8 943)</b>	<b>(36 155)</b>	<b>(39 598)</b>	<b>-</b>	<b>(580 051)</b>
<i>Net book value</i>							
<b>Balance at 1 January 2008</b>	<b>128 000</b>	<b>264 637</b>	<b>12 873</b>	<b>11 071</b>	<b>40 572</b>	<b>299 474</b>	<b>756 627</b>
<b>Balance at 31 December 2008</b>	<b>106 149</b>	<b>276 878</b>	<b>13 951</b>	<b>9 075</b>	<b>42 253</b>	<b>372 287</b>	<b>820 593</b>

Depreciation expense of USD 90 819 thousand has been charged to cost of goods sold and USD 5 043 thousand to administrative expense.

Advances given to suppliers for capital construction in amount of USD 92 622 thousand (31 December 2007: USD 96 124 thousand) are included in the balance of assets under construction.

**(a) Security**

Properties with a net book value of USD 70 765 thousand (2007: USD 56 248 thousand) are pledged to secure bank loans (see note 22).

**(b) Goodwill**

	'000 USD
<b>Balance as at 1 January 2007</b>	<b>60 800</b>
Cumulative translation adjustment	4 422
<b>Balance as at 31 December 2007</b>	<b>65 222</b>
<b>Balance as at 1 January 2008</b>	<b>65 222</b>
Cumulative translation adjustment	(10 732)
<b>Balance as at 31 December 2008</b>	<b>54 490</b>

**Impairment testing of goodwill**

Goodwill was originally determined as a result of VSMPO's acquisition of AVISMA (refer further to note 1(a)). VSMPO's main objectives when acquiring AVISMA were to further expand vertically as well as to ensure full control over its main provider of raw materials. The goodwill relates not only to the specifics of the business of AVISMA but largely to the synergies VSMPO, and the Group as a whole, would benefit from as a result of the business combination. Correspondingly, the goodwill is allocated to VSMPO-AVISMA, as this represents the lowest level within the Group at which the goodwill is monitored by management.

The recoverable amount was determined based on value in use calculations as determined by discounting the future cash flows generated from the continuing use of the plants. The recoverable amounts were determined with the assistance of an independent valuer.

The following key assumptions were used in determining the recoverable amount:

- Cash flows were projected based on actual operating results for 2008 and budgets for 2009-2015. This period represents the period in which management expects to gradually achieve its target levels of output of 37 thousand tons from actual levels in 2008 of approximately 26 thousand tons, decreasing to approximately 23 thousand tons in 2009.
- A pre-tax discount rate of 21.5% was applied in determining the recoverable amount. The discount rate was estimated based on an industry weighted average cost of capital, which applied a possible long-term debt leveraging of 25% at a market borrowing rate of 10%.
- A terminal rate of 2.5% was considered in estimating the terminal value.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external sources and internal sources.

No impairment loss was recognised in respect of goodwill. Management considers that based on their assessment of the key fundamentals of the industry in which the Group operates, the estimates are not particularly sensitive to any of the individual key assumptions to result in a reasonably possible reduction of the recoverable amount below its carrying amount.

## 14 Investments in associates and jointly controlled entities

The Group has the following investments in equity accounted investees:

	<u>Country</u>	<u>Carrying value</u>	<u>Interest</u>	<u>Carrying value</u>	<u>Interest</u>
Uniti LLC	USA	26 226	50%	26 758	50%
"Mining Company Uralskoe zoloto" LLC	Russia	0.1	33%	0.1	33%
Ural Boeing Manufacturing CJSC	Russia	8 180	50%	0.2	50%
<b>Total</b>		<b>34 406</b>		<b>26 758</b>	

### *Uniti LLC*

On 29 April 2003, the Group entered into an agreement with Allegheny Technologies Incorporated ("ATI") to form a joint venture to engage in the marketing and sale of titanium products and conversion services. The joint venture is organized in the form of Uniti LLC ("Uniti"), a company registered in the United States of America. The Group owns a 50% interest in the joint venture and accounts for this interest under the equity method.

In accordance with the agreement, income or losses are allocated based on the percentage interest in the goods and services provided by the partners that were included in Uniti's sales. Percentage interest is defined as the ratio of each partner's transfer price charged for all goods and services included in Uniti's cost of goods sold for any given period. The Group allocated 20.0% and 44.3% of the net income of Uniti in 2008 and 2007, respectively.

The following is summarised financial information of Uniti as of and for the year ended 31 December, 2008 and 2007:

<b>'000 USD</b>	<u>2008</u>	<u>2007</u>
Current assets	101 979	87 886
Property and equipment, net	271	119
Other assets	17	9
<b>Total assets</b>	<b>102 267</b>	<b>88 014</b>
Current liabilities	36 946	21 472
<b>Total liabilities</b>	<b>36 946</b>	<b>21 472</b>
<b>Equity</b>	<b>65 321</b>	<b>66 542</b>
<b>Revenue</b>	<b>307 918</b>	<b>273 366</b>
<b>Profit for the year</b>	<b>10 779</b>	<b>40 164</b>

The Group had sales to Uniti of USD 110 900 thousand and USD 112 000 thousand during 2008 and 2007, respectively.

The Group pays a commission to Uniti related to direct shipments from the Group to Uniti customers. Commission expense for such sales in 2008 and 2007 was USD 1 435 thousand and USD 1 204 thousand respectively.

During 2008 and 2007, the Group received cash distributions from Uniti totalling USD 5 296 thousand and USD 7 876 thousand respectively.



***"Mining Company Uralskoye zoloto" LLC***

In October 2007 the Group acquired a 33% interest in "Mining Company Uralskoye zoloto" LLC ("UralGold") for USD 0.2 thousand, which subsequently acquired a license for geological survey, exploration and production of molybdenum ore in the Yuzhno-Shameiskoye field. The license contains certain requirements relating to volume, types and time of survey, exploration and production stages, as well as certain ecological and social commitments and asset retirement obligations. Amortisation of the license was not accrued, since production has not started.

The following is summarized financial information of UralGold as of and for the year ended 31 December 2008 and 2007:

<b>'000 USD</b>	<b>2008</b>	<b>2007</b>
Current assets	33 425	154
Intangible assets, net	10 735	13 379
Other assets	1 617	19
<b>Total assets</b>	<b>45 777</b>	<b>13 552</b>
Loans payable	47 070	13 952
Current liabilities	822	-
<b>Total liabilities</b>	<b>47 892</b>	<b>13 952</b>
<b>Equity</b>	<b>(2 116)</b>	<b>(400)</b>
<b>Revenue</b>	<b>2</b>	<b>-</b>
<b>Loss for the year</b>	<b>(2 104)</b>	<b>(349)</b>

The loan provided to UralGold to finance the acquisition of the license mentioned above amounted to 21 885 thousand USD (2007: 6 885 thousand USD), refer to Note 15. Related interest was capitalised.

In December 2007, the Group reached a preliminary agreement to acquire an additional 18% interest in UralGold at an estimated preliminary purchase price of equivalent of USD 75 000 thousand and transferred the purchase consideration to escrow account as a prepayment in accordance with the provisions of the preliminary agreement. At 31 December 2008 and 2007 the prepayment amounted to a USD equivalent of USD 62 345 thousand and USD 75 000 thousand respectively and was included in other non-current assets of the consolidated balance sheet.

In March 2009 the acquisition of the 18% interest in UralGold was approved by the Federal Antimonopoly Services of the Russian Federation. The acquisition was finalised in May 2009 resulting in the Group acquiring 51% interest in Ural Gold. The Company is currently in process of assessing the fair value of assets acquired and liabilities assumed.

***"Ural Boeing Manufacturing" CJSC***

"Ural Boeing Manufacturing" CJSC (located in V.Salda, Russia) was registered on 19 August 2007 in the form of a joint venture under an agreement between the Group and the Boeing Company with a share in equity of 50% for each participant. Income and expenses are distributed between participants on the same basis. The company will produce forged titanium components for the Boeing 787 Dreamliner.

During 2008 the investors contributed share capital and there were no operations of the joint venture. The Group contributed USD 8 180 thousand in cash, and the Boeing Company contributed USD 28 838 thousand in equipment and USD 2 025 thousand by cash.

As at 31 December 2008, the Group has a commitment to make further contribution to the share capital of "Ural Boeing Manufacturing" CJSC in cash and in kind for the amounts of USD 17 978 thousand and USD 7 600 thousand, respectively.

The following is summarized financial information of "Ural Boeing Manufacturing" CJSC as of and for the years ended 31 December 2008 and 2007:

<b>'000 USD</b>	<b>2008</b>	<b>2007</b>
Construction in progress	6 143	-
Account receivables	22 982	-
Cash and cash equivalents	9 973	-
Other assets	115	-
<b>Total assets</b>	<b>39 213</b>	<b>-</b>
Account payables	67	-
<b>Total liabilities</b>	<b>67</b>	<b>-</b>
<b>Equity</b>	<b>39 147</b>	<b>0</b>
<b>Revenue</b>	<b>-</b>	<b>-</b>
<b>Profit for the year</b>	<b>104</b>	<b>-</b>

## 15 Other investments and loans receivable

	<b>2008</b>	<b>2007</b>
	<b>'000 USD</b>	<b>'000 USD</b>
<i>Non-current</i>		
Loans receivable	4 098	-
Investments	10	7 831
<b>Total</b>	<b>4 108</b>	<b>7 831</b>
<i>Current</i>		
Loans receivable	131 540	36 250
<b>Total</b>	<b>131 540</b>	<b>36 250</b>

At 31 December 2008 a short-term loan to "Mining Company Uralskoye zoloto" LLC amounted to 21 885 thousand USD (2007: 6,885 thousand USD), refer to Note 14.

## 16 Deferred tax assets and liabilities

<b>'000 RUR</b>	<b>1 January</b>	<b>Recognised in</b>	<b>Translation</b>	<b>31 December</b>
	<b>2008</b>	<b>income</b>	<b>difference</b>	<b>2008</b>
Property, plant and equipment	(42 723)	12 123	4 663	(25 937)
Inventories	5 235	11 420	(2 434)	14 221
Trade and other receivables	16 341	(14 221)	(441)	1 679
Trade and other payable	5 153	(1 826)	(549)	2 778
Deferred income	-	289	(44)	245
Other items	2 063	1 220	(458)	2 825
<b>Total deferred tax asset/(deferred tax liability)</b>	<b>(13 931)</b>	<b>9 005</b>	<b>737</b>	<b>(4 189)</b>

'000 USD	1 January 2007	Recognised in income	Translation difference	31 December 2007
Property, plant and equipment	(36 483)	(3 852)	(2 388)	(42 723)
Inventories	9 113	(4 302)	424	5 235
Trade and other receivables	10 325	5 484	532	16 341
Trade and other payable	1 412	3 548	193	5 153
Other items	(422)	2 281	204	2 063
Total deferred tax asset/(deferred tax liability)	(16 055)	3 159	(1 035)	(13 931)

## 17 Inventories

	2008 '000 USD	2007 '000 USD
Raw materials and consumables	183 519	183 736
Work in progress	102 957	110 420
Finished goods and goods for resale	313 308	257 593
<b>Total inventories</b>	<b>599 784</b>	<b>551 749</b>

Inventories are shown net of provision of USD 32 119 thousand (31 December 2007: USD 14 854 thousand).

At 31 December 2008, inventory with a net book value of USD 192 957 thousand (31 December 2007: USD 177 261 thousand) had been pledged as security for certain bank loans of the Group (Note 22).

## 18 Trade and other receivables

	2008 '000 USD	2007 '000 USD
Trade accounts receivable	215 192	256 553
Other accounts receivable	34 389	14 231
Less: provision	(32 446)	(42 538)
<b>Total financial receivables</b>	<b>217 135</b>	<b>228 246</b>
Advances to suppliers	17 022	69 079
Value-added tax recoverable	39 891	98 753
Other taxes receivable	71 356	5 283
Less: provision	(2 866)	(6 169)
<b>Total accounts receivable</b>	<b>342 538</b>	<b>395 192</b>

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables (excluding construction work in progress) are disclosed in Note 25.

**19 Cash and cash equivalents**

	<b>2008</b>	<b>2007</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Petty cash	37	196
Bank balances	32 071	30 190
Call deposits	7 311	6 908
Other cash and cash equivalents	50	4 023
<b>Cash and cash equivalents in the balance sheet</b>	<b>39 469</b>	<b>41 317</b>
<b>Restricted cash</b>	<b>-</b>	<b>2 362</b>

Restricted cash consisted of a Certificate of Deposit in the amount of thousand USD 2 362 as of 31 December 2007. It was pledged as collateral for a letter of credit issued in the amount of USD 2 100 thousand which expired in December 2008. At that time the Certificate of Deposit was terminated without penalty, with the proceeds no longer restricted.

Short-term bank deposits were classified as cash equivalents based on their maturities not exceeding 3 months from reporting date.

	<b>31 December</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Cash on hand and bank balances denominated in RUR	21 556	19 542
Cash on hand and bank balances denominated in USD	9 935	8 793
Cash on hand and bank balances denominated in other currencies	1 428	2 051
Short-term bank deposits, denominated in USD	6 500	5 418
Short-term bank deposits, denominated in other currencies	-	1 490
Other cash equivalents	50	4 023
<b>Total cash and cash equivalents</b>	<b>39 469</b>	<b>41 317</b>

The fair value of cash and cash equivalents is equal to their carrying amount. All bank balances and term deposits are neither past due nor impaired. Analysis of the credit quality of the Group's cash and cash equivalents is as follows:

	<b>31 December</b>	<b>31 December</b>
	<b>2008</b>	<b>2007</b>
	<b>'000 USD</b>	<b>'000 USD</b>
Cash on hand	37	196
Rated BB and above*	23 329	41 121
Unrated	16 103	-
<b>Total</b>	<b>39 469</b>	<b>41 317</b>

\* Based on the credit ratings of independent rating agency Standard & Poor's and their equivalents by Fitch and Moody's, where S&P rating is not available.

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 25.

## 20 Equity

### Share capital and share premium

*Number of shares unless otherwise stated*

	<b>Ordinary shares 2008</b>	<b>Ordinary shares 2007</b>
Authorised shares	11 529 538	11 529 538
Par value	1 Rouble	1 Rouble
On issue at beginning of year	11 529 538	11 529 538
Issued for cash	-	-
On issue at end of year, fully paid	<u>11 529 538</u>	<u>11 529 538</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Dividends were declared in 2008 in respect of 2007 to the holders of ordinary shares in the amount of RUR 54.52 per ordinary share (equivalent to USD 2.32 per share translated at the exchange rate prevailing at the date of declaration), for the total amount of USD 26 793 thousand and in 2007 in respect of 2006 to holders of ordinary shares of RUR 50.83 per ordinary share (equivalent to 1.967 USD per share translated at exchange rate prevailing at the date of declaration), for the total amount of USD 22 674 thousand.

In accordance with Russian legislation, the Company distributes profits as dividends or transfers them to reserves (fund accounts) on the basis of financial statements prepared in accordance with Russian Accounting Rules. Russian legislation identifies the basis of distribution as the net profit. For 2008, the net statutory profit for the Company as reported in the published annual statutory reporting forms was RUR 2 668 million (equivalent to USD 107 341 thousand translated at the average exchange rate for 2008) and the closing balance of the accumulated profit including the current year net statutory profit totalled RUR 21 312 million (equivalent to USD 725 367 thousand translated at the closing exchange rate for 2008). However, current legislation and other statutory regulations dealing with distribution rights are open to legal interpretation, consequently, actual distributable reserves may differ from the amounts disclosed.

## 21 Earnings per share

The calculation of earnings per share is based upon the profit for the year and the weighted average number of ordinary shares outstanding during the year, calculated as shown below. The Company has no dilutive potential ordinary shares.

	<b>2008</b>	<b>2007</b>
Weighted average number of shares for the year ended 31 December	<u>11 529 538</u>	<u>11 529 538</u>
Profit attributable to the equity holders of the Company ('000 USD)	<u>100 235</u>	<u>236 959</u>
Basic earnings per share (USD per 1 share)	<u>8.693</u>	<u>20.552</u>

## 22 Loans and borrowings

This note provides information about the contractual terms of the Group's loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate and foreign currency risk, see note 25.

	2008 <u>'000 USD</u>	2007 <u>'000 USD</u>
<i>Non-current liabilities</i>		
Secured bank loans	6 306	-
Unsecured bank loans	128 074	165 713
	<u>134 380</u>	<u>165 713</u>
<i>Current liabilities</i>		
Secured bank loans	265 655	289 884
Unsecured bank loans	384 558	97 386
	<u>650 213</u>	<u>387 270</u>

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

'000 USD	Currency	Interest rate	Year maturity	2008		2007	
				Face value	Carrying amount	Face value	Carrying amount
<i>Short term loans</i>							
Secured bank loans							
Sberbank	RUR	15%	2009	55 343	55 343	137 044	137 044
		bank rate +					
Raiffeisenbank	RUR	3%	2009	22 191	22 191	26 986	26 986
		LIBOR					
MMB	USD	+2.5%	2009	30 020	30 020	-	-
ATB (OAO Alfabank)	USD	9%	2009	101 074	101 074	77 096	77 096
		LIBOR +					
		2.6% and					
		Prime Rate					
Wachovia Capital Finance	USD	3.3%	2009	49 340	49 340	48 758	48 758
		Tranches					
		2.9% +					
Swedbank	USD	margin 0.6%	2009	7 687	7 687	-	-
Total secured short-term bank loans				<u>265 655</u>	<u>265 655</u>	<u>289 884</u>	<u>289 884</u>

'000 USD	Currency	Interest rate	Year maturity	2008		2007	
				Face value	Carrying amount	Face value	Carrying amount
Sberbank	RUR		2009	75 301	75 301	-	-
MMB	RUR	from 9% to 13.5% under agreement, but no more than	2009	17 578	17 578	21 008	21 008
MMB	USD	15%	2009	48 020	48 020	-	-
Unicreditbank	USD	LIBOR+4.0% from LIBOR+1.1% to	2009	7 240	7 240	28 786	28 786
Calion Rusbank	USD	LIBOR+1.8% from LIBOR+2.15% to	2009	50 118	50 118	-	-
Raiffeisenbank	USD	LIBOR+7.5% from LIBOR+3% to	2009	30 581	30 581	47 592	47 592
Raiffeisenbank	USD	LIBOR+6%	2009	25 657	25 657	-	-
OAo Svedbank	USD	LIBOR+3.75%	2009	30 111	30 111	-	-
ZAO BSGV	USD	LIBOR+1.8%	2009	16 744	16 744	-	-
OAo Alfa Bank	USD	9%	2009	13 016	13 016	-	-
OAo Alfa Bank	USD	16% LIBOR	2009	10 025	10 025	-	-
OAo Alfa Bank	USD	(6 mon.)+5% LIBOR	2009	21 527	21 527	-	-
OAo Alfa Bank	USD	(6 mon.)+10.1% LIBOR	2009	5 010	5 010	-	-
ZAO BSGV	USD	LIBOR+1.8%	2010	33 307	33 307	-	-
Other	USD			323	323		
Total unsecured short-term bank loans				<u>384 558</u>	<u>384 558</u>	<u>97 386</u>	<u>97 386</u>
<b>Long-term bank loans</b>							
Secured bank loans							
Hypo Vereinsbank	EURO	EURIBOR (6 mon.)+0.22%	2014	6 306	6 306	-	-
Total secured long-term bank loans				<u>6 306</u>	<u>6 306</u>	<u>-</u>	<u>-</u>
Unsecured bank facility							
Unicreditbank	USD	LIBOR+4.0% from LIBOR+1.1% to LIBOR	2011	127 979	127 979	115 529	115 529
Calion Rusbank	USD	+1.8%	2009	-	-	50 184	50 184
Other	USD			95	95	-	-
Total unsecured long-term bank loans				<u>128 074</u>	<u>128 074</u>	<u>165 713</u>	<u>165 713</u>

Bank loans are secured by the following:

- Property, plant and equipment with a carrying amount of USD 70 765 thousand– see note 13(a).
- Inventory with a carrying amount of USD 192 957 thousand – see note 17.
- Accounts receivable with a carrying amount of USD 52 738 thousand – see note 18.

All interest rates are on a per annum basis.

A number of loans outstanding at year end contain certain restrictive covenants in relation to an unauthorized use of credit facilities, sales and purchases of assets, total amount of borrowings, change of controlling shareholders and management, defaults on liabilities, including tax liabilities, bankruptcy initiation, commencement of significant court proceedings, deterioration of financial position of the Group, improper execution of obligations and certain financial ratios.

*Breach of debt covenants*

As at 31 December 2008 the Group is in breach of a financial covenant calculated as net financial debt to EBITDA under a loan payable to ZAO BSGV in the amount of USD 33 307 thousand. Given the Group does not have any unconditional right to defer the payment under the loan facility for more than 12 months after the balance sheet date, the loan was classified as current as at 31 December 2008.

**23 Pensions**

The post employment and post retirement program of the Company consists of lump-sum benefits upon death and retirement, an occupational pension plan and additional material support provided by the company to its retired employees. The pension benefits are dependent on participants' past service. The lump sum benefits upon retirement are based on the monthly base wage and are further dependent on a participant's past service at retirement.

The defined benefit pension plan provides old age retirement pension and disability pension. At AVISMA employees are also provided with a jubilee benefit.

The Company does not provide any defined contribution pension arrangements.

The last independent actuarial valuation of pension and other post employment and post retirement benefits for the purpose of IFRS was performed in May 2009 with a valuation date of 31 December 2008. For the purposes of that valuation, census data as at the valuation date was collected for the Company.

	2008 '000 USD	2007 '000 USD
<b>Present value of defined benefit obligations</b>	<b>45 116</b>	<b>58 166</b>
Fair value of plan assets	-	-
<b>Present value of unfunded obligations</b>	<b>45 116</b>	<b>58 166</b>
Unrecognised actuarial losses	(3 472)	(12 554)
Unrecognised prior service cost	(9 295)	(12 361)
<b>Net liability in balance sheet</b>	<b>32 349</b>	<b>33 251</b>



(a) **Movements in the present value of the defined benefit obligation:**

	2008 '000 USD	2007 '000 USD
Net liability at beginning of period	33 251	24 927
Net expense recognised in the income statement	7 450	8 204
Contributions	(2 049)	(1 955)
Cumulative translation adjustment	(6 303)	2 075
<b>Net liability at end of period</b>	<b>32 349</b>	<b>33 251</b>

Reconciliation of opening and closing balances of the present value of the defined benefit obligation are as follows:

	2008 '000 USD	2007 '000 USD
Present value of defined benefit obligations at beginning of period	58 166	42 626
Service cost	1 772	1 871
Interest cost	3 791	2 955
Actuarial (gains)/losses	(7 628)	5 599
Prior service cost	-	3 468
Benefits paid	(2 049)	(1 955)
Cumulative translation adjustment	(8 936)	3 602
<b>Present value of defined benefit obligations at end of period</b>	<b>45 116</b>	<b>58 166</b>

(b) **Expense recognised in the income statement**

	2008 '000 USD	2007 '000 USD
Service cost	(1 772)	(1 871)
Interest cost	(3 791)	(2 955)
Immediate recognition of vested prior service cost	-	(2 032)
Amortisation of prior service cost	(1 222)	(1 170)
Net actuarial gains/(losses) recognised in year	(665)	(176)
<b>Net expense recognised in the income statement</b>	<b>(7 450)</b>	<b>(8 204)</b>

(c) **Actuarial assumptions**

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

Key actuarial assumptions used were as follows:	31 December 2008	31 December 2007
Discount rate	8.50%	6.60%
Pension in pay increase	6.00%	5.00%
Salary and benefit basis increases	9.00%	9.20%
	up to age 49: 5% p.a.	up to age 49: 5% p.a.
	from age 50: 0% p.a.	from age 50: 0% p.a.
Staff turnover	Sverdlovsk region population 2007	Russian population 1998
Mortality		

(d) **Plan assets**

The program is not funded and it does not have any pension assets. The current estimated amount of the Company's contributions to the plan in 2009 is USD 2 172 thousand.

The funded status and gains/losses arising of experience adjustments on assets and liabilities:

	2008 <u>'000 USD</u>	2007 <u>'000 USD</u>
Present value of defined benefit obligations (DBO)	45 116	58 166
Fair value of plan assets	-	-
Deficit in plan	45 116	58 166
Losses arising of experience adjustments on plan liabilities	-	(3 303)
Gains/(losses) arising of experience adjustments on plan assets	-	-

24 **Trade and other payables**

	31 December 2008 <u>'000 USD</u>	31 December 2007 <u>'000 USD</u>
Trade accounts payable	81 221	48 128
Payroll and social tax payable	32 911	29 202
<b>Total financial payables</b>	<b>114 132</b>	<b>77 330</b>
Accrued liabilities and other creditors	38 148	23 292
<b>Total accounts payable and accrued expenses</b>	<b>152 280</b>	<b>100 622</b>

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

25 **Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk (including foreign currency exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The overall risk management program seeks to minimize potential adverse effects on the financial performance of the Group.

(a) **Market risk**

(i) *Foreign currency risk*

Foreign currency risk is the risk of losses resulting from adverse movements in different currency exchange rates against the functional currency. Foreign currency risk arises from the international operations of the Group, future commercial transactions in foreign currencies, including repayment of foreign currency denominated borrowings and recognition of assets and liabilities denominated in a currency which is not a functional currency of the Group companies.

The objective of the Group's foreign exchange risk management activities is to minimise the volatility of the Group's financial results by matching the same foreign currency denominated assets and liabilities. The Group does not currently hedge foreign exchange exposure using

financial instruments. Group entities are prohibited from borrowing and investing in foreign currencies on a speculative basis.

The Group's policies for attracting foreign exchange denominated borrowings depend on current and forward rates of foreign currencies to Russian rouble. Funds borrowed are mainly nominated in USD, being the currency of general export trade contracts.

The Group relies on export sales to generate foreign currency earnings. As the Group's sales outside the Russian Federation form a significant portion of its production, it is exposed to foreign currency risk arising primarily on the volatility of the US dollar rate, in which major export sales are denominated.

The tables below summarises the Group's exposure to foreign currency exchange rate risk at the balance sheet date:

<b>At 31 December 2008</b> '000 USD	<b>US Dollar</b>	<b>EURO</b>	<b>Other foreign currencies</b>
<b>Monetary financial assets:</b>			
Cash and cash equivalents	16 435	291	1 137
Accounts receivable	79 096	46 239	301
Loans receivable	109 455	-	-
	<b>204 986</b>	<b>46 530</b>	<b>1 438</b>
<b>Monetary financial liabilities:</b>			
Accounts payable and other liabilities	(6 906)	(2 040)	(181)
Loans and borrowings	(607 874)	(6 306)	-
	<b>(614 780)</b>	<b>(8 346)</b>	<b>(181)</b>
<b>Net balance sheet position</b>	<b>(409 794)</b>	<b>38 184</b>	<b>1 257</b>

<b>At 31 December 2007</b> '000 USD	<b>US Dollar</b>	<b>EURO</b>	<b>Other foreign currencies</b>
<b>Monetary financial assets:</b>			
Cash and cash equivalents	13 444	212	1 839
Accounts receivable	104 855	77 974	861
Loans receivable	27 198	-	-
	<b>145 497</b>	<b>78 186</b>	<b>2 700</b>
<b>Monetary financial liabilities:</b>			
Accounts payable and other liabilities	(4 469)	(4 679)	(1 203)
Borrowings and notes payable	(367 946)	-	-
	<b>(372 415)</b>	<b>(4 679)</b>	<b>(1 203)</b>
<b>Net balance sheet position</b>	<b>(226 918)</b>	<b>73 507</b>	<b>1 497</b>

#### **Sensitivity analysis**

A 20% strengthening of the RUR against the following currencies at 31 December 2008 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

	<b>Equity</b>	<b>Profit or loss</b>
<b>2008</b>	<b>'000 USD</b>	<b>'000 USD</b>
USD strengthening 20%	(62 289)	(62 289)
Euro strengthening 20%	5 804	5 804
<b>2007</b>		
USD strengthening 20%	(45 299)	(45 299)
Euro strengthening 20%	14 701	14 701

A 20% weakening of the RUR against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant

**(ii) Interest rate risk**

Interest rate risk arises from movements in interest rates which could affect the Group's financial results or the value of the Group's equity. A change in interest rates may cause variations in interest income and expense.

The Group's objective when managing interest rate risk is to protect net results as regards interest. Interest rate risk management function is performed by the finance and treasury department of the Group.

Market interest rates are monitored and the Group's positions as regards interest bearing borrowings are analysed by the treasury and finance departments of the Group under the interest rate risk management framework. The monitoring is performed taking into account current terms of refinancing, renewal of existing positions and alternative funding. The Group does not apply interest hedging since it has mainly short-term borrowings and works with banks that may provide loans with a lower interest rate.

The Group's interest rate risk arises from various debt facilities. Borrowings at variable rates expose the Group's cash flow to interest rate risk.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	<b>Carrying amount</b>	
<b>'000 USD</b>	<b>2008</b>	<b>2007</b>
<b>Fixed rate instruments</b>		
Loans receivable	135 638	36 250
Current loans and borrowings	(272 339)	(235 148)
Non-current loans and borrowings	-	-
	<b>(136 701)</b>	<b>(198 898)</b>
<b>Variable rate instruments</b>		
Current loans and borrowings	(377 874)	(152 122)
Non-current loans and borrowings	(134 380)	(165 713)
	<b>(512 254)</b>	<b>(317 835)</b>

The Group does not account for any financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

An increase/(decrease) of 500 basis points in interest rates would have decreased/(increased) equity in 2008 by USD 25 612 thousand (2007: USD 15 891 thousand).

**Cash flow sensitivity analysis for variable rate instruments**

A change of 500 basis points in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant:

	Profit or loss '000 USD	Equity '000 USD
<b>2008</b>		
500 bp parallel fall	25 613	25 613
500 bp parallel rise	(25 613)	(25 613)
<b>2007</b>		
500 bp parallel fall	15 892	15 892
500 bp parallel rise	(15 892)	(15 892)

**(b) Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments.

Credit risk management is aimed at preventing losses of liquid assets placed on deposit or invested into financial institutions or decreasing value of accounts receivable.

The maximum exposure to credit risk related to the financial assets equals the carrying value of the Group's financial assets including loans receivable and investments into equity instruments. The Group's two most significant customers represent 27.4% (2007: 23%) of trade accounts receivable at respective balance sheet dates.

The treasury department of the Group monitors and controls credit risk.

The credit quality of clients and borrowers is measured taking into account their financial position, prior experience and other factors. The Group deals with new customers and clients that do not meet creditability criteria only on the basis of prepayment. Standard terms of delivery of goods may be changed where there is a good history with the customer.

Although the collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded (Note 18). Also refer to Note 15 for the analysis of credit quality of other investments and loans receivable.

**(i) Trade and other receivables**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each individual customer. The concentration of credit risk geographically relates to the USA and Europe where the most significant customers are located.

The Group provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. Credit losses, when realized, have been within the range of the Group's expectations and, historically, have not been significant. The Group places its cash deposits and temporary cash investments with creditworthy, high quality financial institutions that at times may be in excess of federally insured limits.

### Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

'000 USD	Carrying amount	
	2008	2007
Other investments	10	7 831
Investments in associates and jointly controlled entities	34 406	26 758
Loans receivable	135 638	36 250
Trade accounts receivable	183 096	217 915
Other account receivable	34 039	85 331
Cash and cash equivalents	39 469	41 317
Restricted cash	-	2 362
	<b>426 658</b>	<b>417 764</b>

### Impairment losses

The aging of trade receivables at the reporting date was:

'000 USD	Year ended 31 December 2008		Year ended 31 December 2007	
	Gross	Impaired	Gross	Impaired
<b>Trade accounts receivable</b>				
Less than 3 months	133 408	-	208 630	(2 016)
From 3 to 6 months	46 847	(2 544)	12 893	(1 592)
From 6 to 12 months	11 105	(6 671)	13 590	(13 590)
Over 12 months	23 832	(22 881)	21 440	(21 440)
<b>Total</b>	<b>215 192</b>	<b>(32 096)</b>	<b>256 553</b>	<b>(38 638)</b>

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

'000 USD	Year ended 31 December 2008		Year ended 31 December 2007	
	Trade receivables	Other receivables	Trade receivables	Other receivables
<b>Provision for impairment as of 1 January</b>	<b>38 638</b>	<b>3 900</b>	<b>23 567</b>	<b>-</b>
Impairment loss recognised	34 449	-	20 318	3 900
Provision reversed	(34 897)	(3 535)	(5 247)	-
Forex adjusted	(6 094)	(15)	-	-
<b>Provision for impairment as of 31 December</b>	<b>32 096</b>	<b>350</b>	<b>38 638</b>	<b>3 900</b>

### (c) Liquidity risk

The Group's approach to liquidity risk management involves ensuring an adequate amount of reserves that can be quickly converted into cash to meet liquidity requirements at any time.

The Group Treasury conducts liquidity planning on a weekly basis and reports to the management. Beyond cash management, the Group mitigates liquidity risk by keeping committed credit lines available.

The Group controls meeting the minimum requirements for cash balances for short-term payments. Such cash balances include current balances in bank accounts and bank deposits. The Group's policy as regards working capital funding is aimed at maximum utilisation of the Group's operating cash flows including obtaining short-term bank loans, borrowings and other external funding sources to maintain adequate level of liquidity.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the time remaining from the balance sheet date to the contractual maturity date, excluding subsequent interest to be accrued:

'000 USD	Currency	Carrying amount	Contractual cash Flows	0-12 mths	1-2 yrs	2-3 yrs	Over 5yrs	Total
<b>as at 31 December 2008</b>								
<b>Non-current loans and borrowings</b>								<b>134 380</b>
<i>Secured non-current loans and borrowings</i>								
Variable	EUR	6 306	6 306	-	-	-	6 306	6 306
Fixed		-	-	-	-	-	-	-
<i>Unsecured non-current loans and borrowings</i>								
Variable	USD	127 979	127 979	-	-	127 979	-	127 979
Others		95	95	-	95	-	-	95
<b>Current loans and borrowings</b>								<b>650 213</b>
<i>Secured current loans and borrowings</i>								
Variable	RUR	22 191	22 191	22 191	-	-	-	22 191
Variable	USD	87 047	87 047	87 047	-	-	-	87 047
Fixed	USD	101 074	101 074	101 074	-	-	-	101 074
Fixed	RUR	55 343	55 343	55 343	-	-	-	55 343
<i>Unsecured current loans and borrowings</i>								
Fixed	RUR	92 879	92 879	92 879	-	-	-	92 879
Fixed	USD	23 041	23 041	23 041	-	-	-	23 041
Variable	USD	268 315	268 315	268 315	-	-	-	268 315
Others		323	323	323	-	-	-	323
<b>Total current and non-current borrowings</b>		<b>784 593</b>	<b>784 593</b>	<b>650 213</b>	<b>95</b>	<b>127 979</b>	<b>6 306</b>	<b>784 593</b>

'000 USD	Currency	Carrying amount	Contractual Cash Flows	0-12 mths	1-2 yrs	2-3 yrs	Over 5 yrs	Total
<b>as at 31 December 2007</b>								
<b>Non-current loans and borrowings</b>								<b>165 713</b>
<i>Secured non-current loans and borrowings</i>								
<i>Variable</i>								
<i>Fixed</i>								
<i>Unsecured non-current loans and borrowings</i>								
<i>Variable</i>								
<b>Current loans and borrowings</b>								
<i>Secured current loans and borrowings</i>								
<i>Variable</i>								
<i>Variable</i>								
<i>Fixed</i>								
<i>Fixed</i>								
<i>Unsecured current loans and borrowings</i>								
<i>Fixed</i>								
<i>Fixed</i>								
<i>Fixed</i>								
<i>Variable</i>								
<i>Others</i>								
<b>Total current and non-current borrowings</b>								<b>387 270</b>
		<b>552 983</b>	<b>552 983</b>	<b>387 270</b>	<b>50 185</b>	<b>115 528</b>	<b>-</b>	<b>552 983</b>

Unused credit lines available as December, 31 2008 were USD 98 215 thousand (USD 104 942 thousand as at December, 31 2007).

**(d) Fair value**

The carrying amount of financial assets and liabilities approximates their fair value.

**(e) Capital risk management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, as well as to maintain the required level of financial resources for investing activities and to maintain an optimal capital structure to reduce the cost of capital.



The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by total capital under management. The Group considers total capital under management to be equity as shown in the consolidated balance sheet according to IFRS. In 2008, the Group's strategy was to maintain the gearing ratio at the levels from 1 to 1.5.

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

The Group's capital management includes compliance with externally imposed minimum capital requirements arising from the Group's borrowings (Note 22) and imposed by the statutory legislation of the Russian Federation.

## 26 **Operating leases**

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of USD</i>	<u>31 December 2008</u>	<u>31 December 2007</u>
Less than 1 year	1 760	1 002
1 to 5 years	5 078	1 776
Over 5 years	553	-
<b>Total operating lease commitments</b>	<u>7 391</u>	<u>2 778</u>

The Group leases a number of warehouse and factory facilities under operating leases. The leases typically run for an initial period of five to ten years, with an option to renew the lease after that date. Lease payments are usually increased annually to reflect market rentals.

During the current year USD 2 555 thousand was recognised in the income statement in respect of operating leases.

## 27 **Commitments**

The Group has entered into a contract to purchase plant and equipment for USD 104 079 thousand.

## 28 **Contingencies**

### (a) **Insurance**

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

**(b) Taxation contingencies in the Russian Federation**

The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing.

**(c) Dumping duties**

In March 2004 the U.S. Department of Commerce ("Commerce") initiated antidumping duty proceedings involving a subsidiary of the Group, VSMPO-Tirus US, and the Company, in response to claims that magnesium imported from Russia was sold at prices below normal value.

As part of these proceedings, VSMPO-Tirus US is required to make payments of dumping duty deposits before the final results of the administrative anti-dumping reviews are available. The deposit payments are based on dumping duty estimate calculated by applying a dumping rate to the sales of magnesium made by the Group in the reviewed period and are recorded as an expense in cost of sales in the period they are assessed.

When the final results of a reviewed period (typically one year) are available and the actual amount of dumping duty has been determined, overpayments of deposits are refunded to the Group or additional payments are required. The difference is recorded in cost of sales in the period the final results of the reviewed period are available.

Commerce has completed its reviews for the period from 4 October 2004 to 31 March 2008. The dumping rate applied for the year ended 31 March 2007 has been appealed by the Group on 19 March 2009 and by the review petitioner in the same month. The dumping rate applied for the year ended 31 March 2008 has also been appealed by the Group, on 19 August 2009. For both years a final rate will not be determined until the appeals are resolved, which could take a year or more. As at the date of issuance of these consolidated financial statements, final rates have not yet been determined, however, management believes that these final rates will not have a material impact on the financial position and performance of the Group.

Furthermore, the Group has had the review commenced for the period from 1 April 2008 to 31 March 2009 but not yet completed by Commerce. Management believes that the final outcome of review and appeals, if any, will not have a material impact on the financial position and performance of the Group in addition to costs already recognised in the financial statements.

**(d) Litigations and claims**

In September 2007 Metaltrade Deutschland GmbH filed a lawsuit in the Local Court of Munster, Germany for reimbursement of losses in amount of USD 11 700 thousand for alleged supply of

deficient products. Management believes that it is not highly probable that the ultimate resolution of this matter will result in outflow of economic benefits from the Group.

## 29 Related party transactions

### *Government*

The Government of the Russian Federation is the ultimate controlling party of the Company and has a controlling interest via indirect ownership of over 50% of the shares issued. Rosoboronexport is the Company's intermediate controlling party. The Government does not prepare financial statement for public use. Governmental economic and social policies affect the Group's financial position, results of operations and cash flows.

### *Parties under control of the Government*

In the normal course of business, the Group enters into transactions with other entities under Government control. Bank loans are provided on the basis of market rates. Taxes are accrued and settled in accordance with Russian tax legislation. The following turnovers and balances arise from transactions with related parties:

### *Balances with related parties:*

<u>Balance sheet caption</u>	<u>Relationship</u>	<u>31 December 2008</u> <u>'000 USD</u>	<u>31 December 2007</u> <u>'000 USD</u>
Bank balances	Parties under Government control	14 824	9 347
Trade receivables	Parties under Government control	-	590
Trade receivables	Parties under Government control	33 482	41 355
Customs duties prepaid	Government	590	1 665
Current income tax prepayments	Government	10 897	2 305
VAT recoverable	Government	39 891	98 753
Borrowings	Parties under Government control	(130 644)	(137 044)
Trade payables	Parties under Government control	(3 028)	-
Current income tax payable	Government	(1 471)	(6 313)
Property and other taxes payable	Government	(4 928)	(2 983)
Unified social tax payable	Government	(5 298)	(1 979)
VAT payable	Government	(1 401)	(464)

***Transactions with related parties:***

<u>Income statement caption</u>	<u>Relationship</u>	<u>2008</u> <u>'000 USD</u>	<u>2007</u> <u>'000 USD</u>
Revenue	Parties under Government control	207 536	296 138
Current income tax	Government	(55 060)	(84 544)
Property and other taxes	Government	(14 427)	(11 740)
Unified social tax	Government	(49 992)	(37 252)
Custom duties	Government	(17 998)	(2 495)
Interest expense	Parties under Government control	(11 356)	(2 048)

Refer to Note 14, 15, 23 for disclosures of other related party transactions.

***Key management personnel compensation***

Compensation of key management personnel consists of remuneration paid to the members of the Management Boards of the Group's main subsidiaries and to members of Boards of Directors of the Company and its main subsidiaries. Compensation is made up of an annual remuneration and a performance bonus depending on operating results.

Total key management personnel short-term benefits included in general and administrative expenses in the consolidated income statement for the year ended 31 December 2008 amounted to USD 4 512 thousand (2007: USD 2 961 thousand). Related state pension and social security costs for the year ended 31 December 2008 amounted to USD 341 thousand (2007: USD 101 thousand). There were no significant post-employment or other long-term benefits.

**30 Significant subsidiaries**

	<u>Country of incorporation</u>	<u>2008</u> <u>Ownership/voting</u>	<u>2007</u> <u>Ownership/voting</u>
VSMPO-TIRUS US	USA	100%	100%
VSMPO-TIRUS GMBH	Germany	100%	100%
Tirus International SA	Switzerland	100%	100%
Grifoldo Ltd.	Cyprus	100%	100%
VSMPO Tirus LTD	Cyprus	100%	100%
VSMPO Titan Scandinavia AB	Sweden	100%	100%
VSMPO-TIRUS LIMITED	UK	100%	100%
VSMPO Titan Ukraine	Ukraine	100%	100%
DK Titan Dnepr	Ukraine	100%	100%
CJSC Tube Plant VSMPO-AVISMA	Ukraine	50.1%	50.1%

**31 Events subsequent to the balance sheet date**

*Acquisition of additional share in associate*

Subsequent to 31 December 2008 the Group acquired an 18% share in its associate "Ural Gold" LLC which was settled by a previously issued advance for acquisition. Refer to Note 14.

*Dividends declared*

On 30 June 2009 the dividends were declared for the year ended 31 December 2008 in the amount of RUR 23.14 (equivalent to USD 0.74) per ordinary share for the total amount of RUR 266 794 thousand (equivalent to USD 8 526 thousand).