OJSC “Corporation VSMPO-AVISMA”

Consolidated Financial Statements
for the year ended 31 December 2009

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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 statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free of material misstatement.

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

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

ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a subsidiary of KPMG Europe LLP, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Basis for Qualified Opinion

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the carrying amount of loans receivable in the amount of USD 109 655 thousand as at 31 December 2008. Accordingly, we were unable to determine whether any adjustments might be necessary to finance income and costs, taxation expense and net profit for the year ended 31 December 2009.

Qualified 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 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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27 January 2011

	Note	2009 '000 USD	2008 '000 USD
Revenue	6	977 842	1 219 404
Cost of sales	7	(626 193)	(746 174)
Gross profit		**351 649**	**473 230**
Distribution expenses	8	(28 326)	(40 896)
General and administrative expenses	9	(158 539)	(212 556)
Operating profit		**164 784**	**219 778**
Finance income	11	16 306	7 546
Share in (loss)/profit of equity accounted investees		(1 962)	7 043
Loss on re-measurement of assets held for sale	19	(56 701)	-
Finance costs	11	(57 724)	(57 874)
Foreign currency exchange loss		(28 606)	(40 117)
Profit before income tax		**36 097**	**136 376**
Income tax expense	12	(9 965)	(37 340)
Profit for the year		**26 132**	**99 036**
Other comprehensive income/(loss)			
Foreign currency translation differences		(44 209)	(205 439)
Net change in fair value of available-for-sale financial assets		1 015	-
Income tax on other comprehensive income		(203)	-
Other comprehensive loss for the year, net of income tax		**(43 397)**	**(205 439)**
Total comprehensive loss for the year		**(17 265)**	**(106 403)**
Profit attributable to:			
Shareholders of the Company		26 132	100 235
Non-controlling interest		-	(1 199)
Profit for the year		**26 132**	**99 036**
Total comprehensive loss attributable to:			
Shareholders of the Company		(17 265)	(105 204)
Non-controlling interest		-	(1 199)
Total comprehensive income attributable to:		**(17 265)**	**(106 403)**
Earnings per share attributable to shareholders of the Company, basic and diluted (expressed in USD per share)	23	2,267	8,693

These consolidated financial statements were approved by management on _27_ January 2011 and were signed on its behalf by:

Voevodin M.V. — General Director

Sannikov D.Yu. — Chief Accountant

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 52.

	Note	2009 '000 USD	2008 '000 USD
ASSETS			
Non-current assets			
Property, plant and equipment	13	809 221	820 593
Goodwill	14	52 934	54 490
Other intangible assets		730	762
Investments in associates and jointly controlled entities	15	25 185	34 406
Deferred tax assets	17	27 542	-
Other investments and loans receivable	16	56 853	4 108
Other non-current assets		2 870	65 763
Total non-current assets		**975 335**	**980 122**
Current assets			
Inventories	18	437 638	599 784
Other investments and loans receivable	16	157 318	131 540
Trade and other receivables	20	287 327	342 538
Income tax receivable		8 255	10 897
Cash and cash equivalents	21	71 599	39 469
Assets held for sale	19	26 451	-
Other current assets		350	7 254
Total current assets		**988 938**	**1 131 482**
Total assets		**1 964 273**	**2 111 604**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 52.

	Note	2009 '000 USD	2008 '000 USD
EQUITY AND LIABILITIES			
Equity			
Share capital	22	22 785	22 785
Share premium		158 054	158 054
Retained earnings		963 338	945 732
Reserves		812	-
Cumulative currency translation difference		(115 782)	(71 573)
Total equity		**1 029 207**	**1 054 998**
Non-current liabilities			
Long-term borrowings	24	325 012	134 380
Defined benefit pension plan	25	29 745	32 349
Other long-term liabilities		13 502	6 566
Deferred tax liabilities	17	-	4 189
Total non-current liabilities		**368 259**	**177 484**
Current liabilities			
Trade and other payables	26	63 636	152 280
Current income tax payable		4 834	2 033
Other taxes payable		13 194	9 304
Short-term borrowings	24	410 803	650 213
Advances received from customers		50 370	30 162
Dividends payable		23 970	35 130
Total current liabilities		**566 807**	**879 122**
Total liabilities		**935 066**	**1 056 606**
Total equity and liabilities		**1 964 273**	**2 111 604**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 52.

	2009 '000 USD	2008 '000 USD
Cash flows from operating activities		
Profit before tax	**36 097**	**136 376**
Adjustments for:		
Depreciation	82 275	95 862
Impairment of accounts receivable	(3 621)	(4 673)
Gain on accounts payable write-off	(12 866)	-
Loss on re-measurement of assets held for sale	56 701	-
Share of loss/(profit) in equity accounted investees, net of dividends	1 962	(7 043)
Interest income	(16 306)	(7 546)
Foreign currency translation loss	935	26 142
Interest expense	57 724	57 874
Provision on inventory obsolescence	1 360	17 265
Loss on disposal of property, plant and equipment	6 575	6 194
Pension obligations	5 751	10 595
Operating profit before changes in working capital and provisions	**216 587**	**331 046**
Change in gross trade receivables	74 950	17 717
Change in advances to suppliers	(18 671)	30 298
Change in inventories	159 632	(65 299)
Change in restricted cash balance	-	(2 362)
Change in trade and other payables	(73 797)	37 550
Change in other current assets	6 904	2 582
Change in other long-term liabilities	6 936	-
Cash flows from operations before income taxes and interest paid	**372 541**	**351 532**
Income taxes paid	(22 042)	(58 719)
Interest paid	(57 616)	(66 505)
Net cash provided from operating activities	**292 883**	**226 308**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 52.

	2009 '000 USD	2008 '000 USD
Cash flows from investing activities		
Purchases of property, plant and equipment, including advances	(104 926)	(346 783)
Proceeds from disposal of property, plant and equipment	6 165	12 387
Loans provided and acquisition of other investments	(105 447)	(196 122)
Proceeds from disposal of investments	22 527	99 298
Net cash used in investing activities	**(181 681)**	**(431 220)**
Cash flows from financing activities		
Dividends paid to shareholders	(18 093)	(887)
Distributions from associate	10 639	5 296
Net proceeds/(repayment) from short-term borrowings	(239 410)	7 924
Proceeds from long-term borrowings	273 256	203 305
Repayment of long-term borrowings	(96 725)	(5 776)
Net cash (used in)/provided from financing activities	**(70 333)**	**209 862**
Effect of exchange rate changes on cash and cash equivalents	(8 739)	(6 798)
Net increase/(decrease) in cash and cash equivalents	**32 130**	**(1 848)**
Cash and cash equivalents at the beginning of the year	**39 469**	**41 317**
Cash and cash equivalents at the end of the year	**71 599**	**39 469**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 12 to 52.

'000 USD	**Attributable to the Shareholders of the Company**						**Non-controlling interest**	**Total equity**
	Share capital	**Share premium**	**Retained earnings**	**Available-for-sale investments revaluation reserve**	**Cumulative translation reserve**	**Total**		
Balance at 1 January 2008	**22 785**	**158 054**	**872 290**	**-**	**133 866**	**1 186 995**	**1 199**	**1 188 194**
Total comprehensive income for the year								
Profit/(loss) for the year	-	-	100 235	-	-	100 235	(1 199)	99 036
Other comprehensive loss								
Foreign currency translation difference	-	-	-	-	(205 439)	(205 439)	-	(205 439)
Total other comprehensive loss	-	-	-	-	(205 439)	(205 439)	-	(205 439)
Total comprehensive income/(loss) for the year	-	**-**	**100 235**	**-**	**(205 439)**	**(105 204)**	**(1 199)**	**(106 403)**
Dividends declared	-	-	(26 793)	-	-	(26 793)	-	(26 793)
Total transactions with owners	-	**-**	(26 793)	**-**	**-**	(26 793)	**-**	(26 793)
Balance at 31 December 2008	**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 12 to 52.

’000 USD	Attributable to the Shareholders of the Company						Non-controlling interest	Total equity
	Share capital	Share premium	Retained earnings	Available-for-sale investments revaluation reserve	Cumulative translation reserve	Total		
Balance at 1 January 2009	**22 785**	**158 054**	**945 732**	**-**	**(71 573)**	**1 054 998**	**-**	**1 054 998**
Total comprehensive income for the year							-	
Profit for the year	-	-	26 132	-	-	26 132	-	26 132
Other comprehensive loss								
Foreign currency translation difference	-	-	-	-	(44 209)	(44 209)	-	(44 209)
Net change in fair value of available-for-sale financial assets	-	-	-	1 015	-	1 015	-	1 015
Income tax on other comprehensive income	-	-	-	(203)	-	(203)	-	(203)
Total other comprehensive income/(loss)	-	-	-	812	(44 209)	(43 397)	-	(43 397)
Total comprehensive income/(loss) for the year	**-**	**-**	**26 132**	**812**	**(44 209)**	**(17 265)**	**-**	**(17 265)**
Dividends declared	-	-	(8 526)	-	-	(8 526)	-	(8 526)
Total transactions with owners	-	-	(8 526)	-	-	(8 526)	-	(8 526)
Balance at 31 December 2009	**22 785**	**158 054**	**963 338**	**812**	**(115 782)**	**1 029 207**	**-**	**1 029 207**

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 12 to 52.

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 Verkhnaya 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 Verkhnaya Salda (Sverdlovsk region) and in Berezniki (Perm region) in 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 Verkhnaya 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, Verkhnaya 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.

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 measurement

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.

(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 CJSC "Tube plant VSMPO-AVISMA" 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

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 20 – Trade and other receivables;
- Note 27 (b) - credit risk.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 14 – Goodwill impairment;
- Note 30 – Contingencies.

(e) Changes in accounting policies and presentation

With effect from 1 January 2009, the Group changed its accounting policies in the following areas:

- accounting for borrowing costs;

- presentation of financial statements.

(i) Accounting for borrowing costs

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously the Group immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23 *Borrowing Costs* (2007) in accordance with the transitional provisions of such standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

(ii) Presentation of financial statements

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

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

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in note 2(e), which addresses changes in accounting policies.

(a) 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. Non-controlling 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. Non-controlling 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 consolidated statement of comprehensive income 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.

(b) 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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of comprehensive income 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 directly in other comprehensive income and are presented within equity in the foreign currency translation reserve.

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

	31 December 2009	**Average for 12 months 2009**	**31 December 2008**	**Average for 12 months 2008**
USD	30.2442	31.7231	29.3804	24.8553
EURO	43.3883	44.1299	41.4411	36.4291

(c) 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.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Held-to-maturity investments

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent

the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any other category under IAS 39. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 3(i)(i)) and foreign currency differences on available-for-sale debt instruments (see note 3(b)), are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Other

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

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(d) 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.

(e) 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 their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 (see note 2(e)(i)). 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:

	Number of years
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.

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 profit or loss 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 profit or loss.

(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 profit or loss as incurred.

(f) 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 statement of financial position. 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 profit or loss as incurred.

(iv) Amortisation

Amortisation is recognised in profit or loss 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 since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. Intangible assets useful lives range between 3 and 20 years. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(g) 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 statement of financial position.

(h) 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.

(i) Impairment

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was

recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(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 profit or loss. 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.

(j) Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(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 profit or loss 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. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(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 profit or loss, 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 reporting date.

(m) Revenue

(i) Goods sold

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.

(ii) 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 profit or loss 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 profit or loss as incurred.

(o) Finance income and costs

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

Finance costs comprise interest expense on borrowings and impairment losses recognised on financial assets other than trade receivables. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest 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 profit or loss 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 in respect of 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 2009, 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.

- Revised IAS 24 *Related Party Disclosures (2009)* introduces an exemption from the basic disclosure requirements in relation to related party disclosures and outstanding balances, including commitments, for government-related entities. Additionally, the standard has been revised to simplify some of the presentation guidance that was previously non-reciprocal. The revised standard is to be applied retrospectively for annual periods beginning on or after 1 January 2011.

- Revised IFRS 3 *Business Combinations* (2008) and amended IAS 27 (2008) *Consolidated and Separate Financial Statements* came into effect on 1 July 2009 (i.e. they become mandatory for the Group’s 2010 consolidated financial statements). The revisions address, among other things, accounting for step acquisitions, require acquisition-related costs to be recognised as expenses and remove the 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 the effects of transactions with non-controlling interests to be recognised directly in equity.
- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2013. The new standard is to be issued in several phases and is intended to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed by the end of 2010. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets.
- 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 purposes, will come into effect not earlier than 1 January 2010.

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 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. This fair value is determined for disclosure purposes

(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. 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.

Revenue	**2009 '000 USD**	**2008 '000 USD**
North America	361 693	443 622
Russia	283 713	397 171
Europe	215 105	241 718
Asia	83 464	98 492
Other CIS countries	33 867	38 401
	977 842	**1 219 404**

The Group has revenue from one customer amounting to 10% or more of total revenue in the amount of approximately USD 200 million (2008: USD 160 million). Furthermore, revenue to parties under Government control is disclosed in Note 31.

6 Revenue

	2009 '000 USD	**2008 '000 USD**
Revenue from sales of goods	934 244	1 148 306
Revenue from services provided	14 052	16 662
Other revenue	29 546	54 436
	977 842	**1 219 404**

7 Cost of sales

	2009 '000 USD	**2008 '000 USD**
Materials and consumables used	(258 618)	(429 761)
Personnel cost	(109 083)	(153 113)
Utilities	(89 538)	(107 326)
Depreciation	(76 871)	(90 819)
Unified social tax	(27 543)	(39 845)
Pension cost	(5 751)	(10 595)
Production overheads	(4 094)	(3 042)
Repairs and maintenance	(1 273)	(3 533)
Provision for inventory obsolescence	(1 360)	(17 265)
Change in finished goods and WIP	(35 447)	138 868
Other costs	(16 615)	(29 743)
	(626 193)	**(746 174)**

8 Distribution expenses

	2009 '000 USD	2008 '000 USD
Transport	(9 639)	(12 112)
Materials	(4 646)	(3 159)
Customs	(4 600)	(11 860)
Certification expenses	(1 024)	(1 475)
Advertising expenses	(512)	(1 364)
Other	(7 905)	(10 926)
	(28 326)	**(40 896)**

9 General and administrative expenses

	2009 '000 USD	2008 '000 USD
Personnel cost	(34 832)	(61 859)
Charity expenses	(30 280)	(38 121)
Taxes other than income tax	(17 573)	(14 939)
Insurance	(13 637)	(7 577)
Unified social tax	(8 174)	(6 328)
Materials	(6 265)	(15 194)
Loss on disposal of property, plant and equipment	(6 575)	(6 194)
Depreciation	(5 404)	(5 043)
Repair and maintenance	(3 752)	(7 652)
Rent expenses	(2 395)	(2 555)
Consulting expenses	(1 317)	(1 890)
Research and development expenses	(724)	(736)
Advertising expenses	(437)	(3 263)
Business trips	(313)	(441)
Write-off of accounts payable	12 866	-
Other expenses	(39 727)	(40 764)
	(158 539)	**(212 556)**

10 Personnel costs

	2009 '000 USD	2008 '000 USD
Payroll and Contributions to State pension fund	(179 632)	(254 817)
Pension cost	(5 751)	(10 595)
	(185 383)	**(265 412)**

11 Finance income and costs

Finance income	2009 ’000 USD	2008 ’000 USD
Interest income	16 306	7 546
Total finance income	**16 306**	**7 546**
Finance costs		
Interest expenses	(57 724)	(57 874)
Total finance costs	**(57 724)**	**(57 874)**

12 Income tax expense

The Group’s applicable tax rate is the income tax rate of 20% for Russian companies (2008: 24%). With effect from 1 January 2009, the income tax rate for Russian companies was reduced to 20%. This rate has been used in the calculation of deferred tax assets and liabilities attributable to Russian companies in the Group as at 31 December 2008 and 2009.

	2009 ’000 USD	2008 ’000 USD
Current tax expense		
Current year	(40 471)	(35 462)
Over / (under) provided in prior years	860	(1 976)
Impact of restatement	-	(8 907)
	(39 611)	**(46 345)**
Deferred tax expense		
Origination and reversal of temporary differences	27 985	8 015
Change in tax rate	1 661	990
	29 646	9 005
	(9 965)	**(37 340)**

Reconciliation of effective tax rate:

	2009 ’000 USD	2008 ’000 USD
Profit before income tax	36 097	136 376
Income tax at applicable tax rate	(7 219)	(32 730)
Effect of income taxed at different rates	2 534	(2 348)
Change in tax rate	1 661	990
Non-deductible expenses	(7 801)	(1 276)
Over / (under) provided in prior years	860	(1 976)
	(9 965)	**(37 340)**

Income tax recognised directly in other comprehensive income

’000 USD	**2009**			**2008**		
	Before tax	**Tax**	**Net of tax**	**Before tax**	**Tax**	**Net of tax**
Available-for-sale financial assets	1 015	(203)	812	-	-	-
	1 015	**(203)**	**812**	**-**	**-**	**-**

13 Property, plant and equipment

'000 USD	Buildings and constructions	Plant and equipment	Transport	Transfer devices	Other	Assets under construc-tion	Total
Cost							
Balance at 1 January 2008	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)**
Balance at 31 December 2008	**257 564**	**620 818**	**22 894**	**45 230**	**81 851**	**372 287**	**1 400 644**
Accumulated depreciation							
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**
Balance at 31 December 2008	**(151 415)**	**(343 940)**	**(8 943)**	**(36 155)**	**(39 598)**	**-**	**(580 051)**
Net book value							
Balance at 1 January 2008	**128 000**	**264 637**	**12 873**	**11 071**	**40 572**	**299 474**	**756 627**
Balance at 31 December 2008	**106 149**	**276 878**	**13 951**	**9 075**	**42 253**	**372 287**	**820 593**
Cost							
Balance at 1 January 2009	257 564	620 818	22 894	45 230	81 851	372 287	**1 400 644**
Additions	496	20 507	161	164	1 030	84 129	**106 487**
Transfers	13 277	38 272	565	3 828	3 294	(59 236)	**-**
Disposals	(7 981)	(10 918)	(697)	(443)	(6 142)	(1 684)	**(27 865)**
Translation to presentation currency	(7 462)	(15 753)	(389)	(1 205)	(2 301)	(9 511)	**(36 621)**
Balance at 31 December 2009	**255 894**	**652 926**	**22 534**	**47 574**	**77 732**	**385 985**	**1 442 645**
Accumulated depreciation							
Balance at 1 January 2009	(151 415)	(343 940)	(8 943)	(36 155)	(39 598)	-	**(580 051)**
Depreciation charge	(6 102)	(57 833)	(2 295)	(1 314)	(14 731)	-	**(82 275)**
Disposals	2 990	1 471	566	511	9 587	-	**15 125**
Translation to presentation currency	4 354	7 438	127	1 031	827		**13 777**
Balance at 31 December 2009	**(150 173)**	**(392 864)**	**(10 545)**	**(35 927)**	**(43 915)**	**-**	**(633 424)**
Net book value							
Balance at 1 January 2009	**106 149**	**276 878**	**13 951**	**9 075**	**42 253**	**372 287**	**820 593**
Balance at 31 December 2009	**105 721**	**260 062**	**11 989**	**11 647**	**33 817**	**385 985**	**809 221**

Depreciation expense of USD 76 871 thousand (2008: USD 90 819 thousand) has been charged to cost of goods sold and USD 5 404 thousand (2008: USD 5 043 thousand) to administrative expense.

Advances given to suppliers for capital construction in the amount of USD 76 402 thousand (31 December 2008: USD 92 622 thousand) are included in the balance of assets under construction.

As a result of the change in accounting policy with respect to treatment of borrowing costs, at 31 December 2009 capitalised borrowing costs related to the construction and acquisition of property and equipment amounted to USD 1 561 thousand with a capitalisation rate of 11%.

(a) Security

Properties with a net book value of USD 98 225 thousand (2008: USD 70 765 thousand) are pledged to secure bank loans (see Note 23).

14 Goodwill

	'000 USD
Balance as at 1 January 2008	**65 222**
Cumulative translation adjustment	(10 732)
Balance as at 31 December 2008	**54 490**
Balance as at 1 January 2009	**54 490**
Cumulative translation adjustment	(1 556)
Balance as at 31 December 2009	**52 934**

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 2008-2009 and budgets for 2010-2015. This period represents the period in which management expects to gradually achieve its target levels of output of 35 thousand tons from actual levels in 2009 of approximately 18.9 thousand tons.
- A pre-tax discount rate of 18.25% 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 9.5%.

- A terminal rate of 2.3% 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.

15 Investments in associates and jointly controlled entities

The Group has the following investments in equity accounted investees:

		2009		**2008**	
	Country	**Carrying value ’000 USD**	**Interest**	**Carrying value ’000 USD**	**Interest**
Uniti LLC	USA	13 784	50%	26 226	50%
"Mining Company Uralskoe zoloto" LLC	Russia	-	0%	0.1	33%
Ural Boeing Manufacturing CJSC	Russia	11 401	31%	8 180	50%
		25 185		**34 406**	

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 76.7% and 20.0% of the net income of Uniti in 2009 (before the special expense allocation described below) and 2008, respectively.

The following is summarised financial information of Uniti as of and for the year ended 31 December 2009 and 2008:

	2009 ’000 USD	**2008 ’000 USD**
Current assets	40 416	101 979
Property and equipment, net	238	271
Other assets	17	17
Total assets	**40 671**	**102 267**
Current liabilities	5 135	36 946
Total liabilities	**5 135**	**36 946**
Equity	**35 536**	**65 321**
Revenue	**174 288**	**307 918**
(Loss)/profit for the year	**(3 285)**	**10 779**

The net loss in 2009 included a special expense allocation of USD 6 470 thousand to write down inventories in response to market conditions. The write-down was allocated based on the amount of inventory supplied by each member. The Group's share of Uniti's net loss after its special expense allocation of USD 4 246 thousand was USD 1 802 thousand and is included in share of loss of joint venture which is a component of share in profit of equity accounted investees in the consolidated statement of comprehensive income.

The Group had sales to Uniti of USD 73 750 thousand and USD 110 900 thousand during 2009 and 2008, respectively.

During 2009 and 2008, the Group received cash distributions from Uniti totalling USD 10 639 thousand and USD 5 296 thousand respectively.

"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. As a result of additional contributions made by participants in 2009 the effective share of the Group in equity of the entity comprised 31%. After the year end the Group intends to increase the share up to 50% by additional contribution to the share capital of "Ural Boeing Manufacturing" CJSC. Income and expenses are distributed between participants on the basis of share in equity. The company will produce forged titanium components.

The following is summarized financial information of "Ural Boeing Manufacturing" CJSC as of and for the years ended 31 December 2009 and 2008:

	2009 '000 USD	2008 '000 USD
Fixed assets	16 481	-
Construction in progress	8 951	6 143
Account receivables	1 144	22 982
Cash and cash equivalents	4 525	9 973
Other assets	1 172	115
Investments	5 844	-
Total assets	**38 117**	**39 213**
Account payables	622	67
Total liabilities	**622**	**67**
Equity	**37 495**	**39 146**
Revenue	-	-
(Loss)/profit for the year	**(508)**	**104**

16 Other investments and loans receivable

	2009 '000 USD	2008 '000 USD
Non-current		
Loans receivable	54 624	4 098
Investments	2 229	10
	56 853	**4 108**
Current		
Loans receivable	157 318	131 540
	157 318	**131 540**

17 Deferred tax assets and liabilities

’000 USD	1 January 2009	Recognized in profit or loss	Recognized in other comprehensive income	Translation difference	31 December 2009
Property, plant and equipment	(25 937)	3 370	-	1 908	(20 659)
Inventories	14 221	16 147	-	(285)	30 083
Trade and other receivables	1 679	(626)	-	(40)	1 013
Trade and other payables	2 778	307	-	(197)	2 888
Investments	-	11 370	(203)	557	11 724
Tax loss carry-forwards	-	1 632	-	18	1 650
Borrowings	-	(471)	-	(23)	(494)
Deferred income	245	(245)	-	-	-
Other items	2 825	(1 838)	-	350	1 337
Total deferred tax asset/(deferred tax liability)	**(4 189)**	**29 646**	**(203)**	**2 288**	**27 542**

’000 USD	1 January 2008	Recognised in profit or loss	Recognised in other comprehensive income	Translation Difference	31 December 2008
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 payables	5 153	(1 826)	-	(549)	2 778
Deferred income	-	289	-	(44)	245
Other items	2 063	1 220	-	(458)	2 825
Total deferred tax asset/(deferred tax liability)	**(13 931)**	**9 005**	**-**	**737**	**(4 189)**

18 Inventories

	2009 ’000 USD	2008 ’000 USD
Raw materials and consumables	124 186	183 519
Work in progress	90 723	102 957
Finished goods and goods for resale	222 729	313 308
	437 638	**599 784**

Inventories are shown net of provision of USD 31 913 thousand (31 December 2008: USD 32 119 thousand).

At 31 December 2009, inventory with a net book value of USD 255 693 thousand (31 December 2008: USD 192 957 thousand) had been pledged as security for certain bank loans of the Group (Note 24).

19 Assets held for sale

As at 31 December 2009 the Group's management was in negotiations with a buyer to dispose of its investment in "Mining company Uralskoye zoloto" LLC. These negotiations were completed in the beginning of 2010. As at 31 December 2009 fair value less costs to sell of the investment is USD 26 451 thousand that was determined based on actual selling price.

The Group reclassified the investment subject to disposal into assets held for sale. The details of the reclassification are as follows:

	31 December 2009 '000 USD
Assets classified as held for sale	
Reclassification from investments in associates and jointly controlled entities	62 345
Reclassification from other short term investments and loans receivable	21 885
Reclassification from trade and other receivables	2 033
Interest income accrued in current year	2 026
Loss on re-measurement of assets held for sale	(56 701)
Effect from foreign currency exchange rates changes	(5 137)
Fair value less cost to sell	**26 451**

20 Trade and other receivables

	2009 '000 USD	2008 '000 USD
Trade accounts receivable	174 027	215 192
Other accounts receivable	36 518	34 389
Less: provision	(27 411)	(32 446)
	183 134	**217 135**
Advances to suppliers	15 957	17 022
Value-added tax recoverable	49 825	39 891
Other taxes receivable	41 362	71 356
Less: provision	(2 951)	(2 866)
	287 327	**342 538**

At 31 December 2009, receivables with a carrying amount of USD 6 961 thousand (2008: nil thousand) had been pledged as security for certain bank loans of the Group (Note 24).

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 27.

21 Cash and cash equivalents

	2009 '000 USD	2008 '000 USD
Petty cash	23	37
Bank balances	30 810	32 071
Call deposits	40 765	7 311
Other cash and cash equivalents	1	50
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	**71 599**	**39 469**

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

	31 December 2009 '000 USD	31 December 2008 '000 USD
Cash on hand and bank balances denominated in RUR	5 657	21 556
Cash on hand and bank balances denominated in USD	22 802	9 935
Cash on hand and bank balances denominated in other currencies	2 374	617
Short-term bank deposits, denominated in RUR	38 547	811
Short-term bank deposits, denominated in USD	1 806	6 500
Short-term bank deposits, denominated in other currencies	412	-
Other cash equivalents	1	50
	71 599	**39 469**

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:

	31 December 2009 '000 USD	31 December 2008 '000 USD
Cash on hand	23	37
Rated BB and above*	43 700	23 329
Unrated	27 876	16 103
	71 599	**39 469**

* 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 27.

22 Equity

Share capital and share premium

Number of shares unless otherwise stated	**Ordinary shares 2009**	**Ordinary shares 2008**
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
On issue at end of year, fully paid	**11 529 538**	**11 529 538**

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 2009 in respect of 2008 to the holders of ordinary shares in the amount of RUR 23.14 per ordinary share (equivalent to USD 0.74 per share translated at the exchange rate prevailing at the date of declaration), for the total amount of USD 8 526 thousand and in 2008 in respect of 2007 to holders of ordinary shares of RUR 54.52 per ordinary share (equivalent to 2.32 USD per share translated at exchange rate prevailing at the date of declaration), for the total amount of USD 26 793 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 2009, the net statutory profit for the Company as reported in the published annual statutory reporting forms was RUR 173 million (equivalent to USD 5 450 thousand translated at the average exchange rate for 2009) and the closing balance of the accumulated profit including the current year net statutory profit totalled RUR 22 258 million (equivalent to USD 735 943 thousand translated at the closing exchange rate for 2009). 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.

23 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.

	2009	**2008**
Weighted average number of shares for the year ended 31 December	11 529 538	11 529 538
Profit attributable to the equity holders of the Company ('000 USD)	26 132	100 235
Basic earnings per share (USD per 1 share)	2.267	8.693

24 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 27.

	2009 ’000 USD	2008 ’000 USD
Non-current liabilities		
Secured bank loans	259 228	6 306
Unsecured bank loans	65 784	128 074
	325 012	**134 380**
Current liabilities		
Secured bank loans	154 751	265 655
Unsecured bank loans	256 052	384 558
	410 803	**650 213**

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

’000 USD			**2009**		**2008**	
	Currency	**Year maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Short-term loans						
Secured bank loans						
Sberbank	USD	2010	50 000	49 871	-	-
Wells Fargo Capital Bank (Wachovia Capital Finance)	USD	2010	37 575	37 575	49 340	49 340
SwedBank	USD	2010	30 000	29 851	-	-
ATB	USD	2010	12 710	12 710	-	-
Sberbank	RUR	2010	11 737	11 512	55 343	55 343
Swedbank	USD	2010	7 220	7 220	7 687	7 687
Novikombank	RUR	2010	5 891	5 891	-	-
Raiffeisenbank	RUR	2009	-	-	22 191	22 191
MMB	USD	2009	-	-	30 020	30 020
ATB (OAO Alfabank)	USD	2009	-	-	101 074	101 074
Other	GBP	2010	121	121	-	-
			155 254	***154 751***	***265 655***	***265 655***

'000 USD			2009		2008	
	Currency	Year maturity	Face value	Carrying amount	Face value	Carrying amount
Unsecured bank loans						
UniCreditBank	USD	2010	192 044	191 763	-	-
ZAO BSGV	USD	2010	33 333	33 333	33 307	33 307
UniCreditBank	RUR	2010	17 193	17 133	7 240	7 240
SvedBank	USD	2010	5 000	4 975	30 111	30 111
HVB	EUR	2014-2016*	8 848	8 848	-	-
Sberbank	RUR	2009	-	-	75 301	75 301
MMB	RUR	2009	-	-	17 578	17 578
MMB	USD	2009	-	-	48 020	48 020
Calion Rusbank	USD	2009	-	-	50 118	50 118
Raiffeisenbank	USD	2009	-	-	30 581	30 581
Raiffeisenbank	USD	2009	-	-	25 657	25 657
OAO Alfa Bank	USD	2009	-	-	13 016	13 016
OAO Alfa Bank	USD	2009	-	-	10 025	10 025
OAO Alfa Bank	USD	2009	-	-	21 527	21 527
OAO Alfa Bank	USD	2009	-	-	5 010	5 010
ZAO BSGV	USD	2009	-	-	16 744	16 744
Other	USD	2009	-	-	323	323
			256 418	***256 052***	***384 558***	***384 558***
			411 672	**410 803**	**650 213**	**650 213**

** presented as short-term, refer further below under "Breach of debt covenants".*

'000 USD			2009		2008	
	Currency	Year maturity	Face value	Carrying amount	Face value	Carrying amount
Long-term loans						
Secured bank loans						
Alfa-bank	USD	2012	200 000	200 000	-	-
ATB	USD	2012	35 814	35 814	-	-
Sberbank	USD	2014	24 800	23 414	-	-
HVB	EUR	2014	-	-	6 306	6 306
			260 614	***259 228***	***6 306***	***6 306***
Unsecured bank loans						
UniCreditBank	USD	2012	66 000	65 784	127 979	127 979
Other	USD	2009	-	-	95	95
			66 000	***65 784***	***128 074***	***128 074***
			326 614	**325 012**	**134 380**	**134 380**

Bank loans are secured by following:

- Property, plant and equipment with a carrying amount of USD 98 225 thousand - see Note 13;
- Inventory with a carrying amount of USD 255 693 thousand - see Note 18;
- Accounts receivable with a carrying amount of USD 6 961 thousand - see Note 20;

- Other assets with a carrying amount of USD 154 thousand.

All interest rates are on a per annum basis.

As at 31 December 2009 the Group has undrawn credit line facilities for the total amount of USD 215 957 thousand.

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 2009 the Group is in breach of financial covenants calculated as net financial debt to EBITDA under a loan payable in the amount of USD 8 848 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 reporting date, the loan was classified as current as at 31 December 2009.

As at 31 December 2009 the Group is also in breach of financial covenants for the current loans payable for the total amount of USD 48 395 thousand (carrying amount). However by the date of issue of the financial statements none of the banks required early repayment of the debt.

25 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 2010 with a valuation date of 31 December 2009. For the purposes of that valuation, census data as at the valuation date was collected for the Company.

	2009 ’000 USD	2008 ’000 USD
Present value of defined benefit obligations	**36 027**	**45 116**
Fair value of plan assets	-	-
Present value of unfunded obligations	**36 027**	**45 116**
Unrecognised actuarial losses/(gains)	1 744	(3 472)
Unrecognised prior service cost	(8 026)	(9 295)
Net liability in statement of financial position	**29 745**	**32 349**

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

	2009 '000 USD	2008 '000 USD
Net liability at beginning of period	**32 349**	**33 251**
Net expense recognised in profit or loss	5 751	7 450
Benefits paid	(7 353)	(2 049)
Cumulative translation adjustment	(1 002)	(6 303)
Net liability at end of period	**29 745**	**32 349**

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

	2009 '000 USD	2008 '000 USD
Present value of defined benefit obligations at beginning of period	**45 116**	**58 166**
Service cost	1 243	1 772
Interest cost	3 552	3 791
Actuarial gains	(4 879)	(7 628)
Benefits paid	(7 353)	(2 049)
Cumulative translation adjustment	(1 652)	(8 936)
Present value of defined benefit obligations at end of period	**36 027**	**45 116**

(b) Expense recognised in profit or loss

	2009 '000 USD	2008 '000 USD
Service cost	(1 243)	(1 772)
Interest cost	(3 552)	(3 791)
Amortisation of prior service cost	(956)	(1 222)
Net actuarial losses/(gains) recognised in year	-	(665)
Net expense recognised in profit or loss	**(5 751)**	**(7 450)**

(c) Actuarial assumptions

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

Key actuarial assumptions used were as follows:	**31 December 2009**	**31 December 2008**
Discount rate	8,60%	8,50%
Pension in pay increase	6,00%	6,00%
Salary and benefit basis increases	9,00%	9,00%
Staff turnover	up to age 49: 5% p.a. from age 50: 0% p.a.	up to age 49: 5% p.a. from age 50: 0% p.a.
Mortality	Sverdlovsk region population 2008	Sverdlovsk region population 2007

(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 2010 is USD 9 677 thousand.

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

	2009 '000 USD	2008 '000 USD
Present value of defined benefit obligations (DBO)	36 027	45 116
Fair value of plan assets	-	-
Deficit in plan	36 027	45 116

26 Trade and other payables

	31 December 2009 '000 USD	31 December 2008 '000 USD
Trade accounts payable	27 348	81 221
Payroll and social tax payable	22 380	32 911
Total financial payables	**49 728**	**114 132**
Accrued liabilities and other creditors	13 908	38 148
Total accounts payable and accrued expenses	**63 636**	**152 280**

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

27 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 reporting date:

At 31 December 2009 **'000 USD**	**US Dollar**	**EURO**	**Other foreign currencies**
Monetary financial assets:			
Cash and cash equivalents	50 208	1 064	1 722
Accounts receivable	88 232	48 242	98
Loans receivable	209 100	4	6
	347 540	**48 891**	**870**
Monetary financial liabilities:			
Accounts payable and other liabilities	(1 968)	(1 384)	(1 244)
Loans and borrowings	(692 310)	(8 848)	(121)
	(694 278)	**(10 232)**	**(1 365)**
Net balance sheet position	**(346 738)**	**38 659**	**(495)**

At 31 December 2008 **'000 USD**	**US Dollar**	**EURO**	**Other foreign currencies**
Monetary financial assets:			
Cash and cash equivalents	16 435	291	1 137
Accounts receivable	79 096	46 239	301
Loans receivable	109 455	-	-
	204 986	**46 530**	**1 438**
Monetary financial liabilities:			
Accounts payable and other liabilities	(6 906)	(2 040)	(181)
Loans and borrowings	(600 634)	(6 306)	-
	(607 540)	**(8 346)**	**(181)**
Net balance sheet position	**(402 554)**	**38 184**	**1 257**

Sensitivity analysis

A 10% weakening of the RUR against the following currencies at 31 December 2009 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 2008.

2009	**Equity '000 USD**	**Profit or loss '000 USD**
USD strengthening 10%	(34 674)	(34 674)
Euro strengthening 10%	3 867	3 867

2008		
USD strengthening 10%	(40 255)	(40 255)
Euro strengthening 10%	3 818	3 818

A 10% strengthening of the RUR against the above currencies at 31 December 2009 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:

	Carrying amount	
'000 USD	**2009**	**2008**
Fixed rate instruments		
Loans receivable	211 942	135 638
Current loans and borrowings	(80 105)	(272 339)
Non-current loans and borrowings	(59 228)	-
	72 609	**(136 701)**
Variable rate instruments		
Current loans and borrowings	(330 698)	(377 874)
Non-current loans and borrowings	(265 784)	(134 380)
	(596 482)	**(512 254)**

Fair value sensitivity analysis for fixed rate instruments

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.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 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
2009		
100 bp parallel fall	5 123	5 123
100 bp parallel rise	(5 123)	(5 123)
2008		
100 bp parallel fall	5 964	5 964
100 bp parallel rise	(5 964)	(5 964)

(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. The Group's two most significant customers represent 23% (2008: 27%) of trade accounts receivable at respective reporting 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 20).

(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:

	Carrying amount	
'000 USD	**2009**	**2008**
Loans receivable	211 942	135 638
Trade accounts receivable	150 021	183 096
Other account receivable	33 113	34 039
Cash and cash equivalents	71 599	39 469
	466 675	**392 242**

Impairment losses

The aging of trade receivables at the reporting date was:

	Year ended 31 December 2009		Year ended 31 December 2008	
’000 USD	**Gross**	**Impaired**	**Gross**	**Impaired**
Trade accounts receivable				
Less than 3 months	120 679	(341)	133 408	-
From 3 to 6 months	6 722	(30)	46 847	(2 544)
From 6 to 12 months	4 487	(976)	11 105	(6 671)
Over 12 months	42 139	(22 659)	23 832	(22 881)
	174 027	**(24 006)**	**215 192**	**(32 096)**

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

	Year ended 31 December 2009		Year ended 31 December 2008	
’000 USD	**Trade receivables**	**Other receivables**	**Trade receivables**	**Other receivables**
Provision for impairment as at 1 January	**32 096**	**350**	**38 638**	**3 900**
Impairment loss recognised	104	3 055	34 449	-
Provision reversed	(6 730)	(50)	(34 897)	(3 535)
Forex adjusted	(1 464)	50	(6 094)	(15)
Provision for impairment as at 31 December	**24 006**	**3 405**	**32 096**	**350**

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

The Group 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, (see Note 24).

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 following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

'000 USD	**Currency**	**Carrying amount**	**Contractual cash flows**	**0-12 mths**	**1-2 yrs**	**2-3 yrs**	**Over 3 yrs**	**Total**
As at 31 December 2009								
Non-current loans and borrowings		**325 012**	**382 823**	**24 662**	**151 537**	**186 727**	**19 897**	**382 823**
Secured non-current loans and borrowings								*311 198*
Variable	USD	200 000	233 249	14 035	63 482	155 732	-	233 249
Fixed	USD	59 228	77 949	6 918	20 139	30 995	19 897	77 949
Unsecured non-current loans and borrowings								*71 625*
Variable	USD	65 784	71 625	3 709	67 916	-	-	71 625
Current loans and borrowings		**410 803**	**440 499**	**440 499**	**-**	**-**	**-**	**440 499**
Secured current loans and borrowings								*172 802*
Variable	USD	29 851	31848	31 848	-	-	-	31 848
Fixed	RUR	17 403	19 491	19 491	-	-	-	19 491
Fixed	USD	107 497	121 463	121 463	-	-	-	121 463
Unsecured current loans and borrowings								*267 697*
Variable	USD	230 071	241 404	241 404	-	-	-	241 404
Variable	EUR	8 848	9 089	9 089	-	-	-	9 089
Variable	RUR	17 133	17 204	17 204	-	-	-	17 204
Total current and non-current borrowings		**735 815**	**823 322**	**465 161**	**151 537**	**186 727**	**19 897**	**823 322**

'000 USD	Currency	Carrying amount	Contractual cash Flows	0-12 mths	1-2 yrs	2-3 yrs	Over 3yrs	Total
As at 31 December 2008								
Non-current loans and Borrowings		**134 380**	**151 513**	**5 689**	**5 784**	**133 667**	**6 373**	**151 513**
Secured non-current loans and borrowings		*6 306*	*7 246*	*291*	*291*	*291*	*6 373*	*7 246*
Variable	EUR	6 306	7 246	291	291	291	6 373	7 246
Unsecured non-current loans and borrowings		*128 074*	*144 267*	*5 398*	*5 493*	*133 376*	-	*144 267*
Variable	USD	127 979	144 170	5 397	5 397	133 376	-	144 170
Others	USD	95	97	1	96	-	-	97
Current loans and borrowings		**650 213**	**679 340**	**679 340**				**679 340**
Secured current loans and borrowings		*265 655*	*280 674*	*280 674*	-	-	-	*280 674*
Fixed	RUR	22 191	23 347	23 347	-	-	-	23 347
Variable	USD	87 047	91 303	91 303	-	-	-	91 303
Fixed	USD	101 074	109 506	109 506	-	-	-	109 506
Fixed	RUR	55 343	56 518	56 518	-	-	-	56 518
Unsecured current loans and borrowings		*384 558*	*398 666*	*398 666*	-	-	-	*398 666*
Fixed	RUR	92 879	98 669	98 669	-	-	-	98 669
Fixed	USD	23 041	24 217	24 217	-	-	-	24 217
Variable	USD	261 075	267 129	267 129	-	-	-	267 129
Variable	RUR	7 240	8 326	8 326	-	-	-	8 326
Others	USD	323	325	325	-	-	-	325
Total current and non-current borrowings		**784 593**	**830 853**	**685 029**	**5 784**	**133 667**	**6 373**	**830 853**

(d) Fair value

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

(e) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

'000 USD	Level 1	Level 2	Level 3	Total
31 December 2009				
Financial assets available-for-sale	1 025	-	-	1 025
	1 025	**-**	**-**	**1 025**
31 December 2008				
Financial assets available-for-sale	10	-	-	10
	10	**-**	**-**	**10**

(f) 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 statement of financial position according to IFRS. In 2009, 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 24) and imposed by the statutory legislation of the Russian Federation.

28 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2009 '000 USD	31 December 2008 '000 USD
Less than 1 year	2 196	1 760
1 to 5 years	6 390	5 078
Over 5 years	2 153	553
	10 739	**7 391**

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 2 395 thousand (2008: USD 2 555 thousand) was recognised in the consolidated statement of comprehensive income in respect of operating leases.

29 Commitments

As at 31 December 2009, the Group has entered into contracts to purchase plant and equipment for USD 103 436 thousand (2008: USD 104 079 thousand).

30 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 the 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. The dumping duty is calculated based on a dumping rate applied to the sales of magnesium made by VSMPO-Tirus US in the reviewed period. Commerce has completed its reviews for the period from 4 October 2004 to 31 March 2009.

The dumping rate applied for the year ended 31 March 2007 has been appealed by the Group on 19 March 2009 and by the U.S. 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. The dumping rate applied for the year ended 31 March 2009 has been appealed by U.S. petitioner on 12 November 2010. For all three review periods, 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 2009 to 31 March 2010 but final results are not yet available. As sales of magnesium by VSMPO-Tirus US during this period were insignificant, 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 probable that the ultimate resolution of this matter will result in outflow of economic resources from the Group.

31 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 statements 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:

Statement of financial position	Relationship	31 December 2009 '000 USD	31 December 2008 '000 USD
Bank balances	Parties under Government control	7 272	14 824
Bank balances	Entities under common control	9 924	-
Trade receivable	Parties under Government control	9 961	33 482
Trade receivable	Entities under common control	132	-
Investments	Parties under Government control	1 336	-
Customs duties prepaid	Government	2 538	590
Current income tax prepayments	Government	6 594	10 897
VAT Recoverable	Government	45 149	39 891
Loans and borrowings	Parties under Government control	(87 774)	(130 644)
Loans and borrowings	Entities under common control	(5 891)	-
Trade payable	Parties under Government control	(1 085)	(3 028)
Trade payable	Entities under common control	(179)	-
Current income tax payable	Government	(467)	(1 471)
Property and other tax receivable / payable	Government	26 657	(4 928)
Unified social tax receivable / payable	Government	422	(5 298)
VAT Payable	Government	(1 496)	(1 401)

Transactions with related parties:

Profit or loss caption	Relationship	2009 '000 USD	2008 '000 USD
Revenue	Parties under Government control	130 592	196 241
Revenue	Entities under common control	7 912	11 295
Current income tax	Government	(27 936)	(55 060)
Property and other taxes	Government	(9 424)	(14 427)
Unified social tax	Government	(33 397)	(49 992)
Custom duties	Government	(4 600)	(17 998)
Interest expenses	Entities under common control	(247)	-
Interest expenses	Parties under Government control	(24 614)	(11 356)

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 2009 amounted to USD 6 731 thousand (2008: USD 4 512 thousand). Related state pension and social security costs for the year ended 31 December 2009 amounted to USD 460 thousand (2008: USD 341 thousand). There were no significant post-employment or other long-term benefits.

32 Significant subsidiaries

		2009	**2008**
	Country of incorporation	**Ownership/voting**	**Ownership/voting**
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%

33 Events subsequent to the reporting date

Dividends declared

On 28 June 2010 the dividends were declared for the year ended 31 December 2009 in the amount of RUR 1.5 (equivalent to USD 0.05) per ordinary share for the total amount of RUR 17 294 thousand (equivalent to USD 557 thousand).

Significant transaction

On 20 September 2010 the Group acquired 18,98% of voting shares of OJSC Uralredmet, located in Verkhnyaya Pyshma Sverdlovsk region, for USD 18 980 thousand. OJSC Uralredmet is one of the main suppliers of ligatures to the Group. The Group acquired share in OJSC Uralredmet in order to secure supplies of ligatures and improve quality control over the supplies.