METINVEST®

THE RIGHT STRATEGY FOR A CHANGING WORLD

Annual Report 2010

Metinvest is a vertically integrated steel and mining group that has assets in Ukraine, Europe and the United States and sells its steel products worldwide. It manages every link of the value chain, from mining and processing iron ore and coal to making and selling semi-finished and finished steel products.

Metinvest is the largest steelmaker in Ukraine. Following the acquisition of Ilyich Iron and Steel Works in 2010, it is the largest steelmaker in the CIS and one of the top 25 in the world. The Group is also the largest producer of iron ore and coke in Ukraine and one of the top 10 iron ore producers in the world.

CONTENTS

THE RIGHT STRATEGY FOR A CHANGING WORLD

In 2010, Metinvest updated its long-term growth strategy to meet the long-term challenges of a changing world. In line with its values of professionalism, client focus, concern for life, health and the environment, leadership and teamwork, the strategy is designed to ensure that the Company grows steadily over the long term, conducts its business responsibly, and creates sustainable value for all stakeholders.

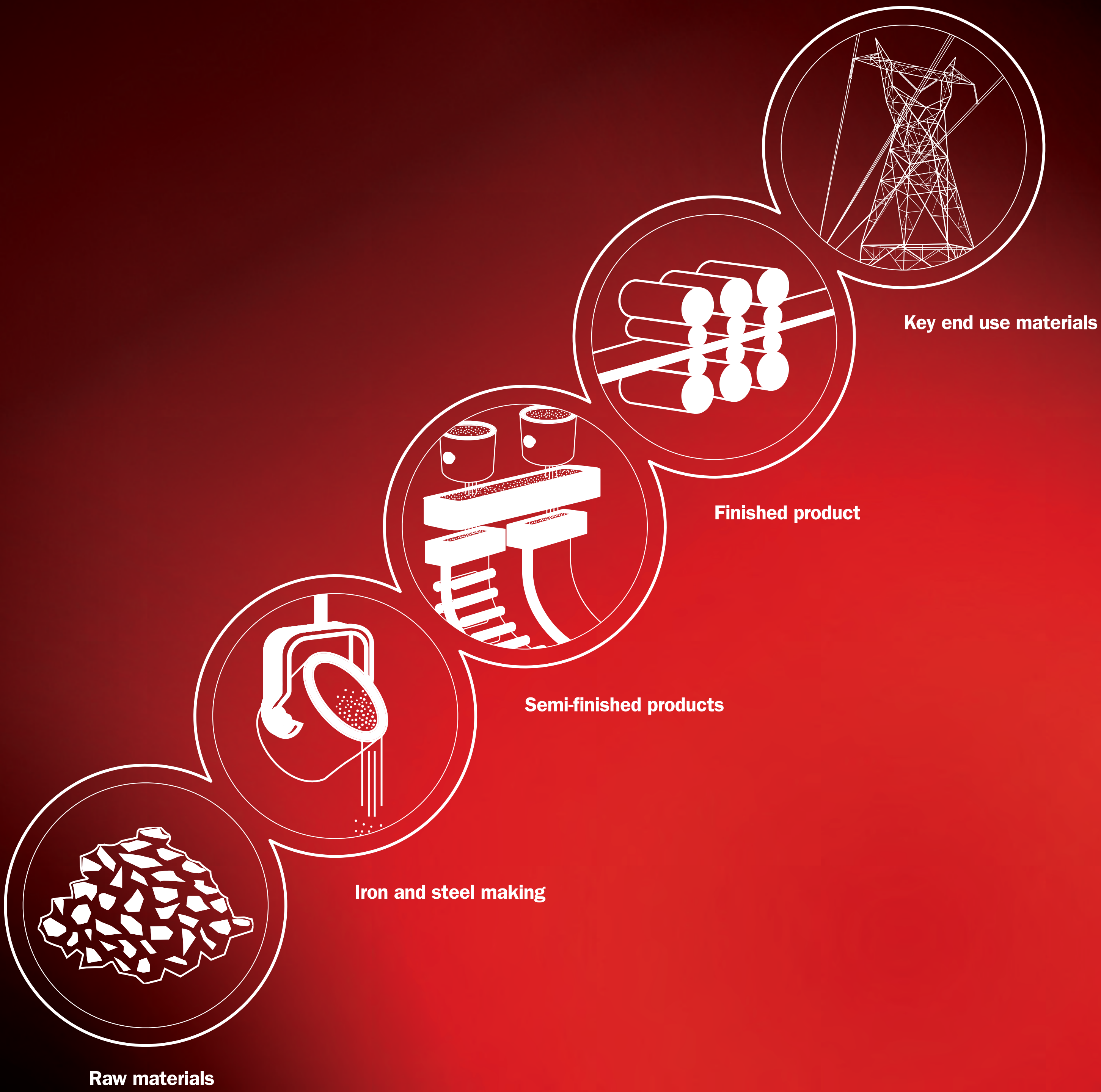
The updated strategy envisions strengthening Metinvest's vertically integrated business model and taking maximum advantage of its low production costs and ideal geographic location between Europe and the CIS. In addition, it foresees harnessing the Company's global scale, vast resource base and diverse portfolio of high-quality steel products to enhance profitability, reach target markets and build on strong customer relations. The strategy also details plans for maximising the skills and experience of its people, its most important asset.

THE RIGHT STRATEGY FOR A CHANGING WORLD

One crucial part of the updated strategy is to increase Metinvest's vertical integration yet further. We intend to expand our steel production to process all of our iron ore into higher value-added steel products. We also aim to secure stable and efficient supplies of key raw materials, primarily high-grade coking coal.

STRENGTH
A VERTICALLY INTEGRATED BUSINESS MODEL

Metinvest manages every link of the value chain, from mining and processing iron ore and coal to making and selling semi-finished and finished steel products. Thanks to vertical integration, the Company is able to adapt proactively to changes in market environment, improve the quality of its steel products and achieve impressive economies of scale.

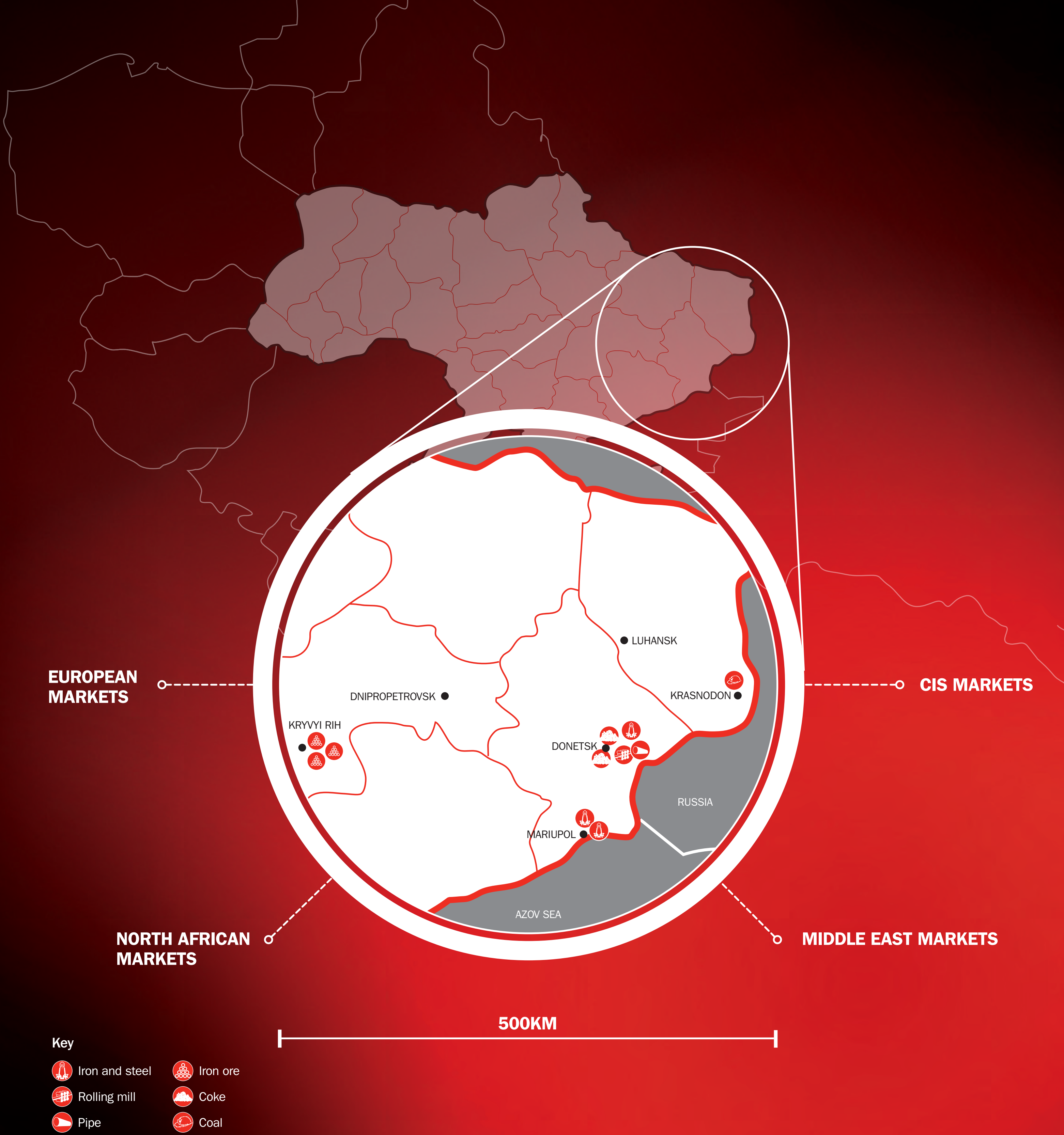


THE RIGHT STRATEGY FOR A CHANGING WORLD

Metinvest's low production costs represent a substantial advantage over competitors, one that it is investing heavily to maintain. The Company's strategy includes major investments to increase energy efficiency at plants, enhance operational synergies, raw material quality and productivity, and substantially reduce the environmental impact of its facilities.

STRENGTH
LOW COST AND EFFICIENT PRODUCTION

Metinvest's vertically integrated model allows the Group to benefit fully from Ukraine's relatively low cost base and resource self-sufficiency and make steel more cheaply than its competitors. In addition, the production facilities are in a prime location for accessing key markets easily.



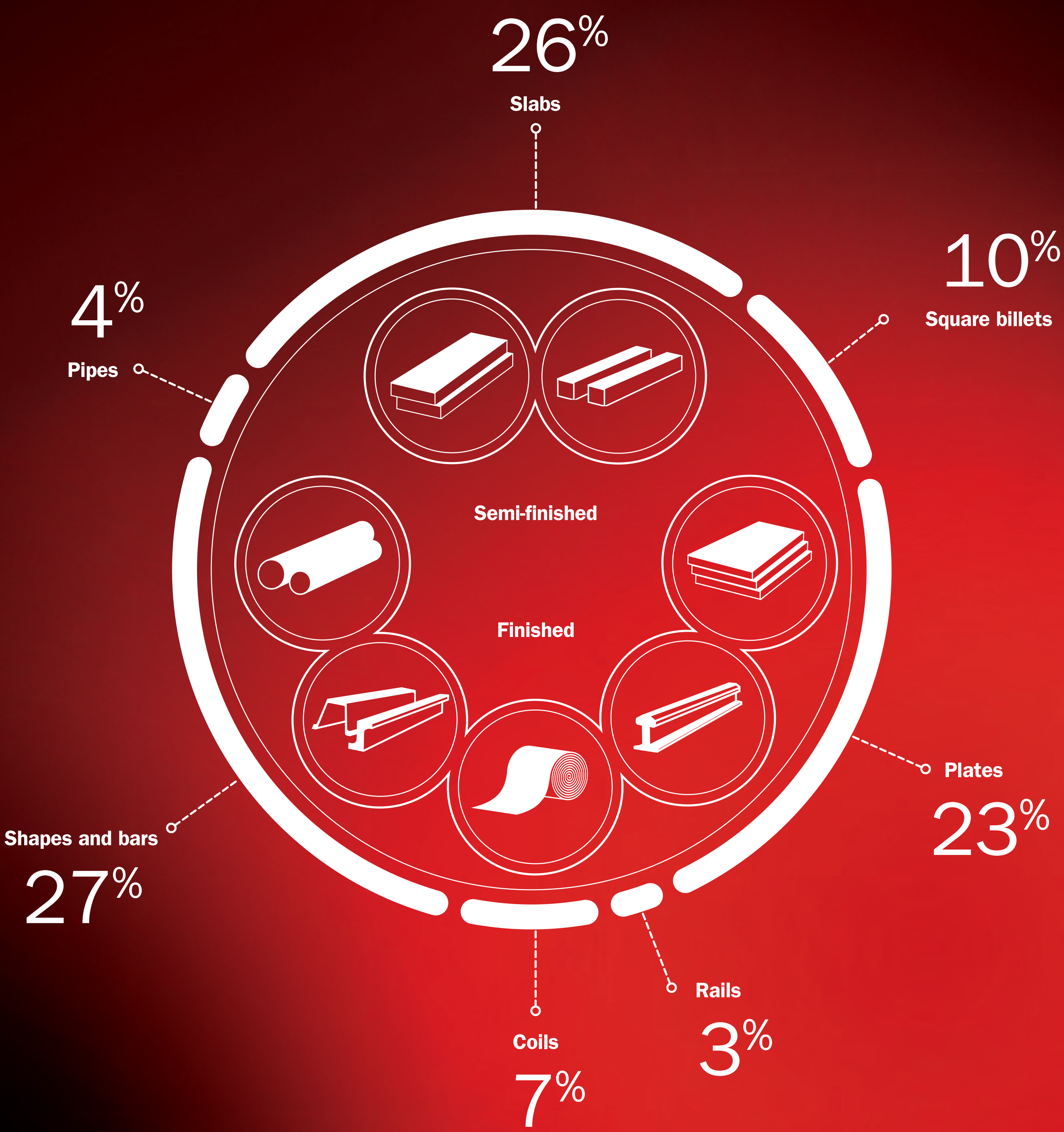
THE RIGHT STRATEGY FOR A CHANGING WORLD

One core aim of Metinvest's long-term strategy is to boost the share of value-added products in the output mix. The acquisition of Ilyich Iron and Steel Works has not only expanded our capacity to 15.0 million tonnes but also provided us with valuable access to the coil market. We will use it as a foundation for further downstream growth, including hot-rolled, cold-rolled and coated steel products, alongside maintaining and strengthening our positions in the plate and heavy sectors.

STRENGTH
DIVERSIFIED HIGH QUALITY STEEL PRODUCTS

Metinvest is one of the world's leading names in steelmaking, the main focus of its operations. It supplies an extensive range of high-quality semi-finished and finished products worldwide, including bars, rebars and sections for use in construction, plates and coils for machine-building and shipbuilding, large-diameter pipes for the oil and gas industry, and rails for railways.

Output by product (8.2mt)



THE RIGHT STRATEGY FOR A CHANGING WORLD

Metinvest will continue to take advantage of its strong iron ore base in Ukraine while improving raw material quality from a value-in-use perspective. The development of United Coal Company in the US will secure supplies of high-quality coking coal for the long term. With Ukraine remaining the domicile for our iron and steel production, we will further exploit the geographical diversity of our rolling assets to be even closer to customers.

STRENGTH

LARGE SIZE, GLOBAL FOOTPRINT AND VAST RESOURCE BASE

Metinvest has mining and production assets in Ukraine, Italy, Bulgaria, the UK and US, and is the largest steelmaker in Ukraine. Following the acquisition of Ilyich Iron and Steel Works in 2010, it is the largest steelmaker in the CIS and one of the top 25 in the world. The Group is also the leading producer of iron ore and coke in Ukraine and one of the top 10 iron ore producers in the world.

Iron ore reserves[1]

Metinvest's iron ore reserves and production capacity cover all of its current steelmaking needs, and this creates a solid foundation for planned increases in production in the long term.

Coal reserves[2]

Metinvest's long-life, captive reserves of high-quality coking coal fully cover its steelmaking needs. It is developing its coal production capacity in the US to provide stable supplies for future growth.

1. According to JORC standards as at 31 December 2009.
2. Coal reserves as at 31 December 2010 (unaudited)
3. According to the Ukrainian State Commission of Mineral Resources

THE RIGHT STRATEGY
FOR A CHANGING WORLD

While we will continue to supply our products to distant markets, like South East Asia, under favourable market conditions, we have identified strategic markets where we want to expand our presence in the long term. Based on market attractiveness and our ability to serve, those markets include Ukraine and the wider CIS, Europe, the Middle East and North Africa.

STRENGTH

STRONG CUSTOMER RELATIONSHIPS IN HIGH GROWTH MARKETS

Metinvest sells its steel products to over 1,000 customers throughout various industries in more than 75 countries, mainly in Europe, the CIS, the Middle East, North Africa and South East Asia. This broad, well established client base diversifies revenues and ensures a firm foothold in the largest steel-consuming regions in the world.

Sales by region (US$9,358m)

THE RIGHT STRATEGY FOR A CHANGING WORLD

Metinvest provides employees with access to training and further education to maximise their long-term potential. It is also training the next generation of leaders, having created a talent pool of young executives. The Company motivates and engages its people by using transparent and fair performance management tools, and developing a strong organisational culture based on shared values.

STRENGTH

SKILLS AND EXPERIENCE OF OUR PEOPLE

Metinvest has some 117,000 employees, making it Ukraine's largest employer. Its people and their skills and experience are the Group's most important asset. The lean management team brings extensive international training and experience to the development of the Company's assets.

Total investment in training (US$m)

Training and staff development[4]

82,573

training sessions were conducted in 2009 and 2010

13,521

of these were in new specialisations

3,491

of these were in further professional development

4. Under the Company's adopted approach, data reflects the total amount of training provided to employees.

2010 HIGHLIGHTS

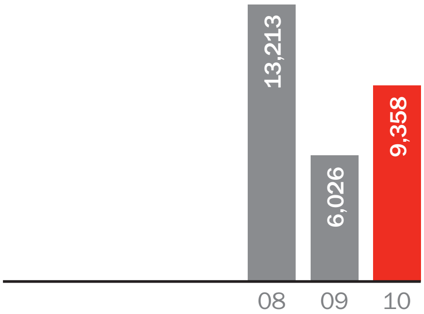
Metinvest delivered a strong financial performance, with robust top-line and bottom-line growth

Financial highlights

Consolidated revenue

US$9,358m

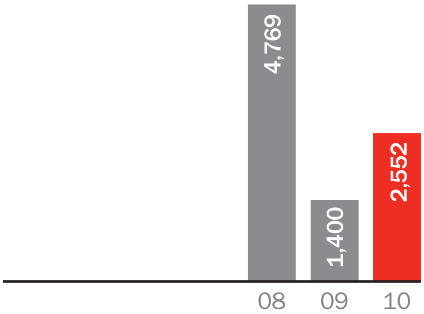
+55.3%



Adjusted EBITDA[5]

US$2,552m

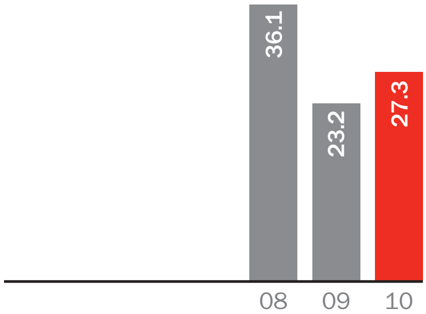
+82.3%



Adjusted EBITDA margin

27.3%

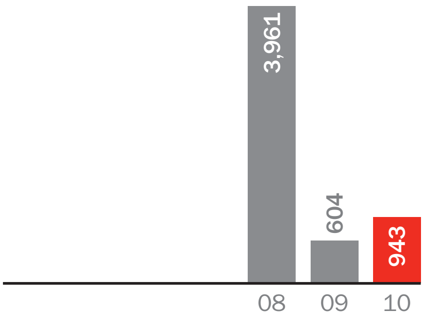
+4.1%



Operating profit

US$943m

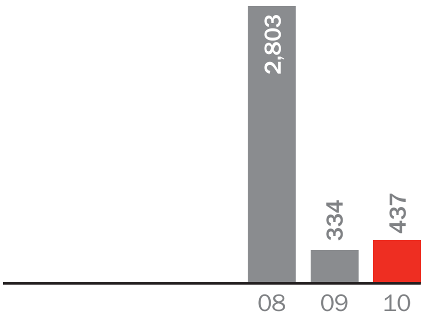
+56.1%



Net profit

US$437m

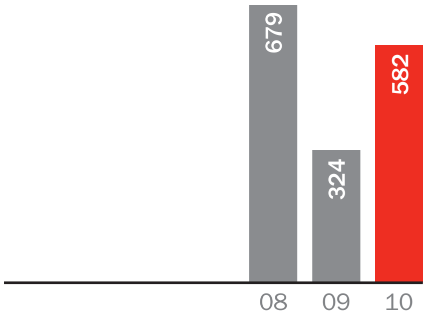
+30.8%



Capital expenditure

US$582m

+79.6%

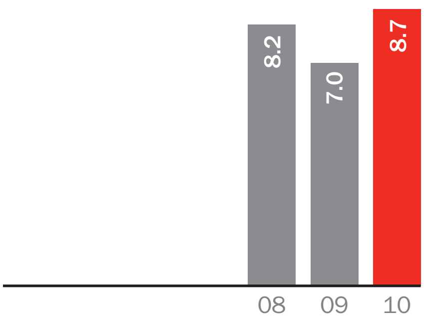


Operating highlights

Crude steel production

8.7mt

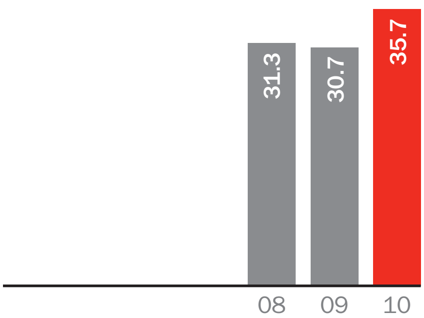
+24.3%



Iron ore concentrate production

35.7mt

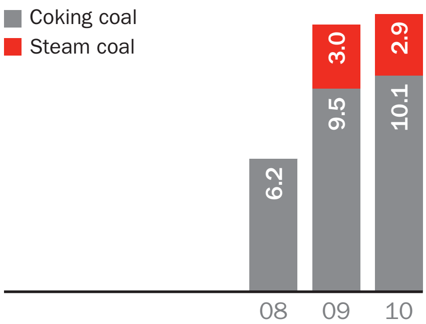
+16.3%



Coking and steam coal (mined)[6]

13.0mt

+4.0%



5. Adjusted EBITDA is calculated as profit before income tax before financial income and costs, depreciation and amortisation, impairment and devaluation of property, plant and equipment, sponsorship and other charity payments, corporate overheads (except for periods following 1 January 2010), share of results of associates and other non-core expenses.

6. Production figures for coking and steam coal in 2009 fully consolidate the production from United Coal, which was acquired that year.

2010 key events

Metinvest acquires Ilyich Steel

Metinvest acquired a 99% stake in Ilyich Iron and Steel Works, boosting its annual steelmaking capacity to 15.0 million tonnes and enhancing its vertical integration.

Metinvest completes integration of Makiivka Steel

Metinvest acquired 90.18% of Makiivka Iron and Steel Works (Makiivka Steel), having acquired operational control in 2009 and completed its integration into the Group.

Pipe production certified

Metinvest finished installing a new production line for single-seam large-diameter longitudinally welded line steel pipes at Khartsyzsk Pipe Plant. It also became the only CIS pipe producer to have a supplier certificate from C4Gas SA and be included on Gaz de France's list of trusted suppliers.

Metinvest launches debut Eurobond

Metinvest completed its debut Eurobond issue successfully, raising US$500 million in five-year bonds in May, underlining its ability to raise funds on attractive terms.

Metinvest obtains pre-export credit facility

The Company obtained a US$700 million three-year pre-export finance facility from a syndicate led by Deutsche Bank AG in July, a further sign of its ability to attract credit.

Yenakiieve Steel passes quality audit

Yenakiieve Iron and Steel Works (Yenakiieve Steel) successfully passed a product-quality compliance audit conducted by the UK Certification Authority for Reinforcing Steels (CARES).

Safety highlights

Continued fall in lost-time injuries in 2010

Injuries from accidents fell by 16.0% year-on-year, and are down by 64.0% since 2006, thanks to major investments in training and equipment, as well as the interdependent safety culture that Metinvest has fostered.

Almost 9,000 workers trained in corporate health and safety standards

All Metinvest workers receive health and safety training, and in 2010 alone, some 9,000 employees underwent training.

Corporate occupational health and safety strategy launched

Metinvest adopted and launched an occupational health and safety strategy, which was piloted at Krasnodon Coal Company and will be deployed at all assets.

Sustainability highlights

Metinvest signs UN Global Compact

Metinvest became a member of the UN Global Compact, committing to uphold 10 universal principles in the areas of human rights, labour, the environment and anti-corruption.

Metinvest receives certification for environmental work

Metinvest received another Climate Action certificate for programmes implemented in environmental protection and compliance with Kyoto Protocol CO_2 emission standards.

Metinvest becomes REACH-compliant

Metinvest finished registering its products under the EC regulation on chemicals and their safe use (REACH); all products passed the registration procedure with the European Chemicals Agency (ECHA).

GLOBAL PRESENCE

Metinvest is a vertically integrated company with a global presence

Spartan

Key products	Plates
Production	0.1 mt

Ferriera Valsider

Key products	Plates and coils
Production	0.5 mt

United Coal Company

Key products	Coal
Production	7.2 mt

Metinvest Trametal

Key products	Plates
Production	0.5 mt

Promet Steel

Key products	Bars
Production	0.2 mt

Iron Ore division

- Iron ore

Coke and Coal division

- Coke
- Coal

Steel and Rolled Products division

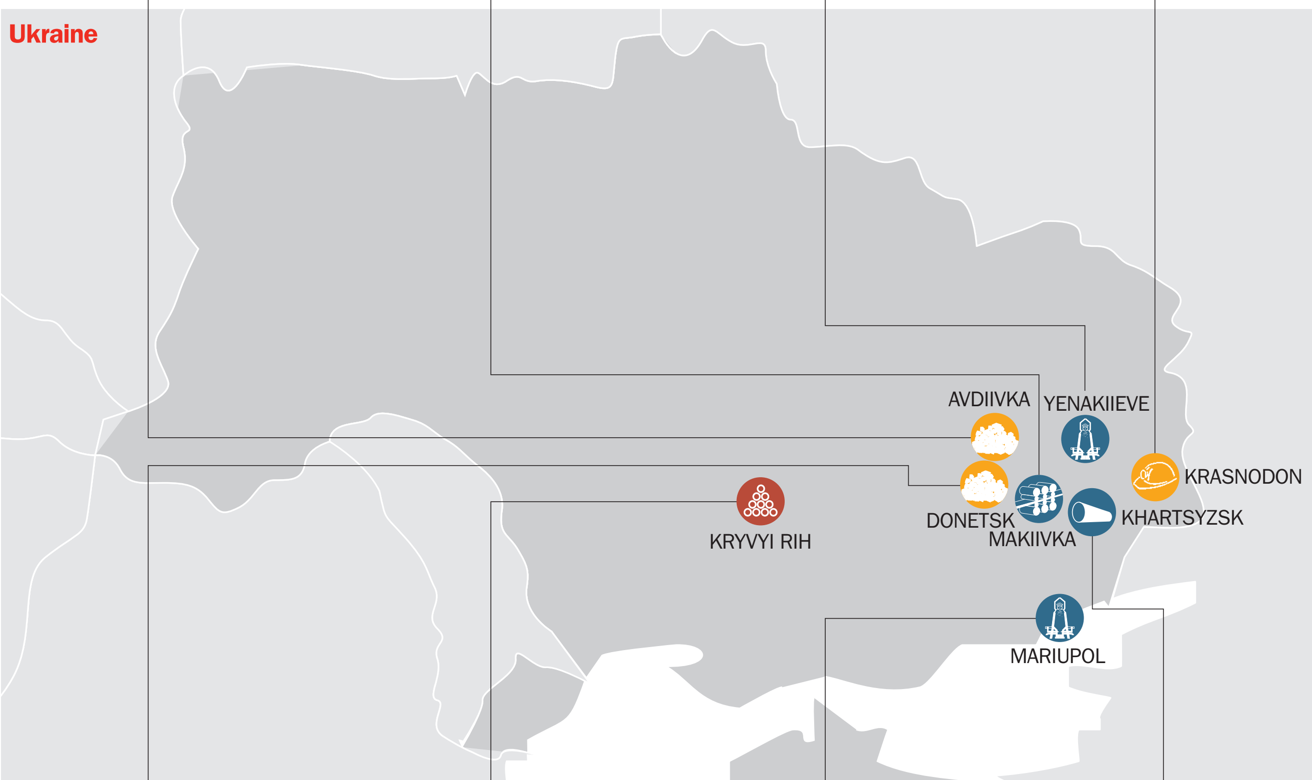
- Iron and steel
- Rolling mill
- Pipe

Avdiivka Coke	
Key products	Coke
Production	3.1 mt

Makiivka Steel	
Key products	Shapes and bars
Production	1.3 mt

Yenakiieve Steel	
Key products	Steel
Production	2.5 mt

Krasnodon Coal	
Key products	Coal
Production	5.8 mt



Inkor Chemicals	
Key products	Chemical products
Production	51,000 t

Northern GOK	
Key products	Iron ore concentrate
Production	14.2 mt

Central GOK	
Key products	Iron ore concentrate
Production	6.1 mt

Ingulets GOK	
Key products	Iron ore concentrate
Production	15.4 mt

Azovstal	
Key products	Steel
Production	5.7 mt

Ilyich Steel	
Key products	Steel
Production[7]	5.6 mt

7. 2010 production for Ilyich Steel, which was acquired in November of that year.

Khartsyzsk Pipe	
Key products	Pipes
Production	0.3 mt

METINVEST AT A GLANCE

Metinvest is a growing steel and mining company with the right strategy to succeed in a changing world

Metinvest is a vertically integrated steel and mining group of companies, with assets in Ukraine, Europe and the United States, and it sells its steel products worldwide. It manages every link of the value chain, from mining and processing iron ore and coal to making and selling semi-finished and finished steel products.

Metinvest B.V., the controlling entity of Metinvest Group, is registered in the Netherlands (the Hague) and as at 31 December 2010 was jointly owned by System Capital Management (75%) and Smart Holding (25%). Metinvest Holding LLC, the managing entity of Metinvest Group, is located in Ukraine (Donetsk) and is a principal subsidiary of Metinvest B.V.

Underpinned by a detailed strategy that was updated and approved in 2010, Metinvest's long-term strategic vision is to become one of the world's leading vertically integrated steelmakers, delivering sustainable growth and profitability and providing investors with superior returns. Its strategy includes a focus on integrating the downstream business and increasing the share of finished products in the sales mix. It is committed to environmental stewardship, the health, safety and wellbeing of employees, and the long-term development of communities in the regions where it operates.

In 2010, Metinvest was the largest producer of iron ore, coke and crude steel in Ukraine, and one of the ten leading producers of iron ore globally. Following the acquisition of Ilyich Steel last year, it is the largest steelmaker in the CIS. In 2010[8], in a rating by Metal Bulletin, Metinvest was one of the world's 25 largest steelmakers in terms of crude steel output, marking significant progress from 38th in 2009.

8. Based on overall output of crude steel of 13.8 million tonnes, including 5.6 million tonnes from Ilyich Steel (full year)

9. Before corporate overheads

Steel and Rolled Products

Overview

The Steel and Rolled Products division combines Metinvest's steelmaking facilities and assets that manufacture flat and long products and large-diameter pipes. The Company produces a diversified range of semi-finished and finished steel products, including slabs, square billets, hot-rolled plates and coils, cold-rolled plates and coils, galvanised products, shapes and bars, rails, grinding balls, rail fasteners and large-diameter pipes.

Operations

The Steel and Rolled Products division has nine industrial assets. Ukraine, where most of Metinvest's facilities are located, is home to Azovstal Iron and Steel Works (Azovstal) and Ilyich Iron and Steel Works (Ilyich Steel), which are among the largest steelmakers nationwide; Yenakiieve Iron and Steel Works (Yenakiieve Steel), a fully integrated iron and steel producer; Makiivka Iron and Steel Works (Makiivka Steel), a producer of shapes and bars; and Khartsyzsk Pipe Plant (Khartsyzsk Pipe), the only manufacturer of large-diameter pipes in the country. In Italy, the Company owns Ferriera Valsider S.p.A. (Ferriera Valsider), a producer of plates and coils; and Metinvest Trametal, which manufactures plates. Finally, there is Promet Steel Plant (Promet Steel), a producer of shapes and bars, in Bulgaria; and Spartan UK Ltd, which manufactures plates, in the UK. All of the enterprises are certified as being ISO 9001 compliant.

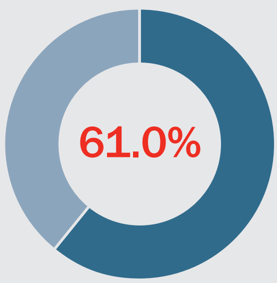
Key strengths

- Metinvest's vertical integration ensures a secure, long-term supply of high-quality raw materials for the Steel and Rolled Products division
- The acquisition of Ilyich Steel in 2010 almost doubled the Company's steelmaking capacity to 15.0 mtpa
- Around 65% of Metinvest's output consists of high value-added finished products
- The Company has a broad, diversified customer base in more than 75 countries

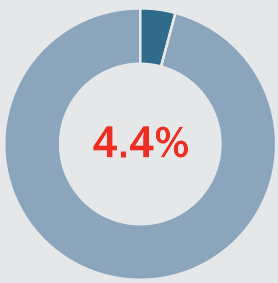
Performance

Last year, amid greater demand for steel products in key markets, the division delivered strong revenue and output growth. Production of iron and crude steel both increased by 24.3% year-on-year, to 7.6 million tonnes and 8.7 million tonnes, respectively. The division's revenues amounted to US$5,776 million, up 43.0%, with external sales totalling US$5,708 million, or 61.0% of Metinvest's external sales. Adjusted EBITDA stood at US$112 million, or 4.4% of consolidated adjusted EBITDA.

Contribution to revenue



Contribution to EBITDA[9]



Iron Ore

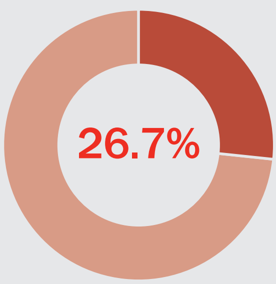
Overview
The Iron Ore division produces iron ore concentrate and pellets, which are used by Metinvest's steelmaking assets and sold to external customers. Based on figures for 2010, the Company is the leading producer of iron ore in Ukraine and the ninth largest in the world.

Operations
The Company has three industrial iron ore assets, which are located in the Kryvyi Rih region of Ukraine: Northern Iron Ore Enrichment Works (Northern GOK) and Ingulets Iron Ore Enrichment Works (Ingulets GOK), two leading European mining companies and the two largest iron ore producers in Ukraine, and Central Iron Ore Enrichment Works (Central GOK).

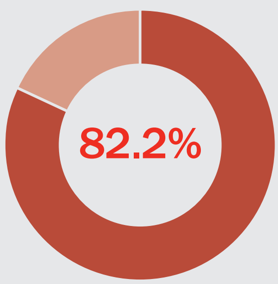
Key strengths
- Current production capacity covers all of Metinvest's current and planned steelmaking needs
- A strong external customer base, coupled with a favourable geographic location neighbouring Europe and seaborne routes to other regions, enables Metinvest to benefit from strong demand and high prices in the international market
- The launch of the additional magnetic flotation refining facility at Ingulets GOK will provide higher-grade concentrate for internal and external customers

Performance
In 2010, total production of iron ore concentrate rose by 16.3% year-on-year to a record high of 35.7 million tonnes. The division's revenues climbed by 89.8% to US$3,464 million, with external sales amounting to US$2,501 million, or 26.7% of Metinvest's external sales. Adjusted EBITDA jumped by 158.6% to US$2,097 million.

Contribution to revenue



Contribution to EBITDA[9]



Coke and Coal

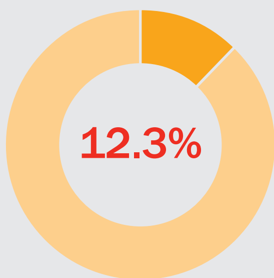
Overview
The Coke and Coal division produces coking and steam coal, blast furnace coke, nut coke and coke breeze, as well as various chemical products, including naphthalene, phenols and cresols. Metinvest is the largest producer of coke and coal in Ukraine.

Operations
The Coke and Coal division has three industrial assets, which are located in the Donbass region of Ukraine: Avdiivka Coke Plant (Avdiivka Coke), one of the industry's leading names in Europe and home to the largest coke and chemicals plant in Ukraine; Krasnodon Coal Company (Krasnodon Coal), the second largest coking coal producer in Ukraine; and Scientific and Manufacturing Association "Inkor and Co" (Inkor Chemicals), one of the largest manufacturers of naphthalene in Europe. In 2009, Metinvest acquired United Coal Company (United Coal), a producer of coking and steam coal based in the Appalachian region of the US; and in 2010, it launched regular shipments of high-quality coking coal from there to its Ukrainian coke-making assets.

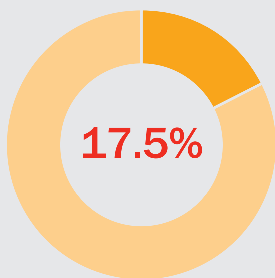
Key strengths
- Metinvest's long-life captive reserves of high-quality coking coal fully cover its steelmaking needs
- The expansion of production capacity at United Coal will secure long-term supplies of high-quality coking coal, which will increase coke quality and iron-making productivity
- The division has delivered consistent improvements in worker safety and occupational health and continues to make this the number one priority

Performance
In 2010, mining of coking and steam coal increased by 4.0% year-on-year to 13.0 million tonnes. The division's revenues rose by 64.4% to US$2,201 million, with external sales of coke and coal amounting to US$1,149 million, or 12.3% of Metinvest's external sales. Adjusted EBITDA climbed by 83.2% to U$447 million.

Contribution to revenue



Contribution to EBITDA[9]



CHAIRMAN'S STATEMENT

Our priorities are safety and environmental sustainability

Oleg Popov
Chairman of Supervisory Board

Dear colleagues and partners,

As expected, last year was a successful one for Metinvest, as we delivered solid financial and operational results that reinforce the foundations for our future growth.

Before looking at our operational successes in more detail, I would like to take this opportunity to emphasise our two overwhelming priorities: ensuring safety in the workplace and making our facilities more energy-efficient.

In 2010, our enterprises made major progress in enhancing safety and conditions in the workplace. Overall, Metinvest spent over US$80 million in this crucial area, allocating funds to streamline industrial safety systems, introducing new technologies and equipment, training employees in Company work-safety standards, and devising a long-term strategy for developing the environmental protection system at our plants. As a result, the number of lost-time days fell by 16% year-on-year, bringing the overall reduction over the last five years to 64%. While we are proud of these results, we will not rest on our laurels.

In 2010, our enterprises made major progress in enhancing safety and workplace conditions. Metinvest spent over US$80 million in this crucial area last year, and it is devising a long-term strategy for developing the environmental protection system at its plants. Our long-term objective is to reduce the number of serious injuries to zero by improving our safety record every year.

Our long-term objective is to reduce the number of serious injuries to zero, by improving our safety record every year. To do this, we have set ourselves the task of fostering a culture of work safety at our enterprises. If all employees feel responsible for their own safety and that of their colleagues, we will succeed in meeting our long-term target. I would like to reiterate that safety in the workplace is the cornerstone of our corporate culture, strategy and business philosophy.

Our other key priority remains introducing energy-efficient technologies, and our achievements in this area have been truly encouraging. Last year, we spent over US$62 million on cutting-edge technology to reduce energy and resource use. Thanks to this, we made progress in improving the energy-efficiency and reducing the environmental impact of our production facilities.

Our operational achievements were influenced by three key factors: the more favourable market environment, the improvement in the Ukrainian economy, and our strategic focus on enhancing operational efficiency, investing in training employees and modernising production facilities. Last year, we invested around US$600 million in upgrading our enterprises. In 2011, we intend to remain focused on this area and increase our investment for the year to US$1.0 billion.

Last year saw the beginning of recovery in both the global economy and financial markets, and we took advantage of this by placing our first Eurobond, totalling US$500 million. The funds raised will enable us to modernise our production facilities even more rapidly.

By far the main achievement of 2010 was the approval of the new long-term development strategy to 2020. It is based on collective experience, a clear understanding of the trends in the steel and mining sector, our desire to be a leader and ensure steady growth, and the lessons learned from the crisis. Today, we and our stakeholders have a clear view of the Company's long-term direction, which will enable us to achieve our aims. The updated strategy envisages Metinvest in 2020 as one of Europe's leading integrated steelmakers, with the latest facilities, a focus on high-value products, and a place among the lowest-cost companies of its kind in the world.

Last year, we took the first – but crucial – step towards achieving our strategic aim by acquiring Ilyich Iron and Steel Works, one of the leading steel producers in Ukraine. Over the next year its integration will boost Metinvest's annual steel output to 15.0 million tonnes and strengthen our positions in key markets.

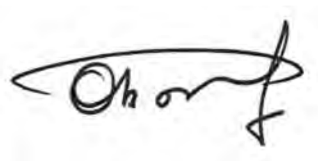
I am confident that in 10 years' time, production at every one of our Ukrainian enterprises will be completely different. To ensure that our ambitious objectives are successfully achieved, we have earmarked over US$6 billion for modernising and developing production facilities over the next five years.

While one of the main objectives of business is to generate profit and increase shareholder value, a company can and should play a leading role in developing the communities, regions and countries in which it is present. This is why we are investing heavily in introducing and maintaining the principles and standards of social responsibility at all of our enterprises. In 2010, the Company spent US$5.2 million on social projects. In addition, in 2009, Metinvest published its first social report, which meets Global Reporting Initiative standards, and became a signatory of the United Nations Global Compact. This year, the Company is issuing its second CSR report.

High standards of corporate governance and transparency at all levels also play an important role in delivering solid business results. Together with its various committees, the Supervisory Board is responsible for key decisions relating to Metinvest's work, including approving the long-term strategy and annual business plans. The management recognises the importance of corporate governance in achieving the Company's objectives, and there are plans to develop the corporate governance function further in line with best international practice.

We believe that high standards of corporate governance and transparency at all levels of management play an important role in delivering solid business results. The management recognises the importance of corporate governance in achieving the Company's objectives. Plans are in place to develop the corporate governance function further in line with best international practice.

We look to the future with confidence. We also understand that our ability to deliver strong results, implement the updated strategy and compete – both now and in the future – depends above all on our employees. The best business strategy is only theory if there is no strong team that can make it a reality. Metinvest has such a team. I would like to thank every one of the Group's employees personally, from the CEO to workers at the various enterprises, for their immense contribution to the Company's prosperity and for their loyalty, dedication and outstanding professionalism.



Oleg Popov
Chairman of the Supervisory Board

INDUSTRY AND MARKETS

Current trends point to long-term global growth in steel demand

Industry and markets

Last year, the global steel industry recovered strongly, reflecting a similar trend in the world economy; the IMF reported that global output rose by 5.0% in 2010, after a fall of 0.5% in 2009.

Key economies, including the US, UK and the Eurozone, all saw a return to positive GDP growth, while China expanded by over 10%. This fuelled greater demand for steel in such industries as construction, oil and gas, automotive manufacturing, and machine-building, among others.

Steel consumption

In 2010, the World Steel Association (WSA) reports, global crude steel production reached an annual record of 1,414 million tonnes, up 15.1% compared with 2009, while world production of hot-rolled steel products reached 1,399 million tonnes, up 14.2%. Steel prices jumped sharply in early 2010, semi-finished/billet prices (FOB, Black Sea port) averaging US$612 a tonne in April, according to SBB, while the average monthly price for the year was US$524 a tonne, compared with US$390 a tonne in 2009. Steel prices increased as a result of rising demand, as well as sharp rises in prices for hard coking coal and iron ore.

Steel consumption in Ukraine also continued to recover following a record drop in 2009. The WSA reports that apparent consumption of finished steel increased by 39.0% to 5.5 million tonnes. Current forecasts suggest that the market could expand by 15-20% in 2011, supported by a rise in orders from the construction, machine-building and pipe-manufacturing industries.

The IMF forecasts that world output will increase by 4.4% in 2011 and the growth drivers for the steel industry should remain in place next year. Capacity utilisation remained modest at 75% in 2010, according to the WSA, up 6 percentage points compared with 2009 but still below the 79% in 2008. Capacity utilisation is expected to rise gradually in 2011 and further over the next five years, which is likely to drive up prices.

Raw materials

In the shorter term, both we and most global commodities analysts generally expect the price of iron ore concentrate and pellets to peak in local, regional and distant markets in 2011 due to extremely tight market fundamentals, especially early in the year. These include seasonal supply disruptions from Brazil and Australia, and falling exports from India, coupled with strong demand from China and rising demand elsewhere in the world. In such a price environment, vertically integrated steelmakers, such as Metinvest, will perform better than those that buy raw materials externally due to significantly lower production costs.

We expect Chinese demand growth for iron ore to moderate after 2011, while supply looks set to increase over the coming years, as new sources are commissioned in areas such as Australia, Brazil and Africa. We also envisage a similar trend in coking coal, although the market is likely to remain tight for longer. Greater supplies of coking coal from newly developed sources in Mongolia, Indonesia and Mozambique should lead to a longer-term downward trend in prices. We share the view of most analysts that, despite some volatility, the price of raw materials – iron ore, coke and coal – will see a downward trend beyond 2011.

Steel market

In the medium term, we expect a shift in the steel market over the next five to ten years, which underpins the Supervisory Board's support for Metinvest's newly updated strategy. The current situation, whereby raw materials producers dominate the market, is expected to change over this period, as new raw materials sources come on line and there is consolidation among steelmakers.

At present, the three largest producers of iron ore control around 70% of the market. Conversely, in steel, the ten largest producers control less than 30% of the market. The most likely scenario for the development of the steel industry is therefore consolidation through mergers and acquisitions, which should provide steelmakers with greater market power to influence raw materials prices.

On this basis and due to rising steel capacity utilisation, we expect the distribution of margins to change in favour of steelmakers in the medium term. In addition, greater consolidation and increasing vertical integration will allow a few large steelmakers to invest in new, more efficient production technology.

Over the medium term, we expect global demand for steel to continue to grow by 5-6% a year. Drivers of steel demand include continuing urbanisation and industrialisation in developing countries, such as China, India and Brazil. For the foreseeable future, we do not envisage the emergence of effective substitutes for steel in the main consuming industries.

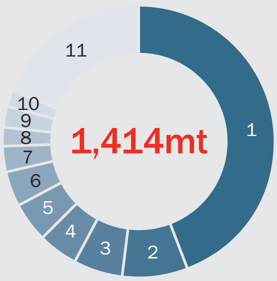
Future challenges facing steelmakers are likely to include a rising tendency towards protectionism in regional markets, caused by varying rates of economic growth between developed and developing countries. In addition, stronger environmental rules will require producers to become cleaner and more efficient. For Ukrainian producers specifically, the gradual depletion of coal reserves presents a long-term challenge. Metinvest's ability to source coal from United Coal in the US represents an important hedge against this risk.

We also expect consumption in Ukraine to rise strongly. As the country becomes ever more integrated into the European and global economies, industry should adopt modern construction standards and practices as a norm. Ukraine's steel consumption per capita trails that of regional peers, including Russia, suggesting that it could roughly double over the next decade.

Market overview

Global crude steel production by region 2010

1	China	627
2	Japan	110
3	US	81
4	Russia	67
5	India	67
6	South Korea	58
7	Germany	44
8	Ukraine	34
9	Brazil	33
10	Turkey	29
11	Other countries	264
Total		**1,414**

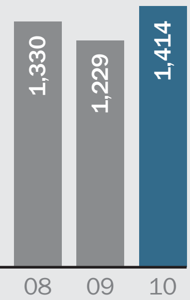


Source: WSA

Global crude steel production

1,414mt

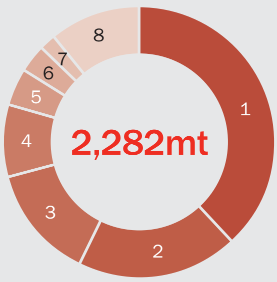
+15.1%



Source: WSA

Global iron ore production by region 2010

1	China	871
2	Australia	440
3	Brazil	311
4	India	196
5	Russia	99
6	Ukraine	79
7	US	43
8	Other countries	243
Total		**2,282**

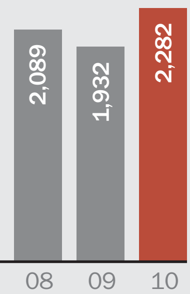


Source: Metal Courier (Russia, Ukraine)

Global iron ore production

2,282mt

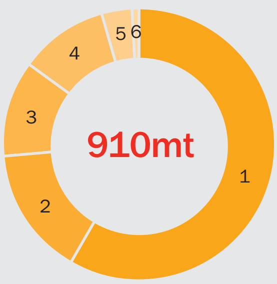
+18.1%



Source: Metal Courier (Russia, Ukraine)

Global coking coal production by region 2010[10]

1	Asia	531
2	Oceania	139
3	CIS	106
4	North America	96
5	Europe	31
6	Other countries	7
Total		**910**

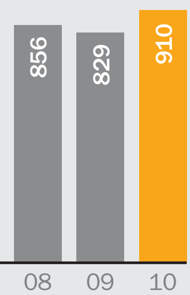


Source: Metal Bulletin

Global coking coal production

910mt[10]

+9.8%



Source: Metal Bulletin

10. Figures for 2010 are estimated

GENERAL DIRECTOR'S REVIEW

Adopting the strategy to support growth and profitability

Igor Syry
General Director

Last year represented a breakthrough for Metinvest, as we delivered solid financial results and created a detailed roadmap for our future. Both revenues and profitability surged thanks to the continued use of tight cost controls, greater efficiency, and a rise in the share of higher-value steel products in the sales mix, among other important factors. While we put the crisis of 2008-09 behind us, we did not relax our "anti-crisis" measures, including a keen focus on costs and efficiency.

One of our main achievements of 2010 was to update and approve the right long-term strategy for our business through to 2020 and beyond. We invested the effort necessary to adjust our strategy in line with our core strengths, the potential of our asset base, and the long-term trends in the global steel market. Our landmark acquisition of Ilyich Iron and Steel Works last year fits perfectly with our updated strategy, while the integration was swift and smooth.

Solid financial results

Later in this report, we take a detailed look at our consolidated financial results for 2010. Here, I would like to highlight the key figures, which prove the resilience of our business model and the superior financial performance that we displayed last year.

Consolidated revenues made a robust recovery, climbing to US$9,358 million in 2010, 55.3% higher than the US$6,026 million in 2009, as the global steel market made a strong recovery. We successfully dealt with volatility in commodity prices, generating strong cash flow as our solid raw material base and cost controls helped us to deliver one of the strongest performances among regional mining and steel companies. We also overcame continued volatility in the global steel business and a slower than expected recovery in some key markets.

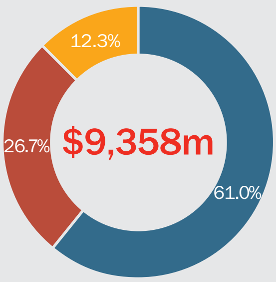
Adjusted EBITDA rose to US$2,552 million in 2010, 82.3% above the US$1,400 million in 2009. Adjusted EBITDA margin rose by 4.1 percentage points to 27.3%. Net profit jumped by 30.8% to US$437 million, compared with US$334 million in 2009.

Meanwhile, our US$500 million debut Eurobond issue in May was a resounding success, demonstrating the solidity of our investment story and a healthy appetite for our paper. Our ability to tap debt markets on favourable terms so quickly after the crisis underlines the strength of not only our business and management team, but also our corporate governance institutions and controls. Our overall debt and Net debt to EBITDA ratio at the end of 2010 remained perfectly comfortable. Moreover, our cash-generative business enables us to finance our future investment plans without significantly increasing our debt load.

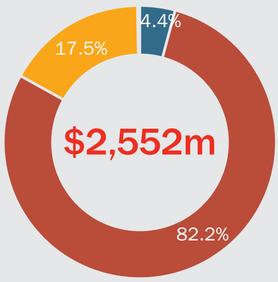
Measuring our performance

Financial KPIs

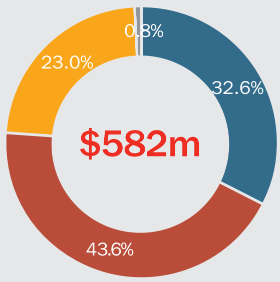
Consolidated revenue by division



Adjusted EBITDA by division[11]



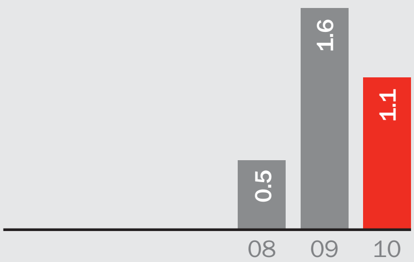
Capital expenditure by division[12]



Steel and rolled products division | Iron Ore division | Coke and coal division | Corporate overheads

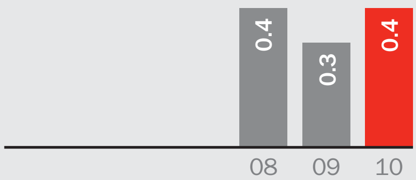
Net debt to EBITDA ratio

1.1x



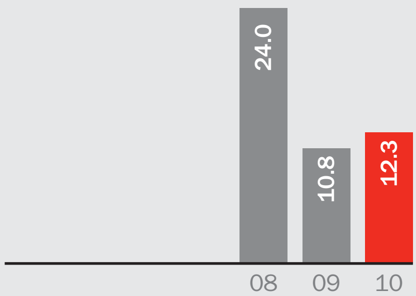
Total debt to Equity ratio

0.4x



Interest cover ratio

12.3x

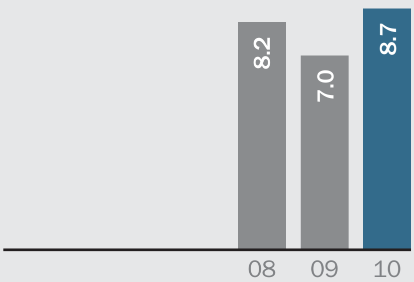


Operational KPIs

Crude steel production

8.7mt

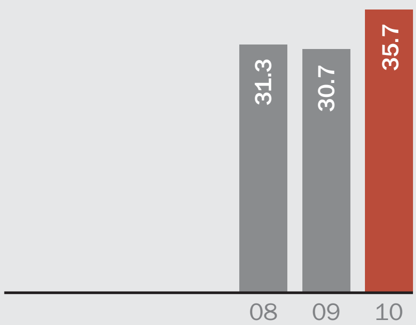
+24.3%



Iron ore concentrate production

35.7mt

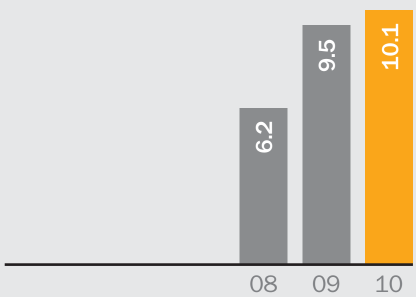
+16.3%



Coking coal (mined)

10.1mt

+6.3%



11. Before corporate overheads

12. Includes corporate overheads

Choosing the right strategy

Our strong financial performance in 2010 came alongside a far-reaching update to our strategy. While the core elements of our strategic initiatives remain unchanged, we have placed them in a far more detailed and structured framework, which the Supervisory Board has endorsed. We invested the effort necessary to adjust our strategy in line with our core strengths, the potential of our asset base, and the long-term trends in the global steel and raw materials markets. We took the opportunity to examine every part of our business.

The economic crisis demonstrated the fundamental resilience of our business model, and we emerged steadier than ever. In particular, our vertical integration and firm footing in terms of raw materials were crucial. Nonetheless, the crisis also underlined the potential future challenges to our business presented by a changing world. We therefore decided to undertake a fundamental analysis of our business and the potential risks facing us and the industry worldwide.

Our investments in technology will increase our output and efficiency, while further mitigating our environmental impact. We continue to reduce greenhouse gas emissions and other environmental threats. We are building on the major progress that we have already made in this area. We expect to have reduced emissions by more than 12 million tonnes of CO_2 equivalent for 2008-12.

We recognise that our low-cost production advantage will erode over time as input and wage costs increase. Today, in terms of labour productivity and energy efficiency, Ukrainian plants trail international peers by 25% or more and require major long-term investment. Energy and gas prices will continue to rise, as will labour costs. While we have made huge progress in training our employees and improving work practices, substantial room exists for introducing both safer and more streamlined work practices.

Our strategy confronts these challenges head on, so that we can both survive and thrive as the market consolidates and capacity utilisation and demand for finished steel products rebound. Our vision for 2020 is to create a leading global steelmaker with low-cost, efficient and high-value production that fully utilises our existing resource base and delivers high-quality goods that meet clients’ needs. We seek to do this while adhering to the highest global standards of safety and environmental sustainability and helping to develop the communities where we are present.

Implementation

Our strategy consists of three pillars: sustaining our cost advantage in steelmaking, strengthening our positions in strategic markets and achieving world-class business excellence. We see securing sustainable cost advantages as a strategic goal of prime importance, and there are several components to this goal. The first is to increase vertical integration and process all of our iron ore in our own steel plants. The second is to improve the efficiency of our steelmaking. We envision annual steel output of 25 million tonnes, achieved by utilising our raw materials capacity in full.

We will boost steel output organically by improving technology at existing plants and undertake selective mergers and acquisitions given the right opportunities. In turn, we will invest to enhance the quality of our iron ore processing and our coking coke and coal, as well as bring new coal production capacity online.

To this end, Metinvest has committed to investing more than US$6 billion over the next five years in modernising our plants and maintaining existing facilities. Some US$5 billion will go on development projects and the remainder has been earmarked for maintenance.

Our planned investments are designed to reinforce our vertical integration by improving the quality and efficiency of iron ore and coke and coal production. They will also increase the quality and quantity of our steel output to meet our output targets and boost the share of finished products.

Examples of key technology investments include the introduction of Pulverised Coal Injection (PCI) technology at the blast furnaces at all of our steel plants. This will reduce consumption of costly coking coal and natural gas, while improving the quality of the hot steel produced. We also plan to replace inefficient and polluting open-hearth furnaces with basic oxygen ones. In the first half of 2011, we already closed the open-hearth furnaces at Azovstal without losing output by ramping up steel production from the basic oxygen converters.

Meanwhile, we intend to install a second additional flotation module at Ingulets GOK, which will improve the quality of our iron ore concentrate and thus our steel products. We will also build additional beneficiation facilities at Northern GOK, as well as modernise an existing pellet plant.

To meet the rising demand for high-grade coking coal, which is in short supply in Ukraine, we have already secured regulatory approval to expand capacity at the Affinity and Roaring Creek mines belonging to United Coal, which will enable us to boost annual coking coal concentrate output at our US subsidiary to 6 million tonnes by 2014. The launch of trans-Atlantic shipments of coking coal to Ukraine using Panamax vessels in 2010, together with greater capacity at United Coal, should enable us to increase the supply of premium-grade coking coal to our Ukrainian plants.

The right strategy

Vision

Our vision is to become the leading vertically integrated steel producer in Europe, delivering sustainable growth and profitability that are resilient to business cycles and providing investors with returns that are above industry benchmarks.

Strategy

Our strategy aims to maintain long-term stable growth and ensure that our business acts in the interests of all stakeholders: investors, clients, employees, market participants, state agencies, local communities and shareholders.

We are developing our Company to make it the preferred supplier of products for current and future clients. Our value proposition is business excellence based on our competitive advantages, innovative and modern management practices, and a philosophy of continuous improvement.

We aim to maximise the potential of our assets and people by enhancing vertical integration, achieving operational and commercial excellence through investments in technology and human resources, and adhering to world-class corporate governance standards.

Strategic objectives

Our strategic objectives represent key success factors towards realising our long-term vision. They are to:

- Sustain our competitive advantages in steelmaking by achieving world-class levels of operational efficiency, boosting capacity to maximise the value of captive iron ore, and increasing self-sufficiency in the key raw materials
- Strengthen positions in strategic markets by creating value for key customers and increasing sales of finished steel products, including by expanding our presence in new segments for higher value-added steel products
- Achieve world-class business excellence by implementing outstanding practices in managing the Company and delivering results

Values

Our values underpin our long-term vision, they are why we come to work each day, and they reflect the interests of all stakeholders. They are:

- Professionalism: we strive to fulfil our responsibilities to the highest possible standards throughout
- Client focus: we consider customer service to be one of the core principles of our business
- Life, health and environment: we seek to improve our wellbeing, our working conditions and the surroundings in which we live
- Leadership: we encourage leadership among employees to develop and maintain a talent pool
- Teamwork: we foster a working culture of close cooperation and mutual concern for safety among all of our personnel

KPIs

We believe in accountability, as it both ensures that we achieve our potential and enhances internal control and corporate governance. We use KPIs to measure our financial and operational performance against our strategic goals.

More on page 25

Risks

Our extensive risk management process identifies and assesses potential threats that we encounter in our business. Risk management is built into our strategy, and risk mapping is a critical element in our day-to-day management.

More on page 34

Corporate social responsibility

The success of Metinvest's business is inextricably linked to the sustainability of the communities, countries and environment in which it operates. As such, the Company has integrated provisions for corporate social responsibility into every level of strategic and day-to-day decision-making.

More on pages 54-59

Along with greater and more efficient output of higher-value products, our investments in technology will further mitigate our environmental impact, reducing greenhouse gas emissions and the risk of hazardous substances being discharged accidentally. We have already made major strides in this area through recent modernisation projects, and we expect to have reduced emissions by more than 12 million tonnes of CO_2 equivalent for 2008-12.

The strategy also foresees a drop in the share of semi-finished steel products to 10% in favour of long and flat rolled products. In addition, there will be an emphasis on clear customer segmentation and developing long-term mutually beneficial relationships with key accounts.

Creating the right structure

We know what we want to do. Alongside this, we need to ensure that our investments are made efficiently, that our organisation is capable of managing complex projects, and that our managers and employees share a common mission and values. We also need to identify and mitigate the risks that arise in a changing world.

> In 2010, we invested the effort necessary to adjust our strategy in line with our core strengths, the potential of our asset base, and the long-term trends in the global steel and raw materials markets. We took the opportunity to examine every part of our business. As a result, our updated strategy confronts emerging challenges head on.

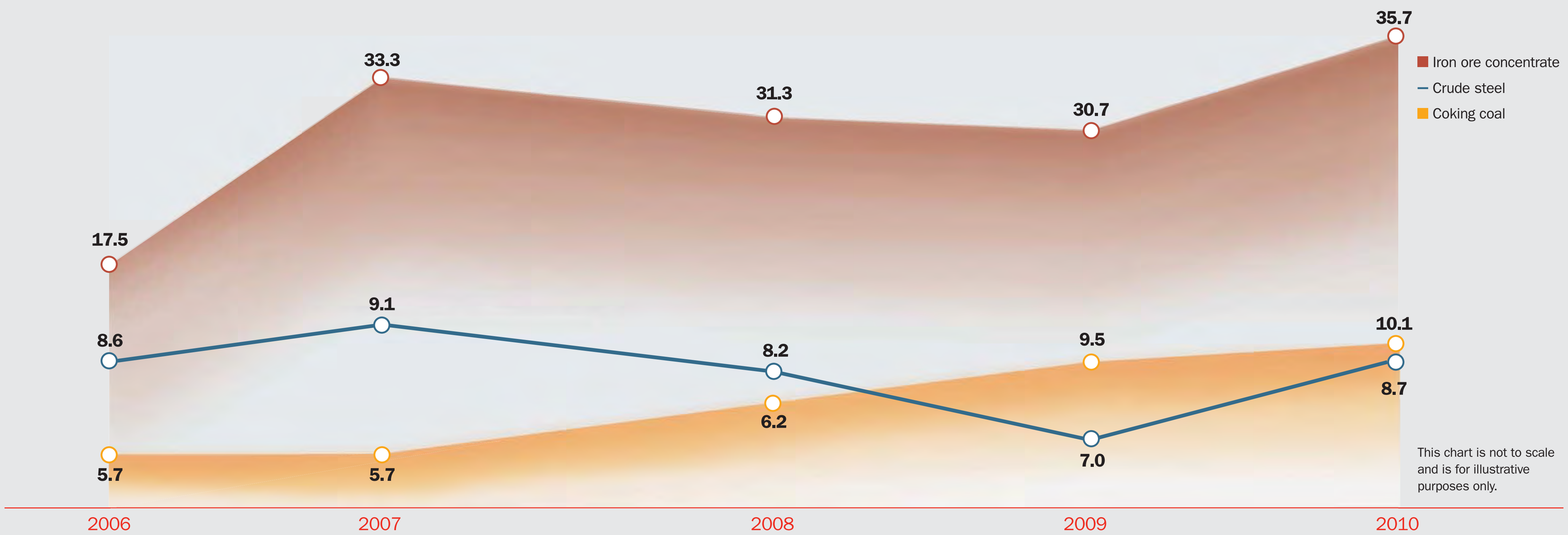
We have launched a major cross-functional initiative, to be concluded during 2011, to develop a technology strategy to ensure that our long-term investments in technology are made efficiently. We want to eliminate bottlenecks within our own organisation and avoid costly delays caused by external factors.

Major technology investments will require robust project management, and we are developing this capacity internally. We need to identify the best suppliers and subcontractors capable of delivering on time, to the highest standards, and at the right price.

We are also undertaking a major reorganisation to ensure that our operating model can implement these significant investment projects successfully. In 2010, we appointed new heads of our Steel and Rolled Products division and Iron Ore division, as well as a new Human Resources director. We have also placed new executives in charge of several plants.

A long way in a short time

Production (mt) since 2006



Metinvest is established

The Company secures a US$400 million syndicated loan from BNP Paribas

Metinvest acquires an 82.5% stake in PJSC Ingulets Iron Ore Enrichment Works (Ukraine)

The Company signs a US$1,500 million syndicated pre-export term facility

Metinvest acquires a 100% stake in Trametal S.P.A. (Italy) and its subsidiary Spartan UK Ltd (UK)

The Company arranges the first independent JORC audit of its iron ore deposits

Metinvest acquires a 100% stake in United Coal Company LLC (US)

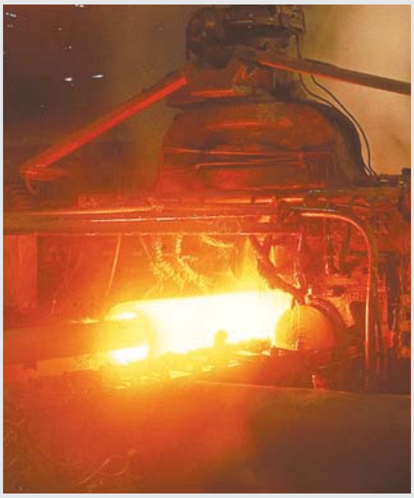
The Company implements an integrated health, safety and environment management system based on the OHSAS 18001 and ISO 14001 standards at Metinvest Holding LLC

Metinvest acquires a 99% stake in PJSC Ilyich Iron and Steel Works (Ukraine)

The Company debuts on the Eurobond market with a US$500 million, five-year issue

Metinvest issues a US$700 million, three-year syndicated pre-export finance facility

Our strategy in action



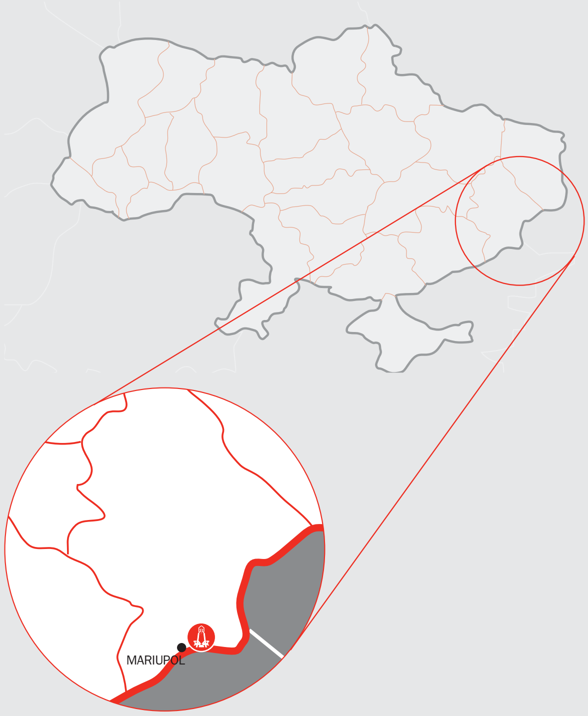
Case Study: Acquisition of PJSC Ilyich Iron and Steel Works

One clear example of Metinvest's updated strategy of expanding steel production is the acquisition and integration of Ilyich Iron and Steel Works in 2010. The plant has 12 sintering machines with an annual capacity of 12.2 million tonnes, produces steel in basic oxygen furnaces and an open-hearth plant, and has hot and cold plate rolling mills.

The acquisition corresponds with the Company's strategic goals, as it:

- Reinforces Metinvest's vertical structure by increasing overall annual steelmaking capacity to 15.0 million tonnes. The sintering complex can process raw materials for blast furnaces at Ilyich Steel and Azovstal. As both are located in Mariupol and close to the city's port, there are substantial logistical synergies.
- Strengthens Metinvest's market positions by boosting sales of finished steel products in both local and international markets, especially the Middle East, where Ilyich Steel is already well established.
- Increases the revenue from finished products and the share of finished products in the total portfolio. The plant's product mix perfectly fits with the Company's focus on sales of finished products, including hot-rolled coil.

Metinvest plans to modernise the production facilities at Ilyich Steel, increase output, and enhance production and energy efficiency. Key projects aim to reduce costs, including by implementing pulverised coal injection technology, upgrade blast furnaces and energy equipment, convert to the continuous casting process, and upgrade the hot-rolled coil mill, pending the completion of the technology strategy in 2011.



Annual capacity – Crude steel:

6.0mt

Annual capacity – Sinter:

12.2mt

We recognise that our plants have long and distinguished histories and a clear sense of identity. At the same time, we are working to create shared values across Metinvest through branding and internal communications. Steps like introducing a single design for a new generation of safety clothing not only improve safety, but also underline our shared corporate identity and mission.

At the plant level, we are introducing a lean approach to identify and eliminate waste. Hand-in-hand with this work, our Health, Safety and Environment team is working to ensure that unified, high corporate standards are understood and applied by every employee and are driving a safety revolution at our plants. It is a firm belief of our senior management and one of the Company's core values that safe working practices not only are a moral imperative, but also create a more efficient and motivated workforce. Last year alone, nearly 9,000 employees underwent comprehensive safety training, and we are stepping up our efforts.

We are introducing a lean approach in production to increase efficiency and reduce waste.

Our sales function is another organisational focus. To boost deliveries of higher value-added products in our target markets and create additional value for clients, we are reorganising our sales force, recruiting new client relationship managers and enhancing our customer service. In addition, to strengthen our positions in strategic markets, we intend to re-focus our sales efforts. Geographically, these efforts will focus on the key markets of Ukraine and the wider CIS, Europe, the Middle East and Northern Africa. In our view, these are the markets where we have a natural advantage due to low logistics costs and there will be robust long-term demand for our steel products. In Ukraine, for example, we envisage considerable growth potential for our finished products, such as coils, as modern construction standards and techniques become more widespread.

We believe in transparency and accountability in the work of each employee, from senior managers downwards. In 2010, we significantly updated our Key Performance Indicator (KPI) matrix to track progress and ensure accountability, as we implement such sweeping changes and major investments in our organisation.

Mitigating risks

We are committed to understanding future market and Company-specific risks to our business and developing responses that will ensure the long-term stability and growth in our business. Indeed, risk management is an integral part of our updated strategy, which contains a long list of potential threats, thus placing an emphasis on mitigating them. Our Risk Management team carries out regular risk mapping that allows us to react swiftly to risks as they emerge.

In 2010, we also created a dedicated Risk Committee to regularly examine threats to our business. Our internal audit and internal control functions each reviews critical business processes.

Outlook

Metinvest is still a young company by any standard, and we have come a long way in a short time. We have progressed from being a holding company for a diverse range of assets to being the operator of a vertically integrated mining and steel business. Now, we are making the transformation into a leading global steel producer. We are utilising our iron ore assets internally to compete in what we believe will be the highest-margin segments of the market over the long term, as margins are redistributed from raw materials producers to steelmakers.

Our goals for 2011 are clear: we want to complete the development of our technology strategy and proceed with other initiatives aimed at implementing our long-term strategy. We will continue the ongoing investment projects at our plants that aim to improve the quality of our products, increase efficiency, and mitigate safety and environmental risks. We also intend to make major organisational changes to ensure that we deliver on our plans and counter risks as they arise.

Our story is only beginning. In 2011, Metinvest is celebrating its fifth anniversary. We are justifiably proud of the progress made so far: the plants under our management have rich histories and form the core of the communities where they are based. We are investing in making these plants more efficient and environmentally sustainable. We take our responsibility for employees, their families and their communities extremely seriously. As the largest taxpayer in Ukraine, we believe that the quality of our products and successful management of our business is our greatest single contribution to society.

On behalf of the entire senior management team, I would like to thank our managers and employees for their hard work and dedication in 2010.

Igor Syry
General Director

FINANCIAL REVIEW

Strong performance on the top and bottom line

Sergiy Novikov
Chief Financial Officer

In 2010, Metinvest delivered a strong financial performance, as revenues, EBITDA and profit all recovered strongly after the "crisis year" of 2009. Last year again demonstrated the Company's resilient business model and stable cash flow generation, despite volatility in commodity prices. As the world economy rebounded, global steel prices rose sharply in 2010, and demand for steel products soared as customers restocked inventories. Metinvest also benefited from high prices and strong external sales for iron ore products. It was able to maintain solid margins thanks to the ongoing robust cost controls originally implemented in the second half of 2008, during the financial crisis.

Revenues

In 2010, Metinvest's consolidated revenues amounted to US$9,358 million, 55.3% higher than the US$6,026 million in 2009. The Steel and Rolled Products division accounted for 61.0% of external revenues (compared with 66.2% in 2009), the Iron Ore division for 26.7% (21.6% in 2009) and the Coke and Coal division for 12.3% (12.2% in 2009). The key revenue drivers were resurgent demand for steel and higher, if volatile, prices of steel, iron ore and coking coal.

The Steel and Rolled Products division accounted for 51.6% of the increase in consolidated revenues in 2010. This was driven primarily by a year-on-year increase of 27.9% in sales volumes, as well as a 23.7% rise in average steel prices. Alongside the broader global economic recovery, this was helped by the start, from July, of sales of the products from Ilyich Iron and Steel Works, which was consolidated from 17 November 2010.

Iron ore sales were responsible for 36.3% of the rise in consolidated revenues in 2010. This was driven primarily by a year-on-year increase of 7.9% in sales volumes, as well as a 28.4% rise in average iron ore prices. The volume of iron ore products sold to external customers increased primarily due to a recovery in key sales markets and thus overall demand for the products. In particular, with the average price of iron ore products having been rising, the Company's three main iron ore plants have been operating at full capacity since July 2009.

Coke and coal sales accounted for 12.3% of the increase in consolidated revenues last year. Higher prices of coking coal drove external revenue growth in the segment, particularly to customers in Ukraine, where overall production of high-grade coking coal fell.

Ukraine accounted for 36.9% of Metinvest's total revenues in 2010 (compared with 27.1% in 2009), reflecting the sharp economic rebound in the country, as well as associated strong demand for the Company's products across its three production divisions. The rest of Europe accounted for 24.2% of revenues (18.7% in 2009) and South East Asia for 15.8% (23.0% in 2009).

Cost of sales

In 2010, the cost of sales amounted to US$6,372 million, 46.0% higher than the US$4,365 million in 2009. As a share of consolidated revenues, however, the cost of sales fell to 68.1%, down from 72.4% in 2009.

This drop was partly attributable to greater sales volumes and prices for Metinvest's products, as certain elements of fixed costs remained relatively unchanged year-on-year. Importantly, there was a time lag between the rise in prices of products and of raw materials and other inputs, such as natural gas and electricity.

The results of the anti-crisis programme implemented during the economic turbulence in the second half of 2008 and throughout 2009 continued to bring cost reductions in 2010.

Other expenses

Distribution costs rose to US$820 million, 17.8% higher than the US$696 million in 2009. General and administrative expenses came to US$296 million, representing 3.2% of consolidated revenues and an increase of 10.9% compared with the US$267 million in 2009, which was driven mainly by higher salaries.

Other operating expenses stood at US$252 million, representing 2.7% of consolidated revenues, compared with US$94 million in 2009.

In 2010, an impairment charge of goodwill of US$675 million was recorded against the Steel and Rolled Products division, mainly in relation to the European assets acquired in 2008. The main reason for this impairment charge is the prolonged decline in margins of steelmakers due to significantly higher prices for iron ore, coke and coal.

EBITDA

Metinvest's consolidated adjusted EBITDA amounted to US$2,552 million in 2010, 82.3% higher than the US$1,400 million in 2009. The EBITDA margin increased to 27.3%, 4.1 percentage points above the 23.2% in 2009. The Iron Ore division accounted for 82.2% of Metinvest's adjusted EBITDA, the Coke and Coal division for 17.5%, and the Steel and Rolled Products division for 4.4%.

Finance income and costs

Finance income totalled US$45 million in 2010, representing 0.5% of consolidated revenues and a rise of 4.7% above the US$43 million in 2009.

Finance costs climbed by 47.3% to US$246 million, compared with US$167 million in 2009, amounting to 2.6% of consolidated revenues. The increase was primarily due to greater interest expenses on bonds issued and on long-term bank loans in 2010. In addition, interest rates on bank loans increased and a US$30 million loss was recognised due to origination of financial assets. Those components of finance costs were partly offset by lower net foreign-exchange losses from financing activities compared with 2009.

Income tax expense

In 2010, the income tax expense rose by 91.5% to US$270 million, compared with US$141 million in 2009. This was primarily due to a 48.8% increase in pre-tax profit to US$707 million, compared with US$475 million in 2009. The effective tax rate applicable to the Company's operations was 38.2%, compared with 29.7% in 2009. This change was mainly due to the 2010 pre-tax profit reflecting the US$675 million goodwill impairment loss, as well as changes in the Ukrainian Tax Code.

Net profit

Metinvest remained profitable during the financial crisis and continued to deliver solid bottom-line growth in 2010. Net profit climbed by 30.8% to US$437 million in 2010, compared with US$334 million in 2009, resulting in a net profit margin of 4.7%.

Dividends

In 2010, dividends paid to shareholders amounted to US$685 million, an increase of more than 10-fold compared with the US$58 million in 2009.

Liquidity and capital resources

The Company seeks to maintain an optimal capital structure to reduce the cost of raising capital and ensure its long-term stability and ability to deliver returns to shareholders.

Metinvest's cash balances stood at US$449 million as at 31 December 2010, compared with US$159 million a year earlier. Proceeds from bank loans and bonds issued increased more than 10-fold to US$1,351 million during the reporting period, compared with US$115 million in 2009, while repayments of loans and borrowings totalled US$624 million, versus US$719 million in 2009.

Net debt (loans, borrowings and sellers' notes less cash and cash equivalents) stood at US$2,715 million as at 31 December 2010, compared with US$2,275 million a year earlier.

Metinvest's credit is rated by two international ratings agencies, Fitch ('B') and Moody's ('B2'), and is currently capped by Ukraine's sovereign rating.

CAPEX

Metinvest's capital expenditure climbed by 79.6% to US$582 million in 2010, compared with US$324 million in 2009. The Iron Ore division accounted for 43.6% of CAPEX, the Steel and Rolled Products division for 32.6%, and the Coke and Coal division for 23.0%. Corporate overheads accounted for less than 1%. Major capital investments last year included spending on plant and equipment at Ingulets GOK, Northern GOK, Central GOK, Yenakiieve Steel, United Coal and Krasnodon Coal.

Sergiy Novikov
Chief Financial Officer

RISK MANAGEMENT

Risk management is an integral part of the long-term strategy

Like any company, Metinvest faces various risks in conducting its business, and it manages these on a daily, medium-term and long-term basis. The mitigation of potential risks is an integral part of the long-term strategy developed in 2010. As such, risk management will also play a central role as the Company implements its planned US$6 billion investment programme over the next five years, to ensure that projects are completed successfully, on time, and on budget.

Overview

Metinvest's Internal Control and Risk Management system has been developed on the basis of leading international guidelines, including the "Enterprise Risk Management – Integrated Framework", developed by the Committee of Sponsoring Organisations of the Treadway Commission.

Reporting to the CFO, the Internal Control and Risk Management department oversees all aspects of risk management at Metinvest. These include monitoring operations and mapping strategic, operational and financial risks, both external and internal.

The risk map describes the various threats, evaluates their likelihood and severity, and details responses. The department updates the risk map each quarter, after which potential risks and mitigation measures are discussed with the key managers involved and the Executive Committee.

The Internal Control and Risk Management department played a significant role in updating Metinvest's long-term strategy during 2010. It worked closely with the strategy team to devise a list of risks facing the Company over the short, medium and long term, as well as potential responses to them. This information was then incorporated into the final strategy.

Risk	Comments	Risk mitigation
Political risks		
Political risk factors in countries where assets are based and in key sales markets	Metinvest carries out its activities in Ukraine, the wider CIS, North America, Europe, North Africa, the Middle East and Asia. These countries and regions have different political climates as well as varying effectiveness and enforcement of legislation governing contracts and property rights, while the Company also faces potential exposure to trade disputes.	As the largest taxpayer in Ukraine, which is home to the majority of its production assets, Metinvest maintains a positive working relationship with the local and national authorities and considers this risk to be low. The Company incorporates careful assessments of political risks into its investment decisions. Its strategy includes further diversification of sales markets to limit exposure to any single market or region.
Market risks		
Cyclicality of demand and selling price volatility	The steel and mining industries are cyclical, which can lead to fluctuations in demand and prices for Metinvest's products. Similarly, industries that are the main consumers of steel, including construction, are also cyclical.	Metinvest carefully monitors current demand and prices, maps potential price volatility and forecasts changes in price and consumption patterns. Its low production costs reduce overall exposure to selling price volatility. The Company's strategy includes investment programmes that help retain this competitive advantage, make production more efficient, and focus on higher-value products.
Fluctuations in the prices of raw materials, energy and services (purchase price volatility)	As seen in 2010 and early 2011, global supplies of raw materials have remained tight; the cost of energy and gas has steadily increased.	Metinvest's vertically integrated business means that it can source virtually all of its iron ore and a significant part of its coking coal internally. The acquisition of United Coal in the US in 2009 and the start of regular coal deliveries from there to production facilities in Ukraine in 2010 help to secure coal supplies for the future. Investments in new and more efficient production technologies, such as PCI, will continue to raise the energy efficiency of operations.
Competitive risks		
Operating in a highly competitive marketplace	The global steel industry is highly competitive: there are major international steel companies with greater capital resources and more efficient production facilities. Metinvest also faces competition in the CIS and, increasingly, other emerging markets where production costs are low.	Metinvest has historically competed on the basis of low-cost production, and it has a unique location between the EU and CIS markets, as well as relative proximity to markets in North Africa and the Middle East. Its strategy envisions exploiting these advantages, making production more efficient, improving the sales mix and product quality, and enhancing customer relationship management to compete.
Financial risks		
Interest-rate fluctuations	Interest rates paid by Metinvest on its borrowings are either fixed or variable. Both are subject to changes in the interest rate: variable ones through links to a benchmark rate, such as LIBOR; fixed ones at the time of refinancing.	The Company maintains a diversified debt portfolio in terms of both interest rates (fixed and floating) and maturity, and it works with a diverse group of international banking partners. Metinvest has also implemented procedures for monitoring and taking advantage of various opportunities for hedging interest rates.
Foreign-exchange fluctuations	Metinvest is exposed to exchange-rate risks as a result of payments made or received in various currencies. It also faces exchange-rate exposure when translating assets and liabilities into other currencies for the purposes of financial reporting.	Like much of its financing, the major part of Metinvest's export sales are in US dollars, providing a significant natural hedge. As part of its risk management process, the Company assesses its exchange-rate exposure and, if necessary, uses hedging instruments, including swaps and forward contracts, to minimise risk.

Achievements in 2010

Last year, the Internal Control and Risk Management department played a significant role in updating Metinvest's strategy. In particular, it worked with the strategy team to devise a list of risks facing the Company over the short, medium and long term, as well as potential responses to them. This information was then incorporated into the final strategy. In addition, the department prepared its five-year plan for developing the Internal Control and Risk Management function, in line with the broader plan.

Going forward, one key objective of the Internal Control and Risk Management department is to develop new systems to manage technical and credit risks. Another priority is to minimise significant risks associated with Metinvest's key strategic initiatives.

Other key achievements last year included the creation of an executive-level Risk Committee to analyse issues relating to risk management and discuss emerging risks.

Outlook

For 2011, the key objectives of the Internal Control and Risk Management department include developing new systems to manage technical and credit risks. The latter will be an extension of the policy on credit-risk management developed for the Steel and Rolled Products division in 2010. Another major initiative will be to minimise significant risks associated with Metinvest's key strategic initiatives. In addition, the department will continue to analyse detailed risks of specific operational processes.

Risk	Comments	Risk mitigation
Financial risks continued		
Counterparty risk (clients and financial institutions)	The bankruptcy or insolvency of a client or banking partner, or a broader systemic banking crisis, could adversely affect Metinvest's business.	Metinvest has developed and implemented procedures for monitoring the credit risk of clients: it obtains the necessary guarantees and modifies payment terms according to the risk involved. The Company holds its liquid assets in first-class international banks, subject to established limits. The risk management function monitors the profile of partners and the broader banking and financial market environment.
Limited debt market capacity and liquidity risk	Metinvest may fail to generate adequate liquidity from its operating activities to meet its business needs and financial obligations. Deteriorating debt market conditions may also affect the Company's ability to meet existing debt maturities and forward cash requirements.	Metinvest monitors and manages its forecast cash position constantly. If funding is not available, commitments are not assumed. The company adheres to a conservative, maturity-matching approach in its borrowing. Therefore, in 2010, it further increased the share of long-term debt. Metinvest plans to complete a comprehensive long-term financing strategy, focused primarily on further optimising its debt profile and improving its overall financial position to ensure the long-term financial sustainability of the business.
Operational risks		
Efficiency of capital projects delivery	Metinvest's substantial capital investment programme may not be implemented on schedule or within budget due to a lack of capacity or qualified contractors.	Having updated its long-term corporate strategy in 2010, the Company plans to develop a comprehensive technology strategy in 2011. A specially established Project Management Office and Capital Investment Directorate are aimed at ensuring that investment decisions are done on a rigorous basis, the requisite in-house project management and technological skills are in place, the right technology providers and contractors have been selected for each project, and projects are carried out within budget, schedule and quality objectives. Other steps include periodical strategic reviews, regular monitoring of key risks, performance indicators, forecasts and reviews of underlying assumptions. All key investment projects are also monitored constantly by the Group Investment Committee.
Post M&A integration	Metinvest has grown rapidly, partly through acquiring production and trading assets, and it has plans to pursue selective M&A opportunities in the future. There is thus a risk that the Company may fail to integrate these assets within the planned timeframes and budgets.	The Company's strategy focuses on organic growth as well as selective acquisitions to strengthen the existing business. Metinvest has demonstrated its ability to smoothly integrate new assets, such as Ingulets GOK, Trametal, Spartan and United Coal, where it has improved performance and invested in expanding capacity. The most recent example of this is Ilyich Iron and Steel Works, acquired in late 2010, which was integrated into the Steel and Rolled Products division rapidly and successfully.
Health, safety and the environment	Metinvest operates heavy industrial facilities that process heavy metals and other hazardous materials. As a result, they could pose major risks to the health and safety of employees and the neighbouring population, as well as the surrounding environment. Industrial accidents could lead to liabilities for damages to people, property and the environment.	Metinvest has made health, safety and the environment a board-level function and has integrated provisions into every level of strategic and day-to-day decision-making. The Company has achieved significant reductions in lost time due to accidents by investing heavily in extensive training, facilities and personal protection equipment for employees. Planned investments will further reduce CO_2 and other emissions and the risk of releasing other pollutants (for more information, see the HSE section).

VERTICALLY INTEGRATED BUSINESS MODEL

Our vertically integrated business model is the foundation for our long-term market leadership

Metinvest's vertically integrated business allows the Company to effectively manage the entire production chain, from raw materials to finished products. This structure allows Metinvest to realise synergies, cut costs and ensure security of raw material supplies.

IRON ORE DIVISION
At the end of 2010, Metinvest was around 200% self-sufficient in iron ore for its steel production. Around 60% of its external sales were in Ukraine, while the remainder was exported worldwide.

COKE AND COAL DIVISION
At the end of 2010, Metinvest was around 75% self-sufficient in coking coal and 100% self-sufficient in coke. It is expanding production at United Coal to ensure long-term supply security for its steel production.

STEEL AND ROLLED PRODUCTS DIVISION
Alongside crude steel, the division makes an extensive range of products, including semi-finished (slabs and square billets), high-quality finished flat products (plates and coils), finished long products (rails, shapes, bars) and pipes.

GLOBAL SALES PORTFOLIO

Diversified sales of US$9,358m, primarily to South East Asia, Europe, the CIS, the Middle East and North Africa

Principal sales offices

△ **Switzerland**
Geneva

△ **Ukraine**
Dnipropetrovsk
Donetsk
Kharkiv
Kremenchug
Kryviy Rih
Kyiv
Mykolaiv
Odesa
Sevastopol
Simferopol

△ **Russia**
Belgorod
Krasnodar
Mineralniye Vody
Moscow
Rostov-on-Don
Sochi
St Petersburg
Taganrog
Volgograd
Voronezh

Sales representative offices

○ **Belgium**
Brussels

○ **Bulgaria**
Sofia
Burgas

○ **Canada**
Toronto

○ **China**
Beijing

○ **Dominican Republic**
Santo Domingo

○ **Germany**
Essen
Munich

○ **Italy**
Genoa
Oppeano

○ **Lebanon**
Beirut

○ **Lithuania**
Vilnius

○ **Serbia**
Beograd

○ **Singapore**

○ **Tunisia**
Tunis

○ **Turkey**
Istanbul

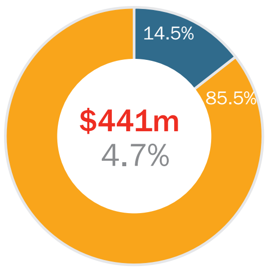
○ **Turkmenistan**
Ashkhabad

○ **United Arab Emirates**
Jebel Ali Free Zone

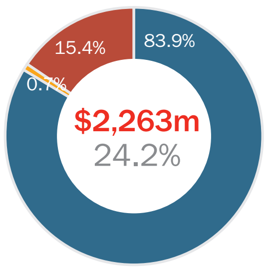
○ **United Kingdom**
Gateshead

○ **United States of America**
Blountville

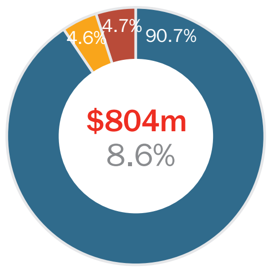
North America & Other countries



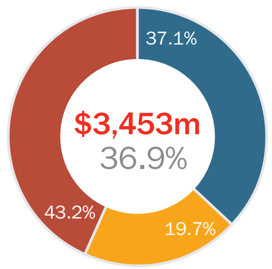
Europe



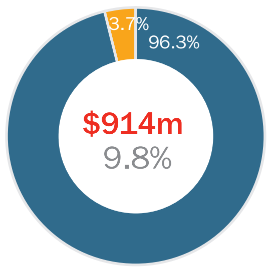
Middle East & North Africa



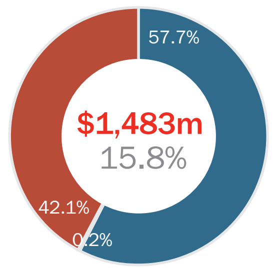
Ukraine



CIS



South East Asia



Key

△ Principal sales offices
○ Sales representative offices
■ Existing markets
■ Potential markets
■ Iron Ore division
■ Steel and Rolled Products division
■ Coke and Coal division

IRON ORE DIVISION

The Iron Ore division delivered record production results while investing in new technology

Mykola Ishchenko
Committee Member, Director of Iron Ore division

In 2010, Metinvest was the world's ninth largest producer of iron ore and accounted for 55.8% of Ukraine's iron ore output. The Company's mineral resources amount to 7,433 million tonnes, including 1,867 million tonnes of ore reserves[13]. The key products of the Iron Ore division are iron ore concentrate and pellets.

Market summary

- Amid considerable market volatility, solid global demand for steel led to strong growth in iron ore prices in 2010
- New market pricing mechanisms replaced the previous system of contracts

Objectives

- Increase the quality and quantity of iron ore supplied to the Steel and Rolled Products division in line with the Company's long-term strategy
- Streamline the product portfolio in line with external and internal demand and margins
- Complete the technological strategy with a focus on the long-term development of technology at Ingulets GOK

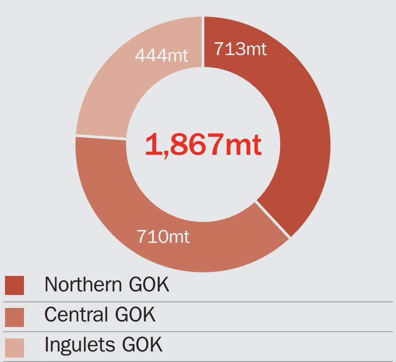
Performance

Financial data

US$m	2009	2010	Change, %
Revenue[13]	1,825	**3,464**	89.8%
Adjusted EBITDA	811	**2,097**	158.6%
Adjusted EBITDA margin	44.4%	**60.5%**	16.1%
CAPEX	81	**254**	213.6%

Operational data

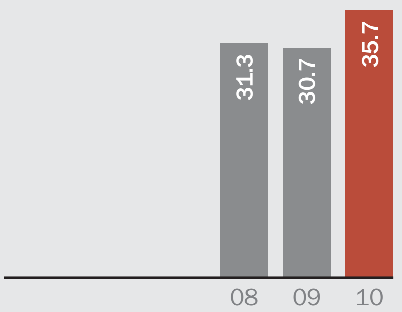
Iron ore reserves[14]



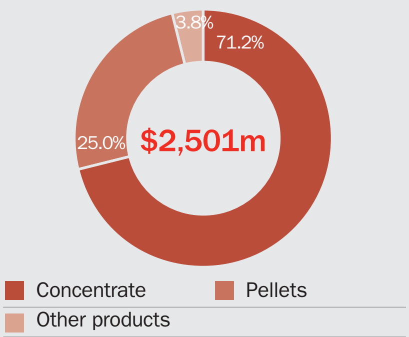
Iron ore concentrate production

35.7mt

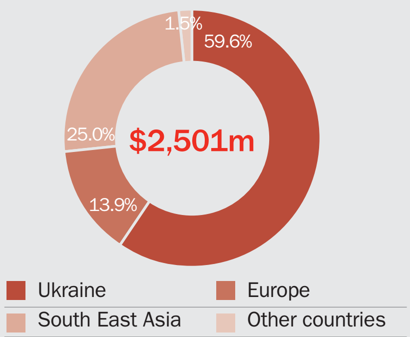
+16.3%



Sales by product



Sales by region



13. Includes intersegment sales
14. According to JORC standards as at 31 December 2009

Overview

The year was one of recovery from the global economic crisis in 2008-09. Nonetheless, the Iron Ore division delivered strong results in terms of production output, with its iron ore enrichment facilities (GOKs) shipping more than 33.7 million tonnes of commodity products, representing a record for the last 20 years.

As part of its corporate social responsibility (CSR) and continuous improvement programmes, the Iron Ore division successfully completed a major two-year project ensuring the continuous implementation of the world's best safety practices. Metinvest has researched, developed, produced, and issued workers with new personal protective clothing and equipment. This gear exceeds Ukrainian safety requirements and meets the world's highest standards.

The Iron Ore division saw a surge in revenue and adjusted EBITDA in 2010, as the prices and margins of its products jumped. The main events for the division last year were the development of the corporate strategy, the major investments in technology, and the benchmark pricing agreements with key internal and external clients.

Products and assets

The division mainly produces iron ore concentrate and pellets. In 2010, it met the concentrate and pellet needs of Metinvest's Ukrainian steelmaking operations in full. Its main external customers, excluding those in China, include Zaporizhstal, the Industrial Union of Donbass, Arcelor Mittal Sourcing and US Steel.

Metinvest's key iron ore mines are Ingulets GOK, Northern GOK and Central GOK.

Ingulets GOK is one of the largest iron ore miners in Ukraine, according to Ukrrudprom. It produces concentrate with an iron content of 63.7-67.1%. The enterprise sells its concentrate primarily to non-integrated steel mills outside Metinvest, as well as to Azovstal. It has an iron ore concentrate production capacity of 14.5 million tonnes a year. In 2010, Ingulets GOK produced 14.4 million tonnes of merchant concentrate, 18.7% of which was consumed internally at Metinvest's steelmaking facilities.

Northern GOK is one of the largest iron ore miners in Europe, according to Ukrrudprom. It produces concentrate with an iron content of over 66.0% and pellets with an iron content

Our strategy in action

Magnetic and flotation refining at Ingulets GOK

With the Iron Ore division already providing sufficient raw materials to meet the foreseeable internal demand, a core focus of Metinvest's updated strategy is to improve the quality of concentrate supplied to the Steel and Rolled Products division, to meet the key goal of boosting the share of high-margin, high-quality finished products in the sales mix.

The first phase of the magnetic and flotation refining complex at Ingulets GOK was launched in 2003. The complex uses a multi-stage process that yields higher-quality concentrate than other beneficiation methods. Metinvest chose the technology following an extensive study of the mineral and petrographic structure of its ore reserves.

The second phase of the complex is now being implemented. The target quality of concentrate for the new complex is 67.0% Fe, up from the current 63.7%, while annual projected capacity is 8.6 million tonnes of ordinary concentrate and 7.0 million tonnes of flotation concentrate. The project will provide the division with higher-quality concentrate, thus increasing the value of sales to both internal and external clients.

The completion of the second magnetic and flotation refining complex at Ingulets GOK represents an important strategic investment in the Iron Ore division, one that will enable Metinvest to increase the concentrate yield and provide the Steel and Rolled Products division with a higher-grade input, thus enhancing its efficiency. The project progressed considerably in 2010, and the Company expects to launch the completed complex by the beginning of 2012.

of 60.8-63.5%. Last year, Northern GOK produced 3.3 million tonnes of merchant concentrate and 9.9 million tonnes of pellets, 34.5% of which was consumed internally at Metinvest's steelmaking facilities.

Central GOK is the only enterprise in Ukraine to operate both open cast and underground ore mining methods. It sells primarily to Azovstal, which consumes the vast majority of its pellets, and Yenakiieve Steel. In 2010, Central GOK produced 2.2 million tonnes of pellets and 3.8 million tonnes of merchant concentrate, 52.4% of which was consumed internally at Metinvest's steelmaking facilities.

Metinvest has a quality management system that is certified by Bureau Veritas and Ukrainian state enterprise Krivbasstandartmetrologiya as conforming to the standards required for producers of merchant concentrate and pellets. The system is also certified under the ISO 9001 standard.

As part of its corporate social responsibility and continuous improvement programmes, the Iron Ore division successfully completed a major two-year project to ensure the continuous implementation of global best safety practices at its plants. As part of this effort, Metinvest has researched, developed, produced, and issued workers with new personal protective clothing and equipment that exceed Ukrainian safety requirements and meet the world's highest standards.

Reserves

Metinvest is fully self-sufficient in iron ore for its own steelmaking and has adequate iron ore reserves to meet its planned expansion of steel production in line with its strategy.

As of 31 December 2009, according to JORC[15] standards, the Iron Ore division had 7,433 million tonnes of mineral resources, including iron ore reserves of 1,867 million tonnes, at its three main assets: Ingulets GOK, Northern GOK and Central GOK.

15. The 2004 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code) as published by the Joint Ore Reserves Committee (JORC) of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and Minerals Council of Australia.
16. Price of Indian iron ore 63% Fe dry/China import, CFR, North China port; source: SBB
17. Indian iron ore 63% Fe dry/North China import CFR
18. Includes production of pellets, sinter fines, and lump; sources: CRU, Metal Courier

Ingulets GOK sources iron ore from the deposits of ferruginous quartzite at the Ingulets deposit, which had 937 million tonnes of mineral resources, including iron ore reserves of 444 million tonnes, as of 31 December 2009.

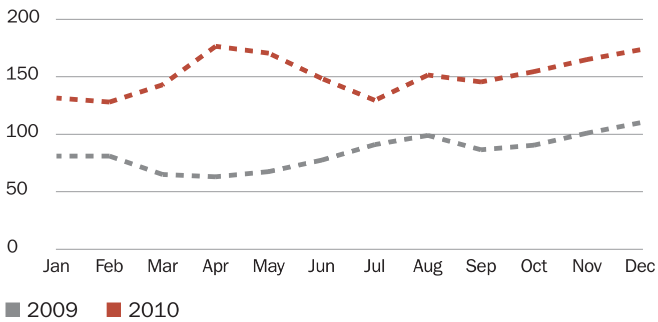
Northern GOK mines iron ore from two open-pit quartzite fields, the Annovskyi and Pervomayski deposits. Together, they had 3,807 million tonnes of mineral resources, including 713 million tonnes of iron ore resources, as of 31 December 2009.

Central GOK sources iron ore from its three open-pit quartzite fields – Hleyevatskyi, Petrovskyi and Artyomovski – and an underground mine, the Ordzhonikidze deposit. Together, they had 2,689 million tonnes of mineral resources, including iron ore reserves of 710 million tonnes, as of 31 December 2009.

Market dynamics

In early 2010, the system of annual contracts and benchmark prices that existed between iron ore producers and steelmakers was replaced with new pricing mechanisms linked to the spot market. This led to sharp increases in iron ore prices, although volatility was also high: the average monthly China-India spot price hit a high of US$176 a tonne in April 2010 and a low of US$129 in July, before recovering to US$173 in December[16].

Indicative iron ore price in 2009 – 2010 (US$/t)[17]



Source: Metal Bulletin

On the supply side, recovery and the consequent rise in demand for steel products in the world's largest economies drove up global output of iron ore products by 18.0% to 2,282 million tonnes in 2010[18]. According to Metal Courier, Ukraine's iron ore output amounted to 79.2 million tonnes.

Historic figures and forecasts by CRU for 2007-21 envision annual output of iron ore products (pellets, sinter fines, and lump) rising by an average of 3.4% worldwide and 2.2% in the CIS. Analysts predict that margins will most likely shift from iron ore producers towards large steelmakers due to higher output, improved processing technology, and greater market share for the largest names.

Performance

In 2010, total production of iron ore concentrate rose by 16.3% year-on-year to a record high of 35.7 million tonnes. The division's revenues climbed by 89.8% to US$3,464 million, with external sales amounting to US$2,501 million, or 26.7% of Metinvest's total external sales. Adjusted EBITDA jumped by 158.6% to US$2,097 million, accounting for 82.2% of the Company's adjusted EBITDA.

In terms of geography, 59.6% of the division's external sales were in Ukraine, 25.0% in South East Asia, 13.9% in Europe, and 1.5% in the Middle East and North Africa. The division's top 10 clients accounted for some 93.8% of the external sales.

Last year, the division negotiated new five-year contracts with internal clients and its largest external clients, establishing volumes and pricing mechanisms. These enable both sides to predict volumes and prices more accurately, thus reducing risks.

The division's CAPEX amounted to US$254 million in 2010, nearly three times higher than in 2009. Key investment projects included the reconditioning of a Lurgi 278-B pelletising machine at Northern GOK, which will be launched in 2012, and US$50.8 million will be spent on it over 2010-12. Work also began on another priority project for the division, the construction of the second module of a magnetic-flotation refining facility at Ingulets GOK to meet demand for higher-grade concentrate from both internal and external customers.

Strategy and outlook

The division's priority is to implement Metinvest's strategy. This includes introducing the organisational changes required to complete major investment projects, as well as contributing to the technology strategy, taking into account future internal demand for high-quality iron ore products.

Metinvest's strategy envisages all of the division's output being consumed internally by 2020, with overall annual production at a level of around 35 million tonnes. One of the first major steps in this direction was the acquisition of Ilyich Iron and Steel Works in 2010, which is expected to increase internal consumption to almost 50% in 2011.

The Iron Ore division's priority is to implement Metinvest's strategy, including introducing the organisational changes required to complete major investment projects, as well as contributing to the technology strategy, taking into account future internal demand for high-quality iron ore projects. Its strategy envisages all of the division's output being consumed internally by 2020. The acquisition of Ilyich Steel was the first step in this direction.

At the same time, given the current high iron ore prices, the division will continue to play the leading role in terms of cash-flow generation and profitability for the Company as a whole. Investments in the division will focus on increasing output quality and adjusting the product mix to broaden margins and meet clients' needs. A strategic goal for the division is to ensure the highest quality output.

For 2011, the division's planned CAPEX is US$336 million, 32% higher than the figure for 2010. Key objectives include the expected completion of the second magnetic-flotation refining facility at Ingulets GOK, preparation of a long-term plan to develop the technology at Ingulets GOK, and further development of plans to introduce gas-reinjection technology at Metinvest's plants.

COKE AND COAL DIVISION

The Coke and Coal division posted strong sales and margin growth

Volodymyr Gusak
Committee Member, Director of Coke and Coal division

Metinvest is the largest producer of coke in Ukraine. Following the acquisition of Ilyich Steel, the division covers 75% of the Group's coking coal and 100% of its coke requirements. Metinvest has 635 million tonnes of total coal reserves. Krasnodon Coal in Ukraine accounts for 493 million tonnes of A, B and C1 reserves[19], and United Coal accounts for 142 million tonnes of reserves[20]. In addition, the division manages Inkor Chemicals, one of the largest naphthalene plants in Europe and the only producer of refined naphthalene, phenols and cresols in Ukraine.

Market summary

- Coking coal prices jumped from early 2010 due to greater demand as well as subsequent supply disruptions
- Ensuring the security of supplies remains a core concern for Ukrainian steelmakers

Objectives

- Improve the safety of coke and coal production facilities, which is both a moral imperative and a business priority
- Enhance the quality of coke for better blast furnace productivity and to ensure long-term self-sufficiency in coal
- Increase output of high-quality coal by expanding capacity in the US

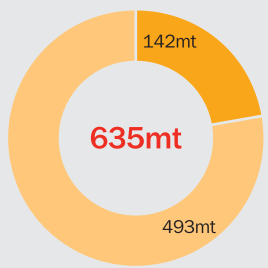
Performance

Financial data

US$m	2009	2010	Change, %
Revenue[21]	1,339	**2,201**	64.4%
Adjusted EBITDA	244	**447**	83.2%
Adjusted EBITDA margin	18.2%	**20.3%**	2.1%
CAPEX	69	**134**	94.2%

Operational data

Coal reserves[20]

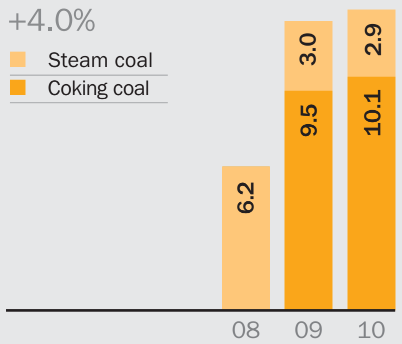


United Coal
Krasnodon Coal[19]

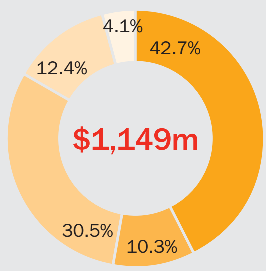
Coking and steam coal (mined)

13.0mt

+4.0%

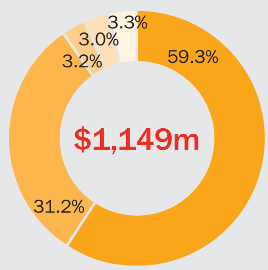


Sales by product



Coking concentrate, Steam concentrate, Coke, Chemical products, Other products

Sales by region



Ukraine, North America, Middle East & North Africa, CIS, Other countries

19. According to the Ukrainian State Commission of Mineral Resources
20. As at 31 December 2010 (unaudited)
21. Includes intersegment sales

Overview

The Coke and Coal division experienced a strong rise in revenue and adjusted EBITDA in 2010. The main events for the division last year were the development of the corporate strategy, the maximising of capacity thanks to the successful integration of Ilyich Steel, and the beginning of regular deliveries from United Coal in the US to Metinvest's Ukrainian plants.

Products and assets

The division mainly produces coking and steam coal, blast furnace coke and coke breeze, as well as various chemical products, including naphthalene, phenols and cresols.

The division operates three main production facilities in the Donbass region of Ukraine – Avdiivka Coke, Krasnodon Coal and Inkor Chemicals – as well as United Coal in the US.

Avdiivka Coke is located in Donetsk Region and is the largest coke and chemicals plant in Europe outside Russia[22]. It sells coke to Azovstal, Yenakiieve Steel and Ilyich Steel, as well as external clients such as Arcelor Mittal. The enterprise currently produces coke from eight batteries. In 2010, its total coke output was 3.1 million tonnes, while 68.9 % of its metallurgical coke was sold internally.

Krasnodon Coal is a coking coal miner located in Krasnodon, Luhansk Region. It sells coking coal primarily to Avdiivka Coke and Azovstal. The enterprise currently produces coking coal from seven underground mines and then processes it at on-site washing plants. In 2010, its overall output of coking coal mined was 5.8 million tonnes, all of which was used internally by Metinvest's enterprises.

Inkor Chemicals, located in Dzerzhynsk, Donetsk Region, is the only producer of refined naphthalene and phenol and cresol products in Ukraine and one of the largest naphthalene plants in Europe. It has installed capacity of 60,000 tonnes of naphthalene and 30,000 tonnes of phenols and cresols a year. Together with Avdiivka Coke, the enterprise controls the full production cycle, from processing coal tar to obtaining naphthalene fraction and phenol oil at Avdiivka Coke to producing naphthalene. In 2010, it produced some 36,000 tonnes of naphthalene and 15,000 tonnes of phenols and cresols.

United Coal is a producer of coking and steam coal located in the Central Appalachian region in the US. Through its subsidiaries, it mines coking and steam coal using both underground and surface techniques in the states of

Our strategy in action

Expanding capacity at United Coal

In 2009, Metinvest acquired United Coal Company (United Coal), a producer of coking and steam coal located in the Central Appalachian region in the US, in what was a pivotal development for the Company. In 2010, the division unveiled investment projects to launch two new coal mines at the subsidiary, Affinity and Roaring Creek, which will boost coal output significantly. In addition, United Coal began regular shipments to Metinvest's Ukrainian coke-making facilities using Panamax vessels.

Affinity mine will produce high-quality, low-volatility coking coal. The first underground section has already begun production in July 2011, the second and third sections are scheduled to begin in the second half of the year, and the fourth section in 2012. Roaring Creek will produce high-quality, high-volatility coking coal. The first underground section is expected to launch production in the first quarter of 2013, the second in mid-2013, and the third and fourth sections in 2014.

Overall, United Coal plans to invest US$119.1 million at Affinity and US$147.2 million at Roaring Creek through to 2015. Under current plans, at full capacity, Affinity and Roaring Creek will mine 2.7 million tonnes of coking coal a year. In comparison, United Coal's overall output was 4.3 million tonnes of mined coking coal in 2010.

Following the start of regular shipments from United Coal to Metinvest, around 377,000 tonnes were shipped in 2010.

22. Source: CRU

West Virginia, Virginia and Kentucky. In 2010, its overall output of coking coal and steam coal mined was 7.2 million tonnes. Of this, Metinvest used 10.5% internally, while the remainder was sold to third parties under United Coal's existing contractual obligations, which expire at the end of 2011. After this date, Metinvest expects to secure long-term supplies of high-quality coal from its US subsidiary.

Reserves

Following the acquisition of Ilyich Steel, Metinvest is 75% self-sufficient in coking coal, based on its annual production capacity. Production from Ilyich Steel was consolidated only from 17 November 2010.

In 2010, Metinvest purchased 65.7% of its coking coal consumed from third parties. Some 48.0% of its coal requirements are bought from third-party suppliers in Ukraine, including 10.5% from DTEK, a subsidiary of SCM Group, and 8.2% from Group Energo, based in Donetsk and 29.3% from other third party suppliers. The remaining 17.7% of coal requirements was imported from Russia. These purchases were partly due to United Coal's pre-existing contractual obligations to supply coal to third parties. Acquired in 2009, United Coal began regular shipments of coal to Metinvest's Ukrainian steel facilities in 2010.

Metinvest's Ukrainian coal resources (A, B and C1) amounted to 493 million tonnes as of 31 December 2010, using the Ukrainian State Commission of Mineral Resources' methodology, and included 181 million tonnes of proven (A and B categories) reserves and 312 million tonnes of probable (C1 category) reserves. Ukrainian reserves in categories A and B roughly correlate to proven reserves, and C1 reserves to probable reserves.

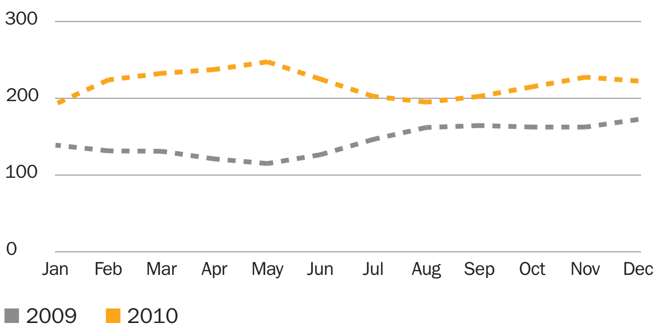
As of 31 December 2010, according to the Company's unaudited figures, US-based United Coal controlled 142 million (metric) tonnes of proven and probable reserves. Most of these reserves represent premium-grade coking coal. The further development of production at United Coal is expected to increase Metinvest's self-sufficiency in high-grade coking coal as its levels of steel production increase, according to the Company's development strategy.

Previously, as of 31 December 2009, United Coal controlled 151.0 million tonnes of proven and probable reserves, according to an audit. The independent evaluator audited 100% of United Coal's reserve area, focusing on those parts of the coal deposits that qualify as demonstrated (proven and probable) reserves, as defined in SEC Industry Guide 7. United Coal also controls coal reserves that are classified as resources or "non-reserve coal deposits" under SEC guidelines; accordingly, they have not been included here.

Market dynamics

Coking coal prices jumped from the beginning of 2010 due to greater demand, as well as subsequent supply disruptions in Australia caused by flooding. The average annual spot price for Australian hard coking coal (FOB) reached US$219 a tonne, compared with an average of US$145 in 2009[23].

Indicative coking coal price in 2009 – 2010 (US$/t)[24]



Source: Metal Bulletin

Most analysts expect coal prices to remain volatile in the short and medium term. There were further spikes after the reporting period, the average annual price reaching US$370 in February 2011. Over the longer term, Ukrainian producers face acute challenges in sourcing low-volatility coking coal, as domestic output is insufficient to meet local demand. Security of high-quality coking coal supplies is a long-term challenge for global steel producers, and the development of new sources of coal, such as deposits in Mongolia, will be necessary to restrain prices and reduce volatility.

Performance

Propelled by stronger sales, the division's margins rebounded last year. Output of coking and steam coal mined increased by 4.0% year-on-year to 13.0 million tonnes. The division's revenues rose by 64.4% to US$2,201 million, with external sales of coke and coal amounting to US$1,149 million, or 12.3% of Metinvest's external sales. Adjusted EBITDA climbed by 83.2% to US$447 million.

In terms of geography, 59.3% of the external sales were in Ukraine, 31.2% in North America, 3.2% in the Middle East and North Africa, 3.0% in the wider CIS and 3.3% in other countries.

The division's CAPEX came to US$134 million in 2010, nearly double the level of 2009. Key investment projects included replacing coal extraction equipment at Krasnodon Coal and building the Affinity mining complex and preparing to build the Roaring Creek complex at United Coal.

23. Source: SBB

24. East Australia FOB

One main event in 2010 was the acquisition of Ilyich Steel, which allowed the division to achieve 100% capacity utilisation by the end of the year. The deal also means that the division will need to focus on ensuring long-term increases in output to meet Metinvest's ambitious plans for expanding steel production.

In an important development, regular deliveries began from United Coal to Ukraine using Panamax vessels. The expansion of capacity at the US facilities and the shift to supplying coal for internal use under long-term contracts will help to plan and ensure that the division meets the needs of the Company's steel plants.

The main event in 2010 was the acquisition of Ilyich Steel, permitting the division to achieve 100% capacity utilisation by the end of the year. The deal also means that the division will focus on ensuring long-term increases in output to meet Metinvest's ambitious plans for expanding steel production. The key focus remains integrating United Coal with the Ukrainian operations.

Safety remained the overriding priority for the division last year, as Metinvest continued to invest in both equipment and training to improve safety levels. Over the last five years, the number of lost-time incidents in the division's facilities has been reduced dramatically, from 471 (including 15 fatalities) in 2006 to 168 (including seven fatalities) in 2010. No injury or death in the workplace is acceptable to Metinvest, and the division continues to work on both training and equipment provision to reduce risks yet further.

Strategy and outlook

The priority for the division in 2011 and beyond is implementing Metinvest's strategy. The aim is to ensure organic growth by maximising the utilisation of capacity – namely production of coke at Avdiivka Coke and of coking coal at Krasnodon Coal and United Coal – and minimise reliance on third parties for coking coal. At the same time, safety remains the top priority for the division and a critical factor in all capital expenditure.

In 2011, the division will work on developing the technology strategy. A focus for future investment will be modernising coke plants to minimise the cost per tonne of production and reduce emissions as part of Metinvest's commitments under the Kyoto Protocol.

Entering 2011, coking coal output was near full capacity, and the key focus remains integrating United Coal with the Ukrainian operations and boosting output. Metinvest's work at the US entity has included building a new mining complex, Affinity, and preparing for another, Roaring Creek, featuring underground mines and coal preparation plants. As regards the latter, approval for the work has been obtained from the US regulators and the plan is to invest around US$150 million in the project.

Roaring Creek is scheduled to produce its first coal in early 2013. Internal consumption of United Coal's output will increase sharply from 2012, as the US enterprise's existing contractual obligations to third parties expire. Metinvest will examine the long-term ability of its Ukrainian port facilities to handle increased shipments from the US.

The Company also intends to continue the investment programme at Krasnodon Coal. Around US$49.4 million will be spent on repairing and replacing equipment to maintain output while enhancing safety and efficiency, among other measures. Overall, the division's planned CAPEX for 2011 is US$269 million.

The division's priority in 2011 is to implement Metinvest's strategy to ensure organic growth by maximising capacity utilisation. This will be achieved by producing coke at Avdiivka Coke and coking coal at Krasnodon Coal and United Coal, while reducing reliance on third parties for coking coal. Above all, safety remains the top priority for the division and a critical factor in capital expenditure.

STEEL AND ROLLED PRODUCTS DIVISION

The Steel and Rolled Products division delivered strong sales growth and integrated Ilyich Steel rapidly

Alexander Pogozhev
Committee Member, Director of Steel and Rolled Products division

In 2010, Metinvest produced 7.6 million tonnes of iron and 8.7 million tonnes of crude steel, as well as 3.0 million tonnes of semi-finished and 5.2 million tonnes of finished products, making it the largest steelmaker in Ukraine. Following the 2010 acquisition of Ilyich Steel, its annual steel production capacity has increased to 15.0 million tonnes. This makes it the largest steelmaker in the CIS, and one of the top 25 in the world. The acquisition has also created significant synergies, increasing sales of finished products and enhancing vertical integration.

Market summary

- The global steel market saw surging demand and sharp price rises as economies rebounded in key markets

Objectives

- Increase production efficiency to the level of the leading global benchmarks
- Invest in further modernisation, including rebuilding blast furnaces, replacing open-hearth furnaces with basic oxygen ones, and upgrading rolling mills
- Increase the share of value-added products with greater margins
- Strengthen the distribution network in local and regional markets
- Develop a full range of steel solutions for industrial consumers in the construction and industrial sectors

Performance

Financial data

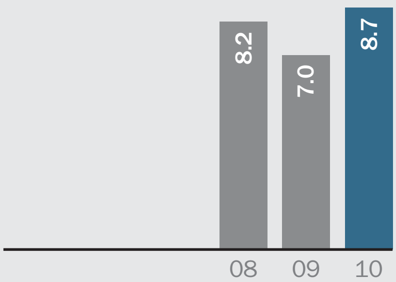
US$m	2009	2010	Change, %
Revenue[25]	4,039	**5,776**	43.0%
Adjusted EBITDA	407	**112**	-72.5%
Adjusted EBITDA margin	10.1%	**1.9%**	-8.2%
CAPEX	174	**190**	9.2%

Operational data

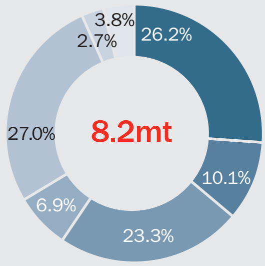
Crude steel production

8.7mt

+24.3%

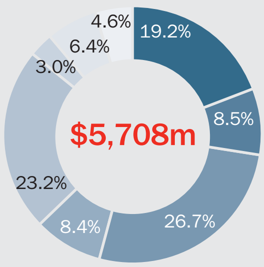


Output by product



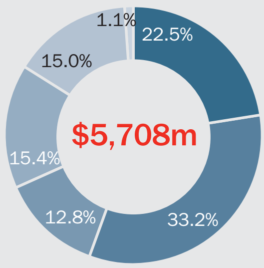
- Slabs
- Square billets
- Plates
- Coils
- Shapes and bars
- Rails
- Pipes

Sales by product



- Slabs
- Square billets
- Plates
- Coils
- Shapes and bars
- Rails
- Pipes
- Other products

Sales by region



- Ukraine
- Europe
- Middle East & North Africa
- CIS
- South East Asia
- Other countries

25. Includes intersegment sales

Overview

The Steel and Rolled Products division saw capacity utilisation approach its maximum in 2010, as worldwide demand for steel products recovered strongly. Amid rising prices of steel products, the division's revenue climbed by 43.0%. Adjusted EBITDA fell, mainly due to surges in the prices of raw materials. The main events for the division last year were the acquisition of Ilyich Steel, the acquisition of Makiivka Steel (after operational control was secured in 2009), and the increase in the share of higher-margin products in revenue.

The division saw capacity utilisation approach its maximum during the year, as worldwide demand for steel products recovered strongly. The division's revenues climbed sharply, with the share of higher-margin products increasing. Key events for the division were the acquisition of Ilyich Steel and completion of the acquisition of Makiivka Steel.

Products and assets

Alongside crude steel, the division makes an extensive range of products, including semi-finished products (slabs and square billets), high-quality finished flat products (plates and coils), finished long products (rails, shapes, bars, rail fasteners and grinding balls) and pipes. Its main external customers include Ilva, Dongkuk, Gunung Raja Paksi, the Eurasian Pipe Consortium and Mariupol Machine-Building Plant.

Metinvest has nine production assets: Ilyich Steel, Azovstal, Yenakiieve Steel, Makiivka Steel, Khartsyzsk Pipe, Ferriera Valsider, Promet Steel, Metinvest Trametal and Spartan.

Ilyich Iron and Steel Works is the third largest integrated steel producer in Ukraine, according to Metal Courier. In the second half of 2010, Metinvest acquired a 99% effective interest in the enterprise through various transactions, and the deal was completed on 17 November 2010, following approval from the necessary authorities. Ilyich Steel produces crude steel, slabs, plates, coils and pipes, and it also operates one of the largest sintering plants in Europe, with 12 machines capable of turning out 12.2 million tonnes a year. In 2010, the enterprise produced 5.6 million tonnes of crude steel. Of this, Metinvest consolidated 0.5 million tonnes for December 2010, or 5.8% of its overall output for the year.

Azovstal is the second largest steelmaker in Ukraine, according to Metal Courier, and primarily produces crude steel, slabs and plates, as well as some shapes, bars, rails and square billets. It also has a sintering plant with a capacity of 2.0 million tonnes a year. In 2010, it produced 5.7 million tonnes of crude steel, or 65.5% of Metinvest's overall output.

Yenakiieve Steel is a fully integrated steelmaker located in Ukraine and produces mainly crude steel and square billets, as well as some shapes and bars. It also has a sintering plant with an annual capacity of 2.2 million tonnes. In 2010, it made 2.5 million tonnes of crude steel, or 28.7% of Metinvest's overall output.

Makiivka Steel is a producer of shapes and bars located in Ukraine. In 2010, it made 1.3 million tonnes of finished products.

Khartsyzsk Pipe is the largest manufacturer of large-diameter pipes in Ukraine. Its output has been used in some of the world's leading oil and gas infrastructure projects, including the Blue Stream, Siberia and Druzhba pipelines. In 2010, it made 0.3 million tonnes of pipes.

Ferriera Valsider is a producer of hot-rolled plates and coils located in Italy. In 2010, it made 0.5 million tonnes of finished products.

Promet Steel is a manufacturer of shapes and bars located in Bulgaria. In 2010, it made 0.2 million tonnes of finished products.

Metinvest Trametal is a producer of hot-rolled plates located in Italy. In 2010, it made 0.5 million tonnes of finished products.

Spartan is a producer of plates located in the UK. In 2010, it made 0.1 million tonnes of finished products.

Metinvest maintains an ISO 9001:2008 quality management system at all of its major steelmaking facilities.

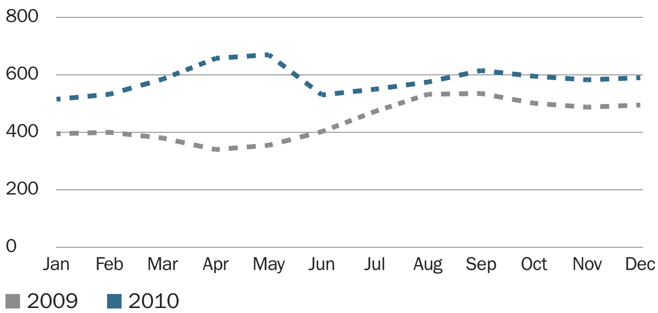
Market dynamics

On the supply side, worldwide crude steel production rose by 15.1% to 1,414 million tonnes in 2010, with output surging most strongly in the US (up 38.5%), Germany (up 34.1%), Brazil (up 23.8%) and South Korea (up 20.3%) as the global economy recovered. World production of hot-rolled steel products increased by 14.2%, according to the WSA.

Steel consumption in Ukraine also continued to recover following a record drop in 2009. The WSA reports that apparent consumption of finished steel increased by 39% to 5.5 million tonnes. Current forecasts suggest that the market could expand by 15-20% in 2011, supported by a rise in orders from the construction, machine-building and pipe-manufacturing industries.

Steel prices rose sharply in early 2010, as the post-crisis stockpiling gathered momentum, with billet prices (FOB, Black Sea port) averaging US$612 a tonne in April, according to SBB. Prices then declined to US$440 a tonne in June before rising to US$603 in December. The average price for the year was US$524 a tonne.

Indicative steel price in 2009 – 2010 (US$/t)[26]



Source: Metal Bulletin

Based on consensus analyst estimates, Metinvest expects global steel demand to increase by 3-4% annually over the next decade, driven by the need for steel products for construction in emerging economies. Over the medium term, capacity utilisation in the sector will increase from the current low to around 80%. Steel prices are likely to be driven primarily by production costs, mainly raw materials prices. However, consolidation and vertical integration by steelmakers will help to redistribute margins from raw materials producers to large steel companies that make value-added, finished products.

Going forward, one of our priority investment projects is to increase energy efficiency and reduce requirements for high-quality coking coal by building pulverised coal injection systems and installing power stations at the steel facilities. This will represent major progress in terms of cost control, efficiency and emission reductions.

Performance

Production of iron and crude steel both increased by 24.3% year-on-year, to 7.6 million tonnes and 8.7 million tonnes, respectively. The division's revenues amounted to US$5,776 million, up 43.0%, with external sales totalling US$5,708 million, or 61.0% of Metinvest's external sales. Adjusted EBITDA stood at US$112 million, or 4.4% of consolidated adjusted EBITDA.

Metinvest expanded its market presence and increased sales of thin, flat products such as hot-rolled and cold-rolled coils. In terms of geography, 33.2% of the division's sales were in Europe, 22.5% in Ukraine, 15.4% in the CIS (excluding Ukraine), 15.0% in South East Asia, 12.8% in the Middle East and North Africa and 1.1% in other countries.

The share of rolled products in the sales mix increased to 72.3%, in line with Metinvest's strategy of focusing more on finished products. The sales mix consisted of slabs (19.2%), square billets (8.5%), plates (26.7%), coils (8.4%), shapes and bars (23.2%), rails (3.0%), pipes (6.4%) and other products (4.6%). The five largest customers accounted for around 26% of total revenue in 2010.

The division's capital expenditure totalled US$190 million in 2010. Key investment projects implemented included the construction of blast furnace no. 3 at Yenakiieve Steel and an accelerated cooling system in the plate mill at Azovstal. In addition, the division neared completion of a project to integrate key functions at Yenakiieve Steel and Makiivka Steel to reduce costs and improve management efficiency.

In 2010, Metinvest received approval to supply pipes to C4Gas (France)[27], BOTAS (Turkey), the Ministry of Oil and Gas of Oman and PDVSA (Venezuela). Also during the year, Makiivka Steel received certification to manufacture rolled products in accordance with Russian state standards.

During the year, we also launched a laboratory permitting deliveries of HIC (hydrogen induced cracking)-resistant pipe products, which are particularly important for clients in the Middle East.

Strategy and outlook

In 2011, Metinvest expects to finish developing its strategic steel investment programme, in line with the technology strategy. It will envisage closing open-hearth furnaces and increasing output from basic oxygen furnaces to 15.0 million tonnes, casting 100% steel using continuous-casting machines, increasing rolling capacity, and reinforcing the Company's positions in the target markets for long and flat products.

One of our priority investment projects is to increase energy efficiency and reduce requirements for high-quality coking coal by building pulverised coal injection (PCI) systems and installing power stations at the steel facilities. This will account for the bulk of investments in the Steel and Rolled Products division and represent major progress in terms of cost control, efficiency and emission reductions.

26. Hot-rolled coil, Black Sea FOB

27. C4Gas is a purchasing centre for Gaz de France Suez, Grd FA, Storengy, National Grid (UK) and Fluxys (Belgium).

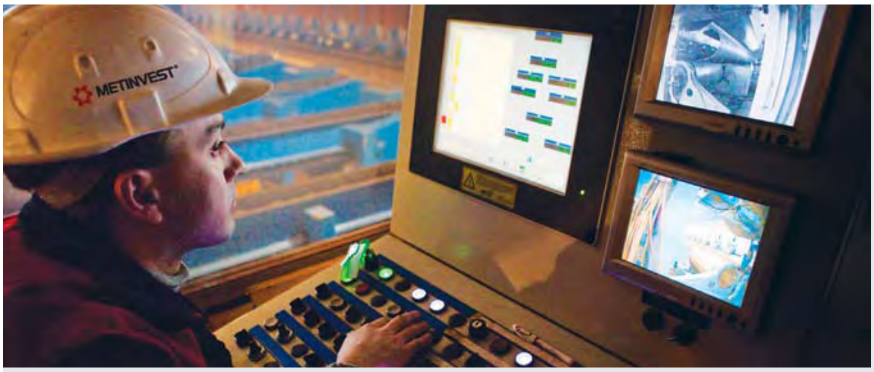
In addition, Metinvest is building an accelerated cooling facility at Azovstal that will allow it to improve the product portfolio significantly and offer consumers strips and pipes with resilience up to X90-X100 (API), as well as reduce production costs. The facility is due to be launched at the end of 2011.

This year, under current plans, the division's capital expenditure is expected to climb to US$392 million. Metinvest expects to complete building blast furnace no. 3 at Yenakiieve Steel. In addition, the Company intends to complete the accelerated cooling system in the plate mill at Azovstal, reducing costs and boosting output of high-strength, low-alloy steel.

Alongside expanding sales volumes, Metinvest aims to increase the share of rolled products to around 90% by strengthening current market positions, introducing new quality management systems and developing new markets through downstream development and integration. The division is developing a fourth processing stage at the base of the sales organisation by processing rebars at the service centres of Metinvest-SMC in Ukraine. It is also further developing downstream processing by opening rebar yards in Eastern Europe.

The division's sales strategy envisions a focus on the core markets of Ukraine, Russia and the wider CIS, Europe and the Middle East. It includes increasing deliveries of long products to Russia and developing sales of coils and cut-to-length sheets in Ukraine and Russia. In 2011, Metinvest also aims to increase sales of pipe products by exploring new markets in the Middle East. Other priority areas are rails, large-diameter pipes, quenched and tempered plates and thermo-mechanically controlled process plates.

Our strategy in action



Implementation of Lean Principles at Khartsyzsk Pipe

Metinvest focuses on improving quality and productivity at its steelworks, mills and pipe-making assets, while reducing costs. In 2010, following the successful cost-cutting initiatives of previous years, the Company decided to adopt a "lean" approach to its production process. A pilot project was launched at Khartsyzsk Pipe Plant.

Lean production is a set of processes built on the understanding that using resources for any other purpose than creating customer value is inefficient. For the pilot project, Metinvest selected team members from its main steel plants including Azovstal, Yenakiieve Steel, Krasnodon Coal and Avdiivka Coke. They will be able to apply the experience gained from the project at their plants.

Detailed analysis of production process was done to define priorities for improvement, based on which work group had implemented its action plan. The results in 2010 were as follows:

- The "5S" programme, designed to show shop-floor employees how to continually improve their work, was launched
- A new Key Performance Indicator (KPI) system, with adjusted incentives for shop-floor employees, was launched (as of 1 January 2011)
- Daily management meetings were adjusted to focus on KPIs and follow the PDCA (plan-do-check-act) cycle
- Total Productive Maintenance approaches were implemented for three "critical" pieces of equipment, to reduce downtime and improve overall efficiency; and a roadmap for further implementation was developed
- A Single-Minute Exchange of Die approach was launched on the bottleneck expander, which reduced the time needed to adjust equipment to new types of pipe by 35%
- A suggestion scheme for employees was developed to engage them further in continuous improvement (launched on 1 March 2011)

The lean programme has enabled Khartsyzsk Pipe to increase output, to 13% above target in January 2011. The successful pilot project has provided a clear structure for rolling out the programme further, and Metinvest plans to build on this at additional plants in 2011.

OUR PEOPLE

We are investing in our greatest capital: our people

Metinvest is expanding its HR capacity to ensure that the Group has the right human capital to realise its long-term strategic goals. In 2010, the Company developed a Road Map for HR development based on global best practices.

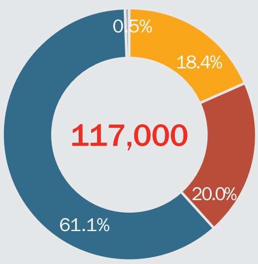
Summary

- Metinvest is Ukraine's largest employer and has more than 117,000 personnel worldwide
- In 2010, the five-year HR Road Map was approved and the HR function began to implement it

Priorities

- The HR function is implementing consistent and transparent policies across all enterprises
- The creation of a talent pool ensures that senior roles can be filled with talented and prepared candidates

Head count by division 2010



Coke & Coal division | Steel & Rolled Products division | Iron Ore division | Headquarters

Overview

Metinvest brings together professionals from many countries and is Ukraine's largest employer, with more than 117,000 employees at the end of 2010. One of the Company's core guiding principles is responsibility to employees. Paying a competitive and fair salary and benefits while investing in people's training and development is the fundamental pillar of Metinvest's human resources policy. The Company seeks to foster a culture of mutually beneficial relationships between employer and employee.

Metinvest continued to receive recognition for the effectiveness of its HR policies in 2010. It ranked among the top three in the "Most Respected Employers in Ukraine" survey, conducted by Reputation Capital and Head Hunter. Internal research on employee engagement in 2010 found that Metinvest rated among the leading employers in Ukraine and Europe on several key benchmarks, while its rating for "Company Reputation" was higher than comparable indicators at most peers.

Strategy

The Company is pursuing ambitious strategic goals over the next 10 years, and it requires the right people to achieve them. Metinvest's employees are its primary capital and create the force to ensure future development. As such, building and maintaining a strong HR function is an important part of the overall strategy.

A clear competitive advantage for Metinvest today is its cost of labour. The Company maintains an optimal balance of personnel costs. It invests in increasing the qualifications and career development of employees, while restraining personnel costs by building a balanced and fair compensation system.

In 2010, Metinvest approved a HR Road Map for the next five years. It sets out HR goals to combine best international practices with the modern systems already introduced at enterprises. The first step is to develop comprehensive HR systems on which value-added HR processes can be built.

Specifically, this involves creating a grading system that is the foundation for managing compensation, implementing a competency model, linking management expectations to employee behaviour, and developing an annual employee appraisal system. By the end of 2010, using the recognised international standard developed by the Hay Group, the Company introduced grades at 100% of the assets in the Iron Ore division, 40% of the assets in the Coke and Coal division, and 40% of the assets in the Steel and Rolled Products division.

Also last year, the Hay Group conducted a wage survey at Metinvest's key enterprises. The results formed the basis for setting compensation and planning personnel costs for 2011.

Another key area of work for HR is the continual improvement of the quality of middle and senior management. The Company is creating a talent pool of skilled young executives and introducing ongoing succession planning annually. To further the knowledge and skills of middle management at Metinvest's enterprises, a decision was taken to develop the Manager Training Centre.

Key achievements in 2010

The most important HR achievements of last year were developing the HR Road Map within the context of developing Metinvest's long-term strategy. The Road Map provides a framework for preparing a long-term HR strategy in 2011.

Another key achievement was developing and approving a unified system for monitoring the performance of all employees of the managing company (Metinvest Holding LLC) and managers of key assets. As part of introducing the system, the new strategy will be merged with the individual goals of managers and employees of the managing company and the two top layers at enterprises.

In addition, annual employee appraisals were carried out at the managing company, the three key iron ore enterprises, two coke and coal facilities and three steel enterprises. These formed the basis for calculating annual bonuses and pay rises.

Meanwhile, the values of the Metinvest Group, which form the foundation for developing the Company's corporate culture and implementing the new strategy, were enshrined.

Last year, in cooperation with the Moscow School of Management SKOLKOVO, the first development programme for the talent pool, created in 2009, was prepared for launch in 2011. Around 90 managers are taking part in the programme.

The HR function also continued to optimise employee numbers, as part of the Company's necessary long-term restructuring.

Outlook

In 2011, the HR function will continue to develop key HR processes and systems further, in line with the strategy adopted last year.

As part of the five-year Road Map, several priorities have been outlined for next year. These include fostering a unified corporate culture based on the corporate values developed during 2010. In addition, a unified system will be introduced for grade-based compensation. This has been developed on the principles of external competitiveness and internal fairness, paying compensation that is firmly linked to employee performance.

Another focus is developing the employee performance system and implementing it for all managers at key assets. In addition, as mentioned, Metinvest plans to launch its talent pool programme and the corporate Manager Training Centre.

Our strategy in action

Launch of Talent Pool Development Programme in Partnership with SKOLKOVO

At the beginning of 2011, Metinvest launched a new development programme for its managers. Around 90 managers from the 2010 talent pool, who were selected based on the Assessment Centre results, as well as those who successfully complete the competition to enter the programme, will take part. The Company is implementing the programme together with the Moscow School of Management SKOLKOVO and in partnership with the world's leading business schools.

The curriculum covers issues such as implementation of the Company's strategy, development of business models, production management, change management, lean production methods and leadership. The programme lasts for one year.

Teaching will be carried out by professors from leading Western business schools, including London Business School, the Massachusetts Institute of Technology, IAE Aix-en-Provence and others. The programme will also feature pre-eminent experts from the steel industry, international companies, state regulators, scientists and other figures who will share their diverse industry and business experience and provide an insight into the broader environment in which our managers will be working.

During the programme, participants will have the opportunity to interact directly with Metinvest executives. They will also be able to discover the latest production methods through short-term internships at one of the world's most successful metallurgical mills.

The programme will not only focus on obtaining the academic knowledge, but also foster management skills on real business projects taken from Metinvest's strategy. Participants will develop and present their projects for the approval of Metinvest's board members.

In addition, during 2011, a unified talent pool programme will be launched at Metinvest's enterprises.

HEALTH AND SAFETY

Health and Safety remained the top priority throughout the Company in 2010

Metinvest's updated strategy incorporates issues covering health and safety into each step of its long-term business development. The welfare of its employees is both a moral imperative and a business priority as Ukraine becomes integrated into the global market. In 2010, Metinvest continued to achieve important gains in reducing injuries at its plants through training, providing improved personal safety equipment and upgrading facilities.

Summary

- In 2010, lost-time incidents continued to fall for the sixth year running
- The Health and Safety function played a major role in the development of Metinvest's long-term strategy

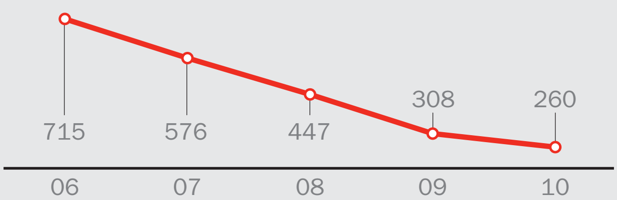
Priorities

- Health and safety will be an integral part of all investment plans
- The Company is focused on training and fostering a proactive safety culture at all levels

Lost-time incidents

260

16% reduction from previous year



Safety culture

Metinvest is committed to applying a unified code of the best health and safety practices at all enterprises to protect employees and assets. Health and safety are critical priorities for Metinvest, and the Health, Safety and Environment Committee of the Board of Directors oversees the health and safety policies and adherence to Ukrainian (or other relevant local) safety legislation and international best practice. The Company's ultimate goal is to create an interdependent safety culture where all managers and workers take responsibility for looking after both their own safety and that of their co-workers.

Beyond the clear moral imperative of protecting the lives and welfare of employees, as Ukraine becomes integrated into the European and global markets, maintaining a workplace where people can work efficiently and safely is imperative for the Company's long-term survival. Each plant has a dedicated health and safety team.

Metinvest has committed to obtaining OHSAS 18001 and ISO 14001 certificates for all of its enterprises. On the corporate level, the integrated Health, Safety and Environment management system complies with OHSAS 18001 and ISO 14001 standards. In addition, Northern GOK, Ingulets GOK, Central GOK and Inkor Chemicals are certified as complying with both ISO 14001 and OHSAS 18001 standards.

Metinvest uses root cause analysis to investigate all health and safety incidents. This methodology helps to identify the underlying causes of incidents and introduce corrective measures to prevent their recurrence. The corrective measures are then shared across the Company.

Metinvest also undertakes behavioural safety audits at all facilities to identify and eliminate unsafe acts and conditions that can lead to accidents. Since 2009, the Company has been operating a highly successful "Train the Trainer" programme: retired managers with unmatched experience and knowledge of particular plants are trained in corporate safety standards to then train other managers and employees. These former managers are also trained to conduct safety audits of plants (see Case Study).

Results in 2010

In 2010, the Health, Safety and Environment department was involved in each step of drafting Metinvest's updated long-term strategy. During the year, key standards were introduced to manage contractor safety, assess process safety risks, and manage health and safety in investment projects. The Company also adopted an occupational health strategy and launched a pilot project at Krasnodon Coal. These unified corporate standards are a key element in implementing the updated health and safety strategy. In addition, a corporate standard for personal protection equipment (PPE) was developed and will be rolled out across the Company in 2011.

Metinvest spent US$82.2 million on workplace safety and protection in 2010, representing 0.9% of its revenues for the year[28]. The Company achieved important gains in preventing deaths and injuries in 2010, which fell for the sixth year in a row. Over the last five years, total lost-time incidents have been reduced substantially, from 715 (including 31 fatalities) in 2006 to 260 (including 11 fatalities) in 2010. At the same time, Metinvest promotes a policy of complete transparency in health and safety, and it bases KPIs in this area on qualitative rather than quantitative progress to promote openness. At the same time, the Company remains committed to ensuring zero fatalities, reducing injuries and developing a culture in which safety is seen as a key indicator of successful operational management, and we feel that the progress seen in the last five years is a solid indication of this.

In 2010 alone, 8,956 managers and supervisors received extensive health, safety and environment training. Since 2008, 13,047 people have participated in safety seminars. Approximately 75,000 of the Company's employees have received safety briefings and will receive extensive safety training over the course of their work.

Outlook

Health and safety will play a critical role as Metinvest develops its technology strategy in 2011, placing a priority on investment in technology that can improve workplace safety over the long term and providing an analysis of the health and safety effect of each project. The Company expects to increase spending on health and safety substantially in 2011, as it begins to implement long-term strategic investments. In addition, the installation of new equipment and upgrading of facilities is expected to make a substantial positive contribution to workplace safety and occupational health.

As regards occupational health, Metinvest has plans for several initiatives, including training medical personnel at all enterprises and the management company, in accordance with international standards for emergency medical provision. It also plans to introduce corporate first-aid standards and procedures at all enterprises.

Metinvest awarded its first CEO's prize for achievements in health and safety in June 2011. The award raised awareness of best practices and emphasises the priority nature of health and safety issues as the Company enters the next stage of its strategic development.

Our strategy in action

"Train the Trainer" Programme

Since 2009, Metinvest has conducted the highly successful "Train the Trainer" programme at enterprises in its three key production divisions. Under the programme, respected former managers from the Company's plants are recruited and trained in the latest corporate safety standards, including the conduct of safety audits, and they then train managers and employees.

The programme is based on the inspired approach of harnessing the value of retired managers, who have unparalleled knowledge of the plants where they used to work. They possess extensive institutional experience, know how to manage people, and have deep respect and credibility among current workers and managers. In particular, former managers know every corner of the plants, including problem areas, and this helps them in conducting safety audits.

For the trainers, the flexible work schedule provides an interesting and fulfilling break from retirement, a chance to share their skills and experience, and the opportunity to earn extra income. In 2010, the second year of the programme, some 35 former managers were trained – twice as many as the 18 in the pilot year – and they in turn trained managers and supervisors, with a total of 6,959 employees undergoing training as part of the programme.

28. Ukrainian legislation mandates that companies dedicate at least 0.5% of their revenues to labour protection.

ENVIRONMENT AND COMMUNITY

Metinvest continued to make major strides in reducing its environmental impact while investing in the sustainability of local communities

Metinvest's business strategy envisages investing in the environment and local communities as factors critical for its successful, long-term development. It applies the same oversight and rigour to these investments as to any other part of its business.

Summary

- In 2010, the Company increased its total spending on the environment by 50%
- Last year, direct social investments exceeded US$5 million

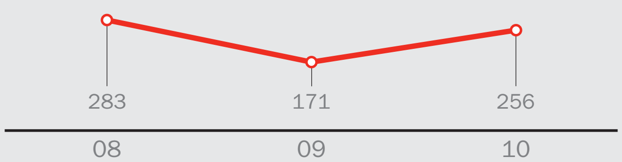
Priorities

- Investments in new technology are the main way to reduce emissions and other potential environmental hazards
- The Company is implementing a new social investment strategy to maximise the effectiveness of its work in local communities

Total spending on environmental protection ($USm)

US$256m

50% increase from previous year



ENVIRONMENT

Overview

Metinvest's business sustainability is inextricably linked to its environmental sustainability as Ukraine becomes integrated into European and global markets. The updated strategy was developed in close collaboration with its Health, Safety and Environment function. The ambitious five-year investment programme is expected to yield major reductions in direct CO_2 emissions, waste generation and gas and electricity consumption, as key production assets are modernised.

Minimising impact

Six of Metinvest's production assets have ISO 14001 environmental management certificates, and the Company plans to certify all of the others in the next few years. In 2010, it introduced a unified system for handling environmental certification at all facilities, streamlining the process and minimising the risk of delays in a crucial area.

Metinvest has launched an engineering programme to improve environmental standards at all facilities. In 2010, it spent around US$250 million on environmental protection, including capital, current and other expenditures, at its plants. Subcommittees were established at each enterprise to assess environmental risks and develop mitigation plans. Importantly, as the Company embarks on an unprecedented investment programme, a single standard for managing environmental matters, as well as health and safety, has been developed for projects.

The Company has already made important progress in reducing greenhouse gas emissions under its Kyoto Protocol commitments. According to audited figures, between 2004 and 2007, its facilities reduced their emissions by 5.0 million tonnes of CO_2 equivalent, while between 2008 and the first half of 2010, they reduced emissions by 3.6 million tonnes[28]. For 2008 to 2012, Metinvest expects to have reduced emissions by 8.7 million tonnes of CO_2 equivalent, which is equal to 2.5 million tonnes of coking coal. Beyond 2012, while its Kyoto Protocol commitments will expire the Company currently envisages a reduction in emissions of around 18 million tonnes of CO_2 equivalent.

In compliance with Ukrainian legislation, Metinvest makes regular payments to the state budget to compensate for emissions and waste generated by its business. In 2010, they amounted to some US$13.7 million, compared with US$13.0 million in 2009.

Outlook

Metinvest's main environmental goal in 2011 is developing its strategy to ensure that associated priorities are fully integrated and mitigation of environmental risks is built into each investment project. As projects are implemented, the Health, Safety and Environment department will work to implement procedures in each one. The Company also intends to develop a unified system for internal environmental audits.

COMMUNITIES

Overview

Metinvest's greatest social contribution is its output, which creates value-added products that are vital for economic development and thousands of jobs in the communities where it is present. The Company approaches investing in communities as it does other aspects of its business, seeking efficient and sustainable solutions to mitigating problems, rather than making one-off charitable payments.

Metinvest has become a signatory of the United Nations Global Compact, a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles regarding human rights, labour, environment and anti-corruption.

Key social projects

Metinvest supports local communities on an ongoing basis by financing various key social programmes. Last year, Metinvest's social investments totalled US$5.2 million.

The aim of these investments is to make economic, social and environmental improvements in local communities. Metinvest works closely with local administrations and agencies

28. Figures audited by independent UN-accredited organisation Bureau Veritas

(providers of services in education, health, youth and sport) and has signed cooperation agreements with local councils, as well as non-governmental organisations and charities. Each year, the Company discusses the results of its work with the leaders of local administrations.

Examples of long-term social investments include a programme to develop social infrastructure launched in Kryvyi Rih in 2008. The project, an extensive renovation of three resident districts, has included developing sports and leisure facilities and beautifying the town, which is home to many employees and their families. The work continued in 2009 and 2010, alongside several other major infrastructure projects.

One priority for Metinvest in 2010 was developing a plan for gradual changes in the system of managing social investments and improving the quality of their results. In 2009, the Company conducted an analysis of the approaches and social models used by enterprises, including an evaluation of their strengths and weaknesses.

As a result, a “Strategy for Increasing the Efficiency of Social Investments to 2015” was adopted in 2010. This has spearheaded a transition to a unified policy of social investment for all enterprises. Metinvest is now transitioning to new, progressive programmes for social investment based on long-term investments and greater involvement of local communities in their implementation. A working group plans to complete and submit an official regulation and policy on social investment in 2011.

Important partnership programmes include Metinvest’s work with the United States Agency for International Development (USAID). In 2010, this involved a project with the Krasnodon city authorities to develop a regional socio-economic development strategy through 2015 that will attract sustainable investment in the local economy.

Outlook

In 2011-12, Metinvest plans to launch major new initiatives in line with its updated social investment strategy, including an environmental programme called “Our Environment is Everyone’s Business” and an infrastructure programme called “Our Town in Our Hands”. These will be piloted in Avdiivka, Kryvyi Rih and Yenakiieve, and the results will be carefully analysed for effectiveness. In addition, the Company plans to launch its integrated Corporate Volunteer programme to provide employees with additional, structured opportunities to carry out charity work.

Our strategy in action

Methane Extraction at Krasnodon Coal

The Coke and Coal division implements projects to extract methane from its mines in the interests of safety and to use part of the gas to generate power and reduce overall emissions. This is in line with Metinvest’s strategic focus on reducing energy costs and bringing facilities up to the highest international emissions standards.

In 2010, the mines managed by Krasnodon Coal Company in Ukraine captured some 78.3 million m^3 of methane gas, including 55.2 million m^3 through subsurface degasification and 23.1 million m^3 through surface degasification. In 2011, the enterprise plans to improve the degasification infrastructure at its mines and make subsurface drilling safer and more efficient.

Last year, Krasnodon Coal also developed a feasibility project for methane co-generation at its Samsonovskaya West mine, as part of the EU-backed Coal Sector Policy Support Programme in Ukraine. Also during the year, at the Sukhodolskaya East mine, a boiler for methane gas continued operating, generating US$700,000 via quotas for greenhouse gas reductions under the Kyoto Protocol.

In 2011, the enterprise plans to appoint a general contractor to conduct further design work both for this innovative project and for applying gas generators at the Sukhodolskaya East mine in cooperation with Green Gas International. It also intends to install a second flare device at the Samsonovskaya West mine to reduce methane emissions.

Krasnodon Coal also carried out work with Eco Alliance and Halliburton to conduct a preliminary evaluation of the methane reserves at the Molodogvardeiskaya mine. In 2011, contractors will explore the feasibility of using hydraulic fracturing, one of the most promising new technologies available, to extract methane.

CORPORATE GOVERNANCE

The Company is developing a world-class corporate governance system

Metinvest is developing its corporate governance practices in accordance with the highest international standards in the belief that information transparency serves the interests of investors and stakeholders, while also underpinning its investment case and allowing the Company to access capital on the most attractive terms.

Corporate governance principles

Metinvest's vertically integrated structure lends itself to clear lines of governance. The Company is managed according to a well defined set of core principles that are closely linked to its strategic approach. They are:

Specialisation
We do what we can better than others; we focus on the strategic management of steel and mining businesses. This increases efficiency and enhances shareholder value and investment attractiveness.

Vertical integration
We control all elements of the steel and mining production cycle, from mining coal and iron ore to selling finished products worldwide. This provides greater control over our business and more stability by reducing exposure to market volatility.

Unified strategic management
We carry out unified and consistent strategic planning and management across all of our assets. This allows us to benefit from synergies among our businesses and enhances shareholder value.

Centralisation
We have a centralised system for managing assets. This helps to optimise management costs, unifies business processes and technology, and enhances overall efficiency.

Growth and investments
We believe in making ongoing investments in developing and expanding our business. This commitment enables us to compete and prosper in international markets.

Global best practices
We study international best practices in business, steelmaking and mining, carefully selecting the most effective management, production and IT approaches for our operations. This helps us to maximise returns on investment and compete in the global marketplace.

Tradition and innovation
We preserve the best traditions and utmost professionalism in steelmaking, enriching them with modern knowledge and technology. This ensures that our customers receive the best products.

Commitment to leadership
We aim to excel in everything that we do and foster leadership among our people. This ensures long-term growth and maintains a pool of talented leaders.

Personal commitment
We foster a corporate culture based on the personal commitment of our people to what they do. This ensures that employees take responsibility for their actions and care for others.

Corporate Governance Institutions

The supreme management bodies at Metinvest are a de-facto Supervisory Board, which is responsible for strategic management, and the Executive Committee, which oversees operations.

Supervisory Board
The Supervisory Board consists of ten Directors, including two independent ones. It is responsible for key decisions related to Metinvest's activities, including:

- Devising the long-term business strategy and annual business plans
- Assessing the results of activities compared with objectives
- Appointing senior managers, setting their KPIs and approving their compensation plans and bonuses
- Appointing the external auditor
- Approving annual reports and financial statements
- Selecting mergers and acquisitions
- Approving investment projects with budgets over US$20 million
- Endorsing any external fundraising of over US$30 million
- Approving the annual work plans and reports of the Board committees
- Approving transactions with third parties involving a total value of over US$100 million

Board Committees

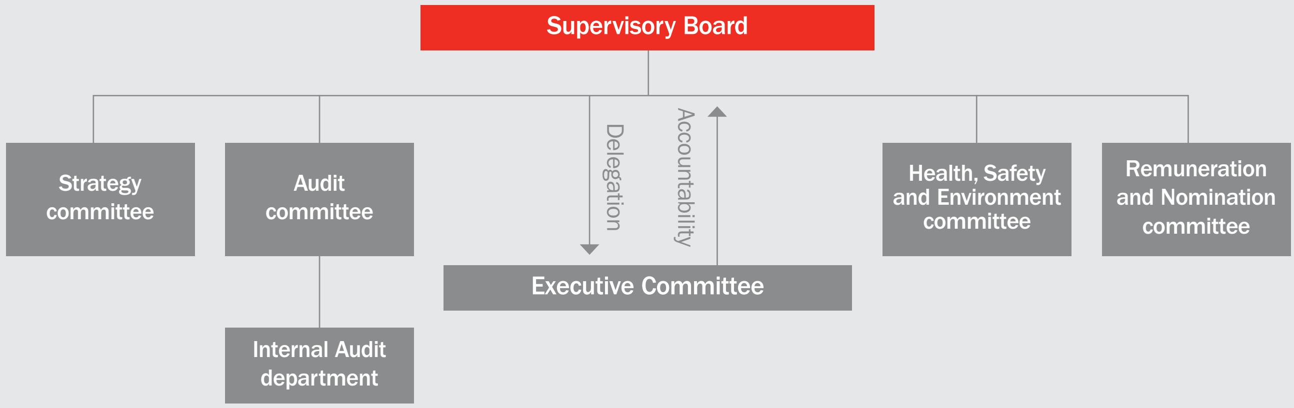
The Supervisory Board is assisted by the following four Board committees:

- Strategy Committee
- Audit Committee
- Health, Safety and Environment Committee
- Remuneration and Nomination Committee

Strategy Committee
The main responsibility of the Strategy Committee is to conduct reviews and provide recommendations to the Supervisory Board regarding:

- Metinvest's strategic objectives, including new and existing businesses
- Mergers and acquisitions
- Investment projects with budgets over US$20 million

Governance Structure



Audit Committee

The objective of the Audit Committee is to analyse and support the internal audit system. Its main responsibilities include:

- Overseeing financial reporting processes, including recommendations for any changes to accounting policies
- Nominating the external auditor for approval by the Supervisory Board
- Maintaining the relationship with the external auditor
- Analysing the internal control and risk management systems, including making any recommendations for improvements
- Analysing and providing support for the internal audit system
- Ensuring compliance with legislation and standards of business conduct

The Audit Committee is assisted in its work by the Internal Audit Department.

Internal Audit department

The Internal Audit department works constantly to improve the risk management system, internal control system and overall corporate governance. It also supports the Supervisory Board's Audit Committee.

- The department consists of professional managers with expertise in internal control, audit and accounting. It reports to the Audit Committee and the senior executive management regularly.
- The department's main functions include providing independent assessments of the efficiency and comprehensiveness of the risk management and internal control systems as well as making recommendations for improving them. It also ensures that Metinvest fully complies with internal and external regulatory and legal requirements.

Health, Safety and Environment Committee

The objective of the Health, Safety and Environment Committee is to support the management team in implementing policies of the highest international standards in the area. Its main responsibilities include:

- Leading the development and implementation of the HSE strategy
- Participating in key HSE projects, including analysing and approving plans and budgets
- Developing and implementing a world-class HSE managerial reporting system
- Reviewing investigations and preliminary conclusions regarding fatal and other serious on-site and off-site incidents involving harm to health and/or the environment
- Uncovering the underlying causes of fatal and other serious incidents and developing action plans to minimise future risks
- Conducting both announced and unplanned site visits to check HSE practices at production sites

Remuneration and Nomination Committee

The Remuneration and Nomination Committee oversees the appointment and terms of employment of senior executives and Directors. Its responsibilities include:

- Defining the framework for remunerating members of the Supervisory Board and its committees, the CEO, members of the Executive Committee, General Directors of Metinvest's key enterprises, and other senior executives
- Establishing terms and conditions for employment contracts for the Supervisory Board
- Recommending appointments and changes to the Supervisory Board
- Making recommendations regarding KPIs and annual bonuses for senior managers
- Establishing the Company's succession policy
- Maintaining the system for motivation, assessment and compensation

EXECUTIVE COMMITTEE

Skilled, experienced and committed leadership

The Executive Committee is responsible for executing the Company's strategy and its operational management. It prepares management reports and accounts for review by the Supervisory Board and executes its resolutions. It also approves new functions, business processes and structures, and reviews financial and operating results.

Igor Syry

Committee Chairman, General Director
Igor Syry has been General Director of Metinvest since 2006. Before joining the Company, he worked as a Senior Manager at SCM from 2002 to 2006 and a Senior Consultant at PricewaterhouseCoopers from 1997 to 2002. From 1996 to 1997, he worked as a Credit Manager at the Western NIS Enterprise Fund.

Igor obtained an MBA from Cornell University in 1999. He is a Certified Financial Analyst (CFA) and a member of the Association of Certified Chartered Accountants (ACCA).

Sergiy Novikov

Committee Member, Chief Financial Officer
Sergiy Novikov has been CFO of Metinvest since 2006. Before that, he was CFO at Azovstal Iron and Steel Works from 2004 to 2006. He held the position of Financial Director at Bunge Ukraine from 2003 to 2004 and at Japan Tobacco International from 2001 to 2003.

Sergiy graduated from Kharkiv State University in 1993 with an MA in Foreign Languages (English and Spanish). He obtained his MBA from the University of Cincinnati in 1995. He is a Certified Financial Analyst (CFA) and a member of the Association of Certified Chartered Accountants (ACCA).

Mykola Ishchenko

Committee Member, Director of Iron Ore division
Mykola Ishchenko has been Director of the Iron Ore division since March 2010. He was General Director at Ingulets GOK from July 2009 to March 2010 and Deputy Director of the Iron Ore division at Metinvest from July 2007 to July 2009. He was Chairman of the Management Board and CEO of Krivbassvzryvprom, an industrial production enterprise, from September 2000 to July 2007. He worked as Deputy Head of Planning and Economics and Deputy Director of Marketing and Economics at Krivbassvzryvprom from 1987 to 2000.

Mykola has two degrees: in 1985, he graduated from Kyiv National Economics University with a degree in Economics; and in 1992, he graduated from the Kryvyi Rih Mining Institute with a diploma in Mining Engineering. He has a doctorate in Economics.

Alexander Pogozhev

Committee Member, Director of Steel and Rolled Products division
Alexander Pogozhev has been Director of the Steel and Rolled Products division since October 2010. He has extensive professional experience at large enterprises in the steel industry. He served as Chief Operations Director of Severstal International (US) from 2008 to 2010 and worked at Severstal from 1991 to 2008, where he held several executive positions, including COO.

Alexander obtained his MBA from the Business School of Northumbria University (UK).

Volodymyr Gusak

Committee Member, Director of Coke and Coal division
Volodymyr Gusak has been Director of the Coke and Coal division since 2006. Before that, he was a Manager at SCM from 2002 to 2005 and served as a Financial Analyst and Deputy Head of Restructuring at Deloitte Touche Tohmatsu from 2000 to 2002. In 1999, he worked as an Accountant with the Centre for Economic Reform and Privatisation and, in 1998, as a Project Administrator for consulting company Chenomics in the US. From 1994 to 1996, he was an Advisor to Soros-Aslund Economic Advisory Group for the Ukrainian government.

Volodymyr graduated from Kyiv's Taras Shevchenko National University in 1996 with an MA in Foreign Languages (English and German). He received his MSc in Economics from Texas A&M University (USA) in 1998.

Jack MacLachlan

Committee Member, Chief Technology Officer

Jack MacLachlan has been CTO of Metinvest since November 2010. Before this, he was Director of the Steel and Rolled Products division from May 2008 to 2010 and COO of the division from 2007 to 2008. Prior to joining Metinvest, he was a Managing Director of Corus from 2004 to 2007 and of the group's Strip Products division from 2000 to 2004. He served as a Vice President at Tuscaloosa Steel in Alabama, USA from 1999 to 2000, as a Works Manager in numerous plants at British Steel from 1989 to 1999, and as an Engineer/Operations Manager at British Steel from 1980 to 1989.

Jack graduated from Strathclyde University in 1980, obtaining a BSc in Electrical and Electronic Engineering with first-class honours. He obtained his MBA with distinction from the University of Warwick in 1996 and completed an International Leadership Programme at Wharton Business School in 2003. He is a Chartered Engineer and a Fellow of the Institute of Engineering and Technology.

Igor Kirilyuk

Committee Member, Director of Corporate Communications

Igor Kirilyuk has been Director of Corporate Communications at Metinvest since 2007. Prior to that, he held the same post at the Willard Group public relations agency in Moscow (an affiliate of Burson-Marsteller) from 2004 to 2007 and was Director of Public Affairs and Communications at The Coca-Cola Company in Ukraine from 1996 to 2003. He worked as an assistant to the Belarusian Minister of Foreign Economic Relations from 1991 to 1994.

Igor graduated from the Minsk State Pedagogical Institute of Foreign Languages in 1986 with a diploma in English and German translation. He obtained his Master of Science degree in Management from New York University in 1995. He is a Member of the International Public Relations Association (IPRA) and the European Association of Communications Directors (EACD).

Igor Golchenko

Committee Member, Chief Legal Officer

Igor Golchenko has been CLO since 2006. Before that, he was Head of the Legal department and Deputy Director at Leman Commodities SA from 1999 to 2006 and Head of the Legal department at Azovstal Iron and Steel Works from 1990 to 1999.

Igor graduated from Chernigov Law College with a diploma in Law in 1988, obtained a Juris Doctor degree from Donetsk State University in 1995, and an LLM in US and Global Business Law from Suffolk University Law School (Boston, MA) in 2010. He is admitted to the Ukrainian Bar Association, is a Member of the Association of Corporate Counsel Europe (ACCE) and a Certified Trustee, Crisis Manager and Liquidator.

Volodymyr Bantush

Committee Member, Director of Business Security
Volodymyr Bantush has been Director of Business Security since 2006. Before that, he served as Head of Security and subsequently Director of Business Security at Northern GOK from 2004 to 2006. He was Deputy General Director of Business Security at Kramatorsk Heavy Machine-Tool Plant from 2003 to 2004. From 1981 to 2003, he held various positions with the Ukrainian internal affairs authorities.

Volodymyr obtained a Master of Law degree from the International Scientific and Technical University in 2004.

Sergey Ryabov

Committee Member, Director of Health, Safety and Environment
Sergey Ryabov has been Director of Health, Safety and Environment since June 2008. Before that, he served as a Consultant, Project Manager and subsequently as Operations Manager at DuPont Safety Resources-CIS from 1998 to 2004. He was also Manager and later Director of Health, Safety and Environment of the gas business of TNK-BP in Moscow from 2005 to 2008.

Sergey graduated from Vladimir State University with a diploma in Mechanical Engineering in 1996.

Nataliya Strelkova

Committee Member, Director of Human Resources
Nataliya Strelkova has been Director of Human Resources since June 2010. Before that, she held the same post at MTS (Russia) from 2006 to 2010 and was Director of HR Policy at MTS from 2004 to 2006. She was a Senior Specialist in the HR Policy department at Yukos (Russia) from 2001 to 2004 and Director of HR at the ESN Group (Russia) from 1997 to 2001.

Nataliya graduated from Moscow State University in 1996 with a diploma in Organisational Psychology, and obtained a diploma in the Physics of Nuclear Reactors and Nuclear Power Generation Systems from the Moscow Institute of Engineering and Physics in 1992. She obtained an MBA from IMD (Lausanne, Switzerland) in 2010.

INDEPENDENT AUDITOR'S REPORT

To: the General Meeting of Shareholders of Metinvest B.V

Introduction

We have audited whether the accompanying abbreviated financial statements of Metinvest B.V., The Hague, for the year 2010 have been derived consistently from the audited financial statements of Metinvest B.V., for the year 2010. In our auditor's report dated 30 June 2011 we expressed an unqualified opinion on these financial statements. Management is responsible for the preparation of the abbreviated financial statements in accordance with the accounting policies as applied in the 2010 financial statements of Metinvest B.V. Our responsibility is to express an opinion on these abbreviated financial statements.

Scope

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we plan and perform the audit to obtain reasonable assurance that the abbreviated financial statements have been derived consistently from the financial statements.

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

Opinion

In our opinion, these abbreviated financial statements have been derived consistently, in all material respects, from the financial statements.

Emphasis of matter

For a better understanding of the company's financial position and results and the scope of our audit, we emphasize that the abbreviated financial statements 2010 should be read in conjunction with the unabridged financial statements, from which the abbreviated financial statements 2010 were derived and our unqualified auditor's report thereon dated 30 June 2011. Our opinion is not qualified in respect of this matter.

Amsterdam, 30 June 2011

PricewaterhouseCoopers Accountants N.V.

[Originally signed by A.J. Brouwer RA]

PricewaterhouseCoopers Accountants N.V., Thomas R. Malthusstraat 5, 1066 JR Amsterdam, P.O. Box 90357, 1006 BJ Amsterdam, The Netherlands

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ABBREVIATED* CONSOLIDATED BALANCE SHEET

All amounts in million of US Dollars	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Goodwill	8	974	1,855
Other intangible assets	9	1,072	1,167
Property, plant and equipment	10	7,053	5,649
Investments in associates	11	109	144
Available-for-sale investments	12	–	18
Deferred tax asset	29	196	88
Other non-current assets	14	112	213
Total non-current assets		**9,516**	**9,134**
Current assets			
Inventories	15	1,624	898
Trade and other receivables	16	2,933	1,979
Cash and cash equivalents	17	449	159
Total current assets		**5,006**	**3,036**
Non-current assets held for sale	13	146	–
TOTAL ASSETS		**14,668**	**12,170**
EQUITY			
Share capital	18	–	–
Share premium	18	5,604	4,172
Other reserves	19	(3,527)	(4,119)
Retained earnings		5,151	5,592
Equity attributable to the owners of the Company		**7,228**	**5,645**
Non controlling interest		**984**	**1,327**
TOTAL EQUITY		**8,212**	**6,972**
LIABILITIES			
Non-current liabilities			
Loans and borrowings	20	1,464	929
Seller's notes	21	276	330
Retirement benefit obligations	22	542	343
Deferred tax liability	29	350	913
Other non-current liabilities	23	132	109
Total non-current liabilities		**2,764**	**2,624**
Current liabilities			
Loans and borrowings	20	1,332	1,014
Seller's notes	21	92	161
Trade and other payables	24	2,268	1,399
Total current liabilities		**3,692**	**2,574**
TOTAL LIABILITIES		**6,456**	**5,198**
TOTAL LIABILITIES AND EQUITY		**14,668**	**12,170**

Signed and authorised for release on behalf of Metinvest B.V. on 29 June 2011

[Originally signed by Director B, Igor Syry] [Originally signed by Director A, ITPS]

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

* Under Dutch law (article 361, paragraph 1, book 2; also articles 391 and 392, book 2 of the Dutch Civil Code), "full financial statements" are defined as the combined presentation of the Directors Report, consolidated accounts, standalone accounts and other information. When these documents are published separately or in parts, they should be described as "abbreviated financial statements" and a clear reference should be made to the full set of financial statements. The full set must be filed with the Amsterdam Chamber of Commerce (in line with articles 394 and 295 of book 2 of the Dutch Civil Code).

ABBREVIATED CONSOLIDATED INCOME STATEMENT

All amounts in million of US Dollars	Note	Year ended 31 December 2010	Year ended 31 December 2009
Revenue	7	9,358	6,026
Cost of sales	25	(6,372)	(4,365)
Gross profit		**2,986**	**1,661**
Distribution costs	25	(820)	(696)
General and administrative expenses	25	(296)	(267)
Impairment of goodwill	8	(675)	–
Other operating (expenses)/income, net	26	(252)	(94)
Operating profit		**943**	**604**
Finance income	27	45	43
Finance costs	28	(246)	(167)
Loss on derecognition of available-for-sale investments		(40)	–
Share of result of associates	11	5	(5)
Profit before income tax		**707**	**475**
Income tax expense	29	(270)	(141)
Profit for the year		**437**	**334**
Profit is attributable to:			
Owners of the Company		210	384
Non controlling interests		227	(50)
Profit for the year		**437**	**334**

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

ABBREVIATED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

All amounts in million of US Dollars	Note	Year ended 31 December 2010	Year ended 31 December 2009
Profit for the year		437	334
Other comprehensive income			
Revaluation of available-for-sale investments	12	(54)	8
Revaluation of property plant and equipment	10	153	1,091
Reversal of deferred tax on revaluation due to changes in tax base on PPE (Note 3)	29	502	–
Currency translation differences		(55)	(192)
Share in equity reserves of associates	11	(26)	30
Realisation of reserve on revaluation of available-for-sale investments		40	–
Income tax relating to components of other comprehensive income		(29)	(273)
Total other comprehensive income		**531**	**664**
Total comprehensive income for the period		**968**	**998**
Total comprehensive income attributable to:			
Owners of the Company		653	757
Non controlling interest		315	241
		968	**998**

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

ABBREVIATED CONSOLIDATED STATEMENT OF CASH FLOWS

All amounts in million of US Dollars	Note	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from operating activities			
Profit before income tax		**707**	**475**
Adjustments for:			
Depreciation of property, plant and equipment (“PPE”) and amortisation of intangible assets, net of amortisation of deferred income		694	555
Loss on derecognition of available-for-sale investments		40	–
Impairment and devaluation of PPE	10	52	49
(Gain)/loss on disposal of property, plant and equipment		(5)	1
Goodwill impairment	8	675	–
Finance income	27	(45)	(43)
Finance costs	28	246	167
Unrealised foreign exchange differences		20	(36)
Net increase in retirement benefit obligation	22	46	46
Share of result of associates	11	(5)	5
Write-offs of inventory	15	32	–
Other non-cash operating (incomes)/losses		12	14
Operating cash flows before working capital changes		**2,469**	**1,233**
Decrease/(increase) in inventories		(490)	304
Decrease/(increase) in trade and other accounts receivable		(256)	(22)
Increase/(decrease) in trade and other accounts payable		(28)	96
Decrease in other non-current assets		8	20
Decrease in other non-current liabilities		(7)	(3)
Cash generated from operations		**1,696**	**1,628**
Income taxes paid		(538)	(344)
Interest paid		(123)	(74)
Net cash from operating activities		**1,035**	**1,210**
Cash flows from investing activities			
Purchase of property, plant and equipment		(582)	(324)
Proceeds from sale of property, plant and equipment		31	15
Acquisition of subsidiaries, net of cash acquired	6	(86)	7
Acquisition of available-for-sale investment in Ilyich I&SW	6	(64)	–
Acquisition of United Coal Company, net of cash acquired		–	(31)
Payments for subsidiaries and non controlling interest – SCM Group and related parties		–	(122)
Loans issued		(87)	(37)
Proceeds from repayments of loans issued		42	–
Interest received		6	2
Net cash used in investing activities		**(740)**	**(490)**

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

Abbreviated Consolidated Statement of Cash Flows continued

All amounts in million of US Dollars	Note	Year ended 31 December 2010	Year ended 31 December 2009
Cash flows from financing activities			
Proceeds from loans and borrowings		1,351	115
Repayment of loans and borrowings		(624)	(719)
Repayment of seller's notes		(151)	–
Net trade financing proceeds/(repayments)		148	(156)
Dividends paid		(685)	(58)
Acquisition of NCI in Ilyich Group	6	(45)	–
Net cash generated from/(used in) financing activities		**(6)**	**(818)**
Effect of exchange rate changes on cash and cash equivalents		1	(4)
Net increase/(decrease) in cash and cash equivalents		**290**	**(102)**
Cash and cash equivalents at the beginning of the year		**159**	**261**
Cash and cash equivalents at the end of the year	17	**449**	**159**

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

ABBREVIATED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In million of US Dollars	Attributable to owners of the Company					Non controlling interest (NCI)	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2009	**–**	**4,172**	**(4,339)**	**5,105**	**4,938**	**1,348**	**6,286**
Share in equity reserves of associates	–	–	25	–	**25**	5	**30**
Revaluation of property, plant and equipment	–	–	656	–	**656**	435	**1,091**
Income tax relating to components of other comprehensive income	–	–	(164)	–	**(164)**	(109)	**(273)**
Revaluation of available-for-sale investments	–	–	8	–	**8**	–	**8**
Currency translation differences	–	–	(152)	–	**(152)**	(40)	**(192)**
Other comprehensive income for the period	**–**	**–**	**373**	**–**	**373**	**291**	**664**
Profit for the period	–	–	–	384	**384**	(50)	**334**
Total comprehensive income for the period			**373**	**384**	**757**	**241**	**998**
Realised revaluation reserve	–	–	(160)	160	**–**	–	**–**
Acquisition of interest in the subsidiaries from SCM Group companies and related parties (Note 6)	–	–	7	–	**7**	(129)	**(122)**
Decrease in non controlling interest due to Group restructuring (Note 6)	–	–	–	14	**14**	(14)	**–**
Business combination (Note 6)	–	–	–	–	**–**	(61)	**(61)**
Acquisition of non controlling interest in Promet (Note 6)	–	–	–	(51)	**(51)**	51	**–**
Dividends declared by Parent and non wholly owned subsidiaries	–	–	–	(20)	**(20)**	(109)	**(129)**
Balance at 31 December 2009		**4,172**	**(4,119)**	**5,592**	**5,645**	**1,327**	**6,972**
Share in equity reserves of associates	–	–	(22)	–	**(22)**	(4)	**(26)**
Revaluation of property, plant and equipment	–	–	150	–	**150**	3	**153**
Income tax relating to components of other comprehensive income	–	–	(29)	–	**(29)**	–	**(29)**
Changes in deferred tax due to changes in tax base of PP&E	–	–	408	–	**408**	94	**502**
Revaluation of available-for-sale investments	–	–	(54)	–	**(54)**	–	**(54)**
Realisation of reserve on revaluation of available-for-sale investments	–	–	40	–	**40**	–	**40**
Currency translation differences	–	–	(50)	–	**(50)**	(5)	**(55)**
Other comprehensive income for the period	**–**	**–**	**443**		**443**	**88**	**531**
Profit for the period				210	**210**	227	**437**
Total comprehensive income for the period	**–**	**–**	**443**	**210**	**653**	**315**	**968**
Realised revaluation reserve	–	–	(153)	153	**–**	–	**–**
Disposal of subsidiaries to SCM (Note 4, 30)	–	–	243	–	**243**	183	**426**
Acquisition of NCI in MetalUkr Holding from SCM (Note 6)	–	–	59	–	**59**	(569)	**(510)**
Dividends declared by the Parent (Note 6)	–	–	–	(756)	**(756)**	–	**(756)**
Dividends declared by non wholly owned subsidiaries	–	–	–	–	**–**	(427)	**(427)**
Shares to be issued to sellers of Ilyich Group (Note 6)	–	1,432	–	–	**1,432**	–	**1,432**
Changes in NCI due to Ilyich Group acquisition (Note 6)	–	–	–	–	**–**	157	**157**
Acquisition of NCI in MMZ (Note 4, 6)	–	–	–	(150)	**(150)**	145	**(5)**
Acquisition of NCI in Ilyich Group (Note 6)	–	–	–	102	**102**	(147)	**(45)**
Balance at 31 December 2010	**–**	**5,604**	**(3,527)**	**5,151**	**7,228**	**984**	**8,212**

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

NOTES TO THE ABBREVIATED CONSOLIDATED FINANCIAL STATEMENTS – 31 DECEMBER 2010

1 Metinvest B.V. and its operations

Metinvest B.V. (the "Company" or "Metinvest"), is a private limited liability company registered in the Netherlands. The Company is ultimately controlled by JSC System Capital Management ("JSC SCM"). JSC SCM is registered in Donetsk, Ukraine and is beneficially owned by Mr. Rinat Akhmetov.

The Company and its subsidiaries (together referred to as the "Group" or "Metinvest Group") are an integrated steel producer, owning assets in each link of the production chain – from iron ore mining, coking coal mining and coke production, through to semi-finished and finished steel production; as well as pipe rolling and plate/coil production. The steel products, iron ore and coke are sold on both the Ukrainian and export markets.

Until November 2007, the Company was indirectly 100% controlled by SCM.

In November 2007 the Company acquired from parties known as Smart Group ("Smart" or "Smart Group") 82% of the shares in the share capital of JSC Inguletskiy Mining and Processing Works in exchange for the transfer to Smart of 25% of the shares in the share capital of the Company. In the Shareholders' Agreement of 1 July 2007 SCM (System Capital Management) Limited ("SCM"), an indirect subsidiary of JSC SCM, and Smart negotiated and agreed that Smart would contribute their equity interest in JSC Makeyevka Steel Plant ("MMZ") and JSC Promet Steel in exchange Smart would acquire veto rights over the management of the Company (the "Shareholders' Agreement"). Due to the complexity of the transaction, Promet Steel was acquired in 2009 and MMZ acquisition has been finalized only in October 2010. Both MMZ and Promet Steel have been consolidated from 1 January 2009. As of 31 December 2010, Metinvest B.V. is owned 75% by SCM and 25% by companies of the Smart Group.

As part of the Shareholder Agreement, SCM has agreed to sell/contribute its remaining equity interests in certain subsidiaries existing as at 31 December 2007 and certain other equity investments to Metinvest B.V. As at 31 December 2010, SCM's carrying value of such assets totalled USD 569 million (31 December 2009: USD 1,038 million). As of the date of preparation of these financial statements, the Shareholders are undecided on the exact mechanism at which value of these assets will be brought into Metinvest B.V.

The principal subsidiaries of Metinvest B.V. are presented below:

Name	effective % interest as at 31 December		Segment	Country of incorporation
	2010	2009		
Metinvest Holding LLC	100.0%	100.0%	Corporate	Ukraine
MetalUkr Holding Limited	100.0%	65.6%	Corporate	Cyprus
JSC Azovstal Iron and Steel Works	95.9%	95.8%	Steel	Ukraine
JSC Enakievo Metallurgical Works	90.6%	90.6%	Steel	Ukraine
JV LLC Metalen	100.0%	100.0%	Steel	Ukraine
JSC Khartsyzsk Tube Works	97.6%	97.6%	Steel	Ukraine
Ferriera Valsider S.P.A.	70.0%	70.0%	Steel	Italy
Metinvest Trametal S.P.A.	100.0%	100.0%	Steel	Italy
Spartan UK Ltd	100.0%	100.0%	Steel	UK
Metinvest International S.A.	100.0%	100.0%	Steel	Switzerland
LLC SMC Metinvest	100.0%	100.0%	Steel	Ukraine
LLC Metinvest Ukraine	100.0%	100.0%	Steel	Ukraine
JSC Avdiivka By-Product Coke Plant	91.7%	91.0%	Coke and coal	Ukraine
JSC Krasnodonugol	91.6%	90.9%	Coke and coal	Ukraine
JSC Severniy Mining and Processing Works	63.3%	41.5%	Iron ore	Ukraine
JSC Central Mining and Processing Works	76.0%	49.8%	Iron ore	Ukraine
JSC Inguletskiy Mining and Processing Works	82.5%	82.5%	Iron ore	Ukraine
United Coal Company	100.0%	100.0%	Coke and coal	USA
JSC Promet Steel	95.3%	95.3%	Steel	Bulgaria
JSC Makeyevka Steel Plant	90.2%	0.0%	Steel	Ukraine
JSC Ilyich I&SW*	99.1%	3.0%	Steel	Ukraine
PSC Ilyich-Steel*	100.0%	0.0%	Steel	Ukraine
JSC Kindrativka Refractory Plant*	97.2%	0.0%	Steel	Ukraine
JSC Komsomolsk Mining Enterprise*	99.7%	0.0%	Iron ore	Ukraine

* entity acquired by the Group in 2010

1 Metinvest B.V. and its operations (continued)

As at 31 December 2010, the Group employed approximately 117 thousand people (31 December 2009: 79 thousand).

The Company's registered address is Alexanderstraat 23, 2514 JM, The Hague. The company is registered with the commercial trade register under the number 24321697. The principal places of production facilities of the Group are in Ukraine, Italy, UK and USA.

The consolidated financial statements of Metinvest B.V. for the year ended 31 December 2010 were authorised for issue in accordance with a resolution of the Board of Directors on 29 June 2011.

For better understanding of Metinvest's financial position and the results of operations, these abbreviated financial statements should be read in conjunction with the Metinvest's audited financial statements as of and for the year ended 31 December 2010, which include all disclosures required by Dutch legislation.

The complete set of financial statements together with the auditor's report is available on request at Alexanderstraat 23, 2514 JM, The Hague.

2 Operating environment of the Group

The Group is one of the largest mining and steel company globally and is the largest steel producer in Ukraine. Its major subsidiaries are located in Ukraine, the European Union and the USA.

Ukraine, whose economy is considered to be developing and characterised by relatively high economic and political risks, continues to implement economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Ukrainian economy is largely dependent upon these reforms and the effectiveness of economic, financial and monetary measures undertaken by government, together with tax, legal, regulatory, and political developments. The developing economies are vulnerable to market downturns and economic slowdowns elsewhere in the world.

Metinvest's financial performance is largely dependent on the global price of and demand for steel and steel products, iron ore and coal. The prices of steel products are influenced by many factors, including global economic conditions, demand, worldwide production capacity, capacity utilisation rates, raw material costs, foreign exchange rates and improvements in steel making processes. In recent years steel prices have experienced significant fluctuations and, until May 2010, had been gradually increasing since the second half of 2009 after a rapid decrease in the third quarter of 2008. Since May 2010, steel prices experienced a period of decrease, but started to rise again towards the end 2010.

As the world economy began to recover from the global recession in 2009 and 2010, prices for steel products fluctuated to a greater degree than prices for raw materials, due to the lower level of consolidation and lower capacity utilisation as compared to raw material markets.

Until March 2010 worldwide prices for iron ore were set based on a benchmark price determined in part based on the outcome of annual negotiations between the world's largest steel manufacturers and the world's largest iron ore mining companies. In March 2010, this benchmark system was replaced with a new system involving quarterly contracts with pricing linked to the spot market. The new system uses quarterly rather than annual contracts and the price of iron ore is set against an average determined by the spot market instead of being based on negotiations. The new pricing system has a significant effect on the volatility of prices for iron ore.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

3 Basis of preparation and significant accounting policies

Basis of preparation and statement of compliance. These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by European Union. The consolidated financial statements have been prepared under the historical cost convention unless stated otherwise. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 5, Adoption of New or Revised Standards and Interpretations).

These consolidated financial statements are presented in millions of US dollar and all values are rounded off to the nearest million except where otherwise indicated.

Critical accounting estimates and judgements in applying accounting policies. The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates. The areas involving a high degree of judgement or complexity, or areas where assumptions and estimates are significant to the IFRS consolidated financial statements are disclosed in Note 4.

Principles of consolidation. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, have an interest of more than one half of the voting rights or otherwise have power to govern the financial and operating policies so as to obtain economic benefits. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. 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. The date of exchange is the acquisition date where a business combination is achieved in a single transaction. Where a business combination is achieved in stages, the previously held interest in an acquired business is included into the cost of business combination at fair value as of the acquisition date.

Costs directly related to acquisition of subsidiaries are recognised in the consolidated income statement in the period when incurred and the services are received.

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 of the acquisition ("gain on bargain purchase") is recognised immediately in the consolidated income statement.

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 non-controlling interest.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group.

Non-controlling interest ("NCI") 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 equity, except for non-controlling interest in subsidiaries registered in the form of limited liability companies.

3 Basis of preparation and significant accounting policies (continued)

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted under the predecessor values method. Under this method the financial statements of the entity are presented as if the businesses had been consolidated from the beginning of the earliest period presented (or the date that the entities were first under common control, if later). The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's book values. The difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity is recorded as an adjustment to equity. This is recorded as a separate reserve. No additional goodwill is created by such purchases.

Transactions with non-controlling interests The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. Non-controlling interest is valued on proportionate basis of net assets, which is a policy choice going forward.

Investments in associates. Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of associates includes goodwill identified on acquisition less accumulated impairment losses, if any. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured accounts receivable, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

Any excess of the fair value of the Group's share in the acquired associate's net assets ("negative goodwill") is recognised immediately in the consolidated income statement.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the General Director of the Group that makes strategic decisions.

Foreign currency translation. The currency of each of consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency for the majority of the consolidated entities is either Ukrainian hryvnia ("UAH") or US dollar ("USD").

Transactions denominated in currencies other than the relevant functional currency are translated into the functional currency using the exchange rate prevailing at the date of the transaction. 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 official exchange rates are recognised in the consolidated income statement.

Monetary assets and liabilities are translated into functional currency at the official exchange rate at the respective balance sheet dates. Translation at year end does not apply to non-monetary items including equity investments. The effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

3 Basis of preparation and significant accounting policies (continued)

Translation from functional to presentation currency. The Group has selected the US dollar ("USD") as the presentation currency. The USD has been selected as the presentation currency for the Group as: (a) management of the Group manages business risks and exposures, and measures the performance of its businesses in the USD; (b) the USD is widely used as a presentation currency of companies engaged primarily in metallurgy; and (c) the USD is the most convenient presentation currency for non-Ukrainian users of these IFRS consolidated financial statements.

The results and financial position of each consolidated entity are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity. All the components of consolidated equity are translated at the closing rate of that balance sheet date, except for retained earnings, which is stated at historical rates. The balancing figure goes to cumulative currency translation reserve in other reserves in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to the consolidated income statement.

The principal rate of exchange used for translating foreign currency balances is as follows:

	31 December 2010	31 December 2009
USD/UAH	7.962	7.985
EUR/UAH	10.573	11.449

Exchange restrictions in Ukraine are limited to compulsory receipt of foreign accounts receivable within 180 days of sales. Foreign currency can be easily converted at a rate close to the National Bank of Ukraine rate. At present, the UAH is not a freely convertible currency outside of Ukraine.

Property, plant and equipment. Property, plant and equipment is stated using the revaluation model. Fair values are based on valuations by external independent valuers. The frequency of revaluation depends upon the movements in the fair values of the assets being revalued. Subsequent additions to property plant and equipment are recorded at cost. Cost includes expenditure directly attributable to acquisition of the items. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. As at 31 December 2010 and 31 December 2009, property, plant and equipment are stated at revalued amounts less accumulated depreciation and provision for impairment, if required.

Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase the other reserves in equity. When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Decreases that offset previous increases in the carrying amount of the same asset decrease the previously recognised revaluation reserve through other comprehensive income; all other decreases are charged to the income statement. The revaluation reserve in equity is transferred directly to retained earnings when the surplus is realised either on the retirement or disposal of the asset or as the asset is used by the Group; in the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period.

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, is capitalized with the carrying amount of the replaced component being written off. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the consolidated income statement as an expense when incurred.

Property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected from the continued use of the asset. Gains and losses on disposals determined by comparing proceeds with carrying amount of property, plant and equipment are recognised in the consolidated income statement.

3 Basis of preparation and significant accounting policies (continued)

Depreciation is charged to the consolidated income statement on a straight-line basis to allocate costs or revalued amounts of individual assets to their residual value over the estimated remaining useful lives. Depreciation commences at the moment when assets is put into use. The estimated remaining useful lives are as follows:

	Remaining useful lives in years
Buildings and structures	from 2 to 60
Plant and machinery	from 2 to 35
Furniture, fittings and equipment	from 2 to 10

Estimates of remaining useful lives are made on a regular basis for all buildings, plant and machinery, with annual reassessments. Changes in estimates are accounted for prospectively.

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 assets were already of the age and in the condition expected at the end of the useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents prepayments for property, plant and equipment, and the cost of property, plant and equipment, construction of which has not yet been completed. No depreciation is charged on such assets until they are put into use.

The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Asset retirement obligations. According to the Code on Mineral Resources, Land Code of Ukraine, Mining Law, Law on Protection of Land and other legislative documents, the Group is responsible for site restoration and soil rehabilitation upon abandoning of its mines. Estimated costs of dismantling and removing an item of property, plant and equipment are added to the cost of an item of property, plant and equipment when incurred when the item is acquired. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate are recognised in the income statement or other reserves in equity to the extent of any revaluation balance existence in respect of the related asset. Provisions in respect of abandonment and site restoration are evaluated and re-estimated annually, and are included in these consolidated financial statements at each balance sheet date at their expected net present value, using discount rates which reflect the economic environment in which the Group operates.

Goodwill. 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 acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. It is carried at cost less accumulated impairment losses, if any. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purposes of impairment testing. The allocation is made to those cash generating units or groups of cash generating units that are expected to benefit from the business to which the goodwill arose.

Other intangible assets. All of the Group's other intangible assets have definite useful lives and primarily include capitalised computer software, licences, coal reserves and long-term sales contracts. Acquired computer software and other licences are capitalised on the basis of the costs incurred to acquire and bring them to use.

Other intangible assets are carried at cost less accumulated amortisation and impairment losses, if any. If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs to sell. Licences and coal reserves are amortised using the units-of-production method over all estimated proven and probable reserve assigned to the mines. Proven and probable reserves exclude non-recoverable coal and ore reserves and estimated processing losses. Amortization rates are updated when revisions to coal reserve estimates are made. Coal reserve estimates are reviewed when events and circumstances indicate a reserve change is needed. Long-term sales contracts are amortised using a units-of-production method, based on fulfilment of the contract.

3 Basis of preparation and significant accounting policies (continued)

Impairment of non-financial assets. Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation are reviewed for impairment whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less cost to sell and value in use. For purposes of assessing impairment, assets are grouped to the lowest levels for which there are separately identifiable cash flows (cash generating unit). Non-financial assets, other than goodwill, that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Classification of financial assets. The Group classifies financial assets into the following measurement categories: loans and receivables and available-for-sale financial instruments.

Loans and receivables are financial receivables created by the Group by providing money, goods or services directly to a debtor, other than those receivables which are created with the intention to be sold immediately or in the short term or which are quoted in an active market. Loans and receivables comprise primarily loans, trade and other accounts receivable including purchased loans and promissory notes. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

All other financial assets are included in the available-for-sale category.

Initial recognition of financial instruments. The Group’s principal financial instruments comprise available-for-sale investments, loans and borrowings, cash and cash equivalents and short-term deposits. The Group has various other financial instruments, such as trade debtors and trade creditors, which arise directly from its operations.

The Group’s financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price, except for the transactions with related parties which are based on contract value. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost and recognised in equity for assets classified as available-for-sale.

Subsequent measurement of financial instruments. Subsequent to initial recognition, the Group’s financial liabilities and loans and receivables are measured at amortised cost. Amortised cost is calculated using the effective interest rate method and, for financial assets, it is determined net of any impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

The face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity. In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the balance sheet date.

When available-for-sale assets are sold or otherwise disposed of, the cumulative gain or loss recognised in equity is included in the determination of net profit. When a decline in fair value of available-for-sale assets has been recognised in equity and there is objective evidence that the assets are impaired, the loss recognised in equity is removed and included in the determination of net profit, even though the assets have not been derecognised.

3 Basis of preparation and significant accounting policies (continued)

Subsequent measurement of financial instruments (continued).
Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in the consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the consolidated entity's right to receive payment is established and inflow of economic benefits is probable.

Impairment losses are recognised in the consolidated income statement when incurred as a result of one or more events that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an instrument below its cost is an indicator that it is impaired. The cumulative impairment loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement, is removed from equity and recognised in the consolidated income statement. Impairment losses on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through current period's consolidated income statement.

Derecognition of financial assets. Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Income taxes. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The income tax charge is recognised in the consolidated income statement except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings and other post-acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average principle. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads based on normal operating capacity but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3 Basis of preparation and significant accounting policies (continued)

Trade and other receivables. Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered to be indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement against general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the consolidated income statement against general and administrative expenses.

Renegotiated trade and other receivables are measured at amortised cost based on the new pattern of renegotiated cash flows. A gain or loss is recognised in the consolidated income statement on the date of renegotiation, which is subsequently amortised using the effective interest method. If the terms of a receivable are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, impairment is measured using the original effective interest rate before the modification of terms.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are charged to the income statement when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in the income statement.

Promissory notes. A portion of sales and purchases is settled by promissory notes or bills of exchange, which are negotiable debt instruments.

Sales and purchases settled by promissory notes are recognised based on the management's estimate of the fair value to be received or given up in such settlements. The fair value is determined with reference to observable market information.

Long-term promissory notes are issued by the Group as payment instruments, which carry a fixed date of repayment and which the supplier can sell in the over-the-counter secondary market. Promissory notes issued by the Group are carried at amortised cost using the effective interest method.

The Group also accepts promissory notes from the customers (both issued by customers and third parties) as settlement of accounts receivable. Promissory notes issued by customers or issued by third parties are carried at amortised cost using the effective interest method. A provision for impairment of promissory notes is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets. Cash and cash equivalents are carried at amortised cost using effective interest rate method.

Share capital. Ordinary shares issued are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue. If settlement of a dividend liability exceeds twelve months from the balance sheet date it is included within long-term liabilities and measured at the present value of the future cash flows required to settle the liability using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The effect of initial discounting and subsequent accretion of the discount is recognised directly in equity.

3 Basis of preparation and significant accounting policies (continued)

Loans and borrowings. Loans and borrowings are recognized initially at fair value, net of transaction costs incurred and subsequently carried at amortised cost using the effective interest method.

Liabilities under moratorium. Liabilities under moratorium are carried at amortised cost using the effective interest method.

Government grants. Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the consolidated income statement on a straight line basis over the expected lives of the related assets. Government grants relating to an expense item are recognized as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Trade and other payables. Trade and other payables are recognised and initially measured under the policy for financial instruments. Subsequently, instruments with a fixed maturity are re-measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any transaction costs and any discount or premium on settlement.

Prepayments received. Prepayments are carried at amounts originally received, net of VAT.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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 measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingent assets and liabilities. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

Contingent liabilities are not recognised in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. Contingent liabilities are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Employee benefits. Defined Contributions Plan. The Group makes statutory contributions to the Social Insurance Fund, Pension Fund and Insurance against Unemployment Fund of Ukraine in respect of its employees. The contributions are calculated as a percentage of current gross salary, and are expensed when incurred. Discretionary pensions and other post-employment benefits are included in labour costs in the consolidated income statement.

Employee benefits. Defined Benefit Plan. Certain entities within the Group participate in a mandatory State defined retirement benefit plan, which provides for early pension benefits for employees working in certain workplaces with hazardous and unhealthy working conditions. The Group also provides lump sum benefits upon retirement subject to certain conditions. The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date, less adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

3 Basis of preparation and significant accounting policies (continued)

Revenue recognition. Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sale of goods, by-products and merchandise
The Group manufactures and sells a range of steel products to large, medium and small size customers. By-products and merchandise are sold to the same range of customers. Revenues from sales of goods, by-products and merchandise are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. 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. The Group uses standardised INCOTERMS such as cost-and-freight (CFR), free-carrier (FCA), cost-insurance-freight (CIF), free-on-board (FOB) and ex-works (EXW) which define the point of risks and reward transfers. Revenue is recorded on an accrual basis as earned.

Sales are recorded based on the price indicated in the specifications to the sales contracts. The sales price is established separately for each specification.

The Group also engages in sale and purchase transactions the objective of which is to manage cash flows. Such transactions are not revenue generating to the Group and accordingly such sales and purchases are presented on a net basis with any gain or loss presented in other operating income/(expenses). Accounts receivable and payable from such transactions are presented gross.

(b) Interest income
Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

(c) Sale of services
Sales of services are recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Dividend income
Dividend income is recognised when the right to receive payment is established.

(e) Commission income
The Group acts as an agent for sales transactions on behalf of the third parties. The commission income received by the Group as a fee for facilitating such transactions is recognised at the point of transfer of risks and rewards of ownership of the goods to the customers of the third parties. Such income is reported as part of 'other income'.

3 Basis of preparation and significant accounting policies (continued)

Value added tax. VAT in Ukraine where the majority of the Group operations are concentrated is levied at two rates: 20% on domestic sales and imports of goods, works and services and 0% on export of goods. Export of services is exempt from VAT. A taxpayer's VAT liability equals the total amount of VAT collected within a reporting period, and for domestic operations arises on the earlier of the date of shipping goods to a customer or the date of receiving payment from the customer; for export operations arises on the date of customs clearance of exported goods. A VAT credit is the amount that a taxpayer is entitled to offset against his VAT liability in a reporting period. For domestic and export operations rights to VAT credit arise when a VAT invoice is received, which is issued on the earlier of the date of payment to the supplier or the date goods are received. Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT. VAT assets recoverable in cash from the State are included into Group's assets. All other VAT assets and liabilities are netted only within the individual companies of the Group.

Recognition of expenses. Expenses are accounted for on an accrual basis. Cost of goods sold comprises the purchase price, transportation costs, commissions relating to supply agreements and other related expenses.

Finance income and costs. Finance income and costs comprise interest expense on borrowings, losses on early repayment of loans, interest income on funds invested, income on origination of financial instruments and foreign exchange gains and losses.

All interest and other costs incurred in connection with borrowings are expensed using the effective interest rate method if not capitalised. Interest income is recognised as it accrues, taking into account the effective yield on the asset.

Changes in presentation. Where necessary, corresponding figures have been adjusted to confirm to changes in the presentation in the current year.

4 Critical accounting estimates and judgments in applying accounting policies

The Group make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the IFRS consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of property, plant and equipment and goodwill. The entities of the Group are required to perform impairment tests for their cash-generating units. One of the determining factors in identifying a cash-generating unit is the ability to measure independent cash flows for that unit. For many of the Group's identified cash-generating units a significant proportion of their output is input to another cash-generating unit.

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

The recoverable amount of goodwill and cash-generating units were estimated based on the higher of value in use and fair value less costs to sell. Additional information is disclosed in Notes 8 and 10.

Impairment of trade and other accounts receivable. Management estimates the likelihood of the collection of trade and other accounts receivable based on an analysis of individual accounts. IAS 39 requires the estimate of an impairment loss which is computed as the difference between the carrying value of a receivable and the present value of the future cash flows discounted at the receivables effective interest rate. Factors taken into consideration when estimating the future cash flow include an ageing analysis of trade and other accounts receivable in comparison with the credit terms allowed to customers, and the financial position of and collection history with the customer. In the current environment there is significant judgement in estimating the expected payment date, the discount rate and whether penalty interest will be collected. Should actual collections be less than management's estimates, the Group would be required to record an additional impairment expense.

4 Critical accounting estimates and judgments in applying accounting policies (continued)

MMZ and Promet business combination. As discussed in the Note 1 and Note,6 MMZ and Promet have been consolidated effective 1 January 2009; however MMZ has not been legally transferred to the Group up until October 2010 and transfer of legal rights over Promet happened in December 2009. In concluding to consolidate without legal title judgement is required to assess whether control, as defined by IFRS 3 (revised), has passed. Such judgment was driven by the following matters:

- according to the shareholders agreement signed in 2007, Smart committed to transfer its interest in MMZ and Promet to Metinvest Group (Note 1);
- businesses of MMZ and Promet, owned by Smart Group as minority shareholders in the Company, became mutually dependent on the Group's operations;
- On 1 January 2009 Smart Group granted to Metinvest B.V. powers to govern the financial and operating policies of MMZ;
- On 31 December 2009 Promet issued additional shares in favour of Metinvest B.V. for total nominal value of USD 51 million (BGN 70 million) of which USD 13 million were paid in cash. As a result the Group became legal owner of 95% of Promet;
- In October 2010 the Group obtained legal rights over 90.2% interest in MMZ for total cash consideration of USD 5 million.

Disposal of subsidiaries and associates. As discussed in Note 1, the Group restructuring as part of the Shareholder Agreement between SCM and Smart is still ongoing. As discussed in more detail in Notes 11 and 30, during the year ended 31 December 2010, the Group has sold a number of its subsidiaries and associates to SCM and its affiliates ("SCM Group") resulting in a gain of USD 426 million, which has been recognised directly in equity. Significant judgement is applied in assessment of economic substance of these transactions and resulting recognition of these either in equity or income statement.

Ilyich Iron and Steel Works and Ilyich-Stal ("Ilyich Group"). As discussed in detail in Note 6, during 2010 Metinvest acquired a 99% effective interest in the share capital of Ilyich I&SW (through a direct holding of 74.6% of the share capital of Ilyich I&SW and an indirect holding through its absolute shareholding of Ilyich-Steel, which holds a 24.49% stake in the share capital of Ilyich I&SW). As a result of further post closing negotiations, in June 2011 Metinvest B.V. resolved to issue new 474 class B shares of Metinvest B.V. which constitute 5% of its issued share capital to the Sellers of Ilyich Group. This additional share issuance constitutes the subsequent and final arrangement between the parties. In accordance with IFRS 3, this share issue was given retrospective treatment in the accompanying financial statements and accordingly recorded as if such shares had been issued in 2010.

Since Metinvest B.V. is not a publicly traded entity, the share issue has been recorded at the preliminary fair value of the acquired assets of Ilyich Group totalling USD 1,432 million within share premium in the statement of changes in equity.

Post-employment and other employee benefit obligations. Management assesses post-employment and other employee benefit obligations using the Projected Unit Credit Method based on actuarial assumptions which represent management's best estimates of the variables that will determine the ultimate cost of providing post-employment and other employee benefits. Since the plan is administered by the State, the Group may not have full access to information and therefore assumptions regarding when, or if, an employee takes early retirement, whether the Group would need to fund pensions for ex-employees depending on whether that ex-employee continues working in hazardous conditions, the likelihood of employees transferring from State funded pension employment to Group funded pension employment could all have a significant impact on the pension obligation.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The major assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on the current market conditions. Additional information is disclosed in Note 22.

4 Critical accounting estimates and judgments in applying accounting policies (continued)

New Tax Code of Ukraine. As discussed in Note 32, in December 2010 the new Tax Code of Ukraine was approved. Some changes are effective not immediately, but at some point of time in future. Particularly tax book value of property, plant and equipment as of 1 April 2011 will be aligned with the local GAAP book value less any revaluation recognised after 1 January 2010. Judgement should be applied on when to recognise such change. Management calculated the tax base of PPE as of 31 December 2010 applying the new tax rules, which will be effective as of 1 April 2011. Would the tax value of PPE calculated at tax rules existed as of the balance sheet date, deferred tax balances change significantly, resulting in USD 502 million decrease of other comprehensive income and USD 50 million increase of tax charge for 2010.

Tax legislation. Ukrainian tax, currency and customs legislation continues to evolve. Conflicting regulations are subject to varying interpretations. Management believes its interpretations are appropriate and sustainable, but no guarantee can be provided against a challenge from the tax authorities (Note 32).

Related party transactions. In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions. Financial instruments are recorded at origination at fair value using the effective interest method. The Group's accounting policy is to record gains and losses on related party transactions, other than business combination or equity investments, in the income statement. The basis for judgement is pricing for similar types of transactions with unrelated parties and an effective interest rate analysis.

Fair valuation of property, plant and equipment. Management believes that as of 31 December 2010 fair value of Property, Plant and Equipment does not differ significantly from its carrying value based on low level of inflation in Ukraine and low volatility of USD/UAH exchange rate in 2010. Consequently no valuation of Property, Plant and Equipment was performed as of 31 December 2010.

Remaining useful lives of property, plant and equipment. The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the technical requirements. Management will increase the depreciation charge where useful lives are less than previously estimated lives.

Functional currency. Judgement was applied in determining the functional currency of Metinvest B.V., which is a holding company for operations of the Group in Ukraine, Italy, United States of America and other countries. The functional currency of Metinvest B.V. was determined on the basis that (i) in management's opinion Metinvest B.V. is not an extension of and is not integral to the Ukrainian operations; (ii) the primary economic exposures are to a number of countries; and (iii) Metinvest B.V. retains cash and obtains financing in US Dollars. Management therefore selected the US Dollar as the functional currency of Metinvest B.V. Should a different functional currency be selected, additional translation gains/losses would arise on loans and other payables with no significant effect on total equity reported. Amount of loans and other payables of Metinvest B.V totalled USD 3,508 million as at 31 December 2010 (31 December 2009: USD 2,302 million).

5 Adoption of new or revised standards and interpretations

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial periods beginning 1 January 2010 and are not relevant to the Group's operations:

- Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS.
- Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement.
- Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment.
- IFRIC 17, Distribution of Non-Cash Assets to Owners.
- IFRIC 18, Transfers of Assets from Customers.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial periods beginning 1 January 2010 and have not been early adopted:

- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).
- IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning on or after 1 January 2013). The standard was not yet endorsed by EU.
- Classification of Rights Issues – Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010).
- Prepayments of a minimum funding requirement (Amendment to IFRIC 14) (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010).
- Improvements to International Financial Reporting Standards (issued in May 2010, effective dates vary standard by standard, but most are effective for annual periods beginning on or after 1 January 2011)
- Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010).
- Recovery of Underlying Assets – Amendments to IAS 12 (issued in December 2010 and effective for annual periods beginning on or after 1 January 2012).
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 (issued in December 2010 and effective for annual periods beginning on or after 1 July 2011).

All International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and effective as at 1 January 2010 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.)

Amendments to standards adopted before their effective date.
The Group adopted the amendment to IAS 1, Presentation of Financial Statements, which was issued in May 2010 as part of the Annual Improvements to International Financial Reporting Standards. The amendment clarifies the requirements for the presentation and content of the statement of changes in equity. A reconciliation between the carrying amount at the beginning and the end of the period for each component of equity must be presented in the statement of changes in equity, but its content is simplified by allowing an analysis of other comprehensive income by item for each component of equity to be presented in the notes.

6 Business combinations

Acquisitions during 2010

Acquisitions during 2010 – Ilyich Group
During 2010, Metinvest acquired a 99% effective interest in the share capital of Ilyich I&SW (through a direct holding of 74.6% of the share capital of Ilyich I&SW and an indirect holding through its absolute shareholding of Ilyich-Steel, which holds a 24.49% stake in the share capital of Ilyich I&SW). The acquisition was implemented through the following steps:

- On 18 June 2010, Metinvest and Ilyich I&SW and Ilyich-Steel entered into an investment agreement which required Metinvest to fund Ilyich I&SW's investment program up to a value of USD 2 billion over the next five years, subject to further agreement on the precise nature and timing of such investments;
- In July and August 2010, Metinvest participated in the share capital increases of each Ilyich I&SW and Ilyich-Steel and paid USD 376 million for the acquisition of 74.6% and 75.14% of in the share capital of these entities, respectively. The transfer of these shares to Metinvest was completed in November 2010 following the receipt of clearance for the transaction from relevant competition authorities worldwide. 17 November 2010 is treated as the date of acquisition, since on that day Metinvest obtained the power to govern the financial and operating policies of the acquirees through share ownership and respective governing bodies.

Separately from the above transaction, in July 2010, Metinvest acquired a 5.1% interest in Ilyich I&SW's from parties related to SCM for cash consideration of USD 64 million. At 31 December 2009, Metinvest held a 3% interest in Ilyich I&SW valued at fair value of USD 18 million.

Further in December 2010, through a series of transactions Metinvest became an absolute shareholder of Ilyich Steel. The difference between USD 147 million decrease in non-controlling interest and USD 45 million paid was recorded in consolidated retained earnings.

As part of the acquisition of Ilyich I&SW, Metinvest also acquired control over Komsomolsk Mining Enterprise ("KRU"), a large Ukrainian producer of limestone, and Kindrativka Refractory Plant ("KOZ"), a Ukrainian producer of refractory materials. Both entities are controlled through Ilyich Steel, which holds 99.7% and 97.2% of shares in these companies, respectively.

As a result of further post closing negotiations, in June 2011 Metinvest B.V. resolved to issue new 474 class B shares of Metinvest B.V. which constitute 5% of its issued share capital to the Sellers of Ilyich Group. This additional share issuance constitute the subsequent and final arrangement between the parties. In accordance with IFRS 3, this share issue was given retrospective treatment in the accompanying financial statements and accordingly recorded as if such shares had been issued in 2010. Since Metinvest B.V. is not a publicly traded entity, the share issue has been recorded at the preliminary fair value of the acquired assets of Ilyich Group totalling USD 1,432 million within share premium in the statement of changes in equity.

The following table summarizes the preliminary fair values of the net assets acquired at the date of acquisition. Fair values of property, plant and equipment were determined by independent appraisers. Fair values of defined benefit obligations were determined by independent actuary; amount of defined benefit obligation in respect of former employees of acquired companies is yet to be determined. Fair value of assets held for sale is management's best estimate based on the negotiations held of the amount which Metinvest will receive on sale of these businesses to SCM, Smart, parties under common control and/or independent third parties. The fair values of all other assets and liabilities were determined by management. The acquired entities have not previously reported under IFRS and, therefore, historic IFRS balances have not been presented.

6 Business combinations (continued)

In million of US Dollars	Ilyich I&SW	Ilyich Steel	KRU and KOZ	Total
Property, plant and equipment	1,392	3	67	**1,462**
Investments in existing associates of the Group	6	–	–	**6**
Investments in existing subsidiaries of the Group	4	2	–	**6**
Other non-current assets	94	5	–	**99**
Inventories	249	–	10	**259**
Trade and other receivables	485	64	21	**570**
Accounts receivable from the Group	239	5	–	**244**
Accounts receivable from other parties	234	45	4	**283**
Intercompany balances of acquired businesses	12	14	17	**43**
Cash and cash equivalents	130	21	2	**153**
Non-current assets held for sale – investments in agricultural enterprises and other non-core businesses	134	11	–	**145**
Retirement benefit obligations	(142)	–	(9)	**(151)**
Deferred tax liability	(141)	–	(10)	**(151)**
Trade and other payables	(260)	(35)	(17)	**(312)**
Accounts payable to the Group	(92)	–	–	**(92)**
Accounts payable to other parties	(136)	(33)	(8)	**(177)**
Intercompany balances of acquired businesses	(32)	(2)	(9)	**(43)**
Prepayment from the Group for additional share issues	(284)	(92)	–	**(376)**
Fair value of net assets of acquired subsidiaries	1,667	(21)	64	**1,710**
Non-controlling interest's proportionate share of net assets	110	(5)	16	**121**
Fair value of acquired interest in net assets of subsidiaries	1,557	(16)	48	**1,589**
Purchase consideration – non-controlling interest's share of cash paid for additional share issues				**43**
Fair value of shares issued by Metinvest B.V.				**1,432**
Cash paid				**86**
Fair value of equity interest in Ilyich I&SW previously held				**28**
Total consideration				**1,589**

Gross contractual amount of trade and other receivables acquired is USD 644 million. Amount of respective contractual cash flows which are not expected to be collected is USD 74 million. Gross contractual amount of other non-current financial assets acquired is USD 19 million. Amount of respective contractual cash flows which are not expected to be collected is USD 1 million.

Revenue and net profit of the acquired businesses included in the consolidated income statement from date of acquisition totalled USD 339 million and USD 8 million, respectively.

If the acquisition had been completed on 1 January 2010, the revenues of the Group would be approximately USD 1.7 billion higher and net profit of the Group would not change significantly.

6 Business combinations (continued)

Acquisitions during 2010 – acquisition of interest in subsidiaries from SCM Group or related parties
In March 2010, the Group acquired from SCM the remaining 34.4% equity interest in MetalUkr Holding Limited for consideration of USD 510 million.

As a result of this acquisition the Group increased its effective share in JSC Severniy Mining and Processing Works by 21.8%, JSC Central Mining and Processing Works by 26.1%. Difference between carrying value of non-controlling interest acquired of USD 569 million and purchase consideration of USD 510 million was recorded in merger reserve in equity. Acquired share in other reserves was recorded within the respective categories of shareholder’s equity.

The Group has agreed with SCM to offset payment for this acquisition with the payment of USD 681 million for subsidiaries and associates sold to SCM in February 2010. Residual receivable from SCM in the amount of USD 171 million is included into trade and other receivables.

In October 2010 the Group acquired 90.2% interest in MMZ for total cash consideration of USD 5 million, resulting in transfer of accumulated comprehensive losses of MMZ of USD 145 million from NCI to Group retained earnings.

Acquisitions during 2009 – United Coal Company
On 30 April 2009, the Group acquired a 100% equity interest in United Coal Company LLC (“UCC”) for consideration of USD 443 million in cash and USD 599 million payable in equal semi annual instalments through (having a fair value of USD 456 million). UCC is a US based coal mining business, which produced 5 million tons of coal concentrate in 2008.

The following table summarizes fair values of the net assets acquired at the date of acquisition. The fair values for property, plant and equipment and intangible assets were determined by independent appraiser. Fair values of all other assets and liabilities were determined by management. The acquired entities have not previously reported under IFRS and, therefore, historic IFRS balances have not been presented.

In million of US Dollars	Fair values
Property, plant and equipment	207
Intangible assets	585
Other non-current assets	7
Net working capital	43
Deferred tax liability	(70)
Retirement benefit obligations	(10)
Other non-current liabilities	(39)
Fair value of net assets of subsidiary	**723**
Fair value of acquired interest in net assets of subsidiary	**723**
Goodwill arising from the acquisition	176
Total purchase consideration	**899**
Less: fair value of notes payable for acquisition	(456)
Less: cash and cash equivalents of subsidiary acquired	(12)
Outflow of cash on acquisition	**431**

Intangible assets acquired include coal reserves in the amount of USD 418 million, long-term sales contracts in the amount of USD 144 million, mining permits in the amount of USD 15 million and other intangibles totalling USD 8 million.

The identified goodwill totalling USD 176 million is primarily attributed to the expected synergies from integration of the acquired operations with the Group’s existing business, and long-term security of coal supply. Total amount of goodwill expected to be deductible for tax purposes is USD 239 million.

Revenue and net loss of UCC included in the consolidated income statement from 1 May 2009 totalled USD 298 million and USD 48 million, respectively.

If the acquisition had been completed on 1 January 2009, the net revenues of the Group would be USD 147 million higher and net profit of the Group would not have changed significantly.

6 Business combinations (continued)

Acquisitions during 2009 – MMZ and Promet
While legal transfer of MMZ has not been completed as of 31 December 2009, under the Shareholders Agreement, this entity became mutually dependent on the Group's operations. Further on 1 January 2009 Smart Group granted to Metinvest B.V. powers to govern the financial and operating policies of MMZ. On 31 December 2009 Promet issued additional shares in favour of the Metinvest B.V. for total nominal value of USD 51 million (BGN 70 million) of which USD 13 million were paid in cash. As a result the Group became legal owner of 95% of Promet. Given these matters and Smart's commitment to contribute MMZ to the Company, MMZ and Promet were consolidated effective 1 January 2009.

The following table summarizes fair values of the net assets as at 1 January 2009. The fair values for property, plant and equipment and defined benefit obligations were determined by professional advisers. Fair values of all other assets and liabilities were determined by management. The acquired entities have not previously reported under IFRS and, therefore, historic IFRS balances have not been presented.

In million of US Dollars	Fair values MMZ	Fair values Promet	Fair values Total
Property, plant and equipment	159	109	268
Deferred tax asset	25	–	25
Inventories	51	105	156
Trade and other accounts receivable	190	27	217
Accounts receivable from the Group	178	7	185
Accounts receivable from other parties	12	20	32
Cash and cash equivalents	1	6	7
Trade and other accounts payable	(447)	(259)	(706)
Accounts payable to the Group	(381)	(248)	(629)
Accounts payable to other parties	(66)	(11)	(77)
Loans and borrowings	(1)	(8)	(9)
Other non-current liabilities	(11)	(8)	(19)
Fair value of net assets of subsidiary	**(33)**	**(28)**	**(61)**
Non-controlling interest	**(33)**	**(28)**	**(61)**
Fair value of acquired interest in net assets of subsidiary	**–**	**–**	**–**

Revenue and net loss of these acquired subsidiaries included in the consolidated income statement for the reporting period totalled USD 512 million and USD 121 million respectively.

Acquisitions during 2009 – acquisition of interest in subsidiaries from SCM Group or related parties
During the year ended 31 December 2009, the Group acquired from SCM the remaining 48.8% interest in Metinvest Holding LLC for cash consideration of USD 122 million. The difference between the carrying value of this interest and the consideration paid totalling USD 7 million has been recorded as a credit in other reserves in the statement of changes in equity.

During 2009, the Group completed various internal transfers of interests in existing subsidiaries, which resulted in an increase of effective interests as at 31 December 2009. The net result of such transfers was a reclassification of USD 14 million between non controlling interest and shareholders retained earnings.

7 Segment information

The Group is organised on the basis of three main business segments:

- Steel – comprising the production and sale of semi-finished and finished steel products;
- Coke and Coal – comprising the mining and sale of metallurgical and steam coal, production and sale of coke;
- Iron ore – comprising the production, enrichment and sale of iron ore and iron ore products.

The Group is a vertically integrated steel and mining business. A significant portion of the Group's iron ore and coke and coal production are used in its steel production operations.

Management of the Group assesses the performance of the operating segments based on a measure of the adjusted earnings before interest, tax, depreciation and amortisation and impairment ("EBITDA"). Management adjusts EBITDA for certain non core expenses.

In million of US Dollars	Steel	Coke and Coal	Iron ore	Corporate overheads	Eliminations	Total
2010						
Sales – external	5,708	1,149	2,501	–	–	**9,358**
Sales to other segments	68	1,052	963	–	(2,083)	–
Total of the reportable segments' revenue	5,776	2,201	3,464		(2,083)	**9,358**
Adjusted EBITDA	**112**	**447**	**2,097**	**(50)**	**(54)**	**2,552**
Reconciling items:						
Depreciation and amortisation						(694)
Sponsorship and other charity payments						(162)
Impairment and devaluation of PPE						(52)
Impairment of goodwill						(675)
Other						(26)
Operating profit						**943**

	Steel	Coke and Coal	Iron ore	Corporate overheads	Eliminations	Total
Capital expenditure	190	134	254	4	–	**582**
Significant non-cash items included into adjusted EBITDA:						
– net change in retirement benefit obligations	20	20	6	–	–	**46**

Capital expenditure and net change in retirement benefit obligations exclude assets and liabilities acquired through business combinations.

Analysis of revenue by category:

	Steel	Coke and Coal	Iron ore	Corporate overheads	Eliminations	Total
2010						
Sales of own products	5,345	911	2,437	–	**–**	**8,693**
Sales of purchased goods	363	238	64	–	**–**	**665**
Total	**5,708**	**1,149**	**2,501**	**–**	**–**	**9,358**

During 2010 the Group has sold USD 343 million of steel products (2009: USD 827 million) to a single customer, which makes approximately 4% of total sales of the Group (2009: USD 14%). For amounts outstanding please refer to Note 16.

7 Segment information (continued)

	Steel	Coke and Coal	Iron ore	Corporate overheads	Eliminations	Total
2009						
Sales – external	3,990	737	1,299	–	–	**6,026**
Sales to other segments	49	602	526	–	(1,177)	–
Total revenue	4,039	1,339	1,825	–	(1,177)	6,026
Adjusted EBITDA	**407**	**244**	**811**	**(49)**	**(13)**	**1,400**
Reconciling items:						
Sponsorship and other charity payments						(189)
Depreciation and amortisation						(555)
Impairment and devaluation of PPE						(49)
Other						(3)
Operating profit						**604**

	Steel	Coke and Coal	Iron ore	Corporate overheads		Total
Capital expenditure	174	69	81	–	–	**324**
Significant non-cash items included into adjusted EBITDA:						
– unrealised gain on foreign exchange differences	(36)	–	–	–	–	**(36)**
– net change in retirement benefit obligations	17	16	13	–	–	**46**

Analysis of revenue by category:

	Steel	Coke and Coal	Iron ore	Corporate overheads		Total
2009						
Sales of own products	3,927	612	1,255	–	–	**5,794**
Sales of purchased goods	63	125	44	–	–	**232**
Total	**3,990**	**737**	**1,299**			**6,026**

7 Segment information (continued)

Geographical segments. The Group's three business segments operate in six main geographical areas. Revenue by location of customers is presented below:

2010	Steel	Coke and coal	Iron ore	Total
Ukraine	1,282	681	1,490	**3,453**
South Eastern Asia	855	3	625	**1,483**
Rest of Europe	1,898	17	348	**2,263**
CIS	880	34	–	**914**
Middle East and Northern Africa	729	37	38	**804**
North America	10	358	–	**368**
Other countries	54	19	–	**73**
Total	**5,708**	**1,149**	**2,501**	**9,358**

2009	Steel	Coke and coal	Iron ore	Total
Ukraine	536	377	719	**1,632**
South Eastern Asia	994	3	387	**1,384**
Rest of Europe	963	13	150	**1,126**
CIS	908	28	–	**936**
Middle East and Northern Africa	543	31	43	**617**
North America	2	282	–	**284**
Other countries	44	3	–	**47**
Total	**3,990**	**737**	**1,299**	**6,026**

External revenue is based on where the customer is located.

8 Goodwill

The movements of goodwill were as follows:

	2010	2009
Book amount as at 1 January, net	**1,855**	**1,662**
Acquisition of UCC (Note 6)	–	176
Disposal of Avlita and other subsidiaries (Note 30)	(120)	–
Impairment loss on goodwill allocated to Steel segment	(675)	–
Currency translation differences	(86)	17
Book amount as at 31 December, net	**974**	**1,855**

Management allocates and monitors goodwill at the following groups of cash generating units:

	2010	2009
Steel	626	1,419
Iron ore	166	227
Coke and coal	182	209
Total	**974**	**1,855**

The recoverable amount has been determined based on fair value less cost to sell calculations. Cash flow projections for 10 years were based on strategy and financial budgets approved by senior management.

The following table summarizes key assumptions on which management has based its cash flow projections to undertake the impairment testing of goodwill:

	2010	2009
Steel		
Post-tax discount rate	11.2%	22% – 10%
Revenue growth rate	-7% – 25%	1% – 32%
Growth rate in perpetual period	3%	3%
Gross margins	5% – 20%	4% – 16%
EBITDA margins	1% – 17%	3% – 14%
Iron ore		
Post-tax discount rate	11.2%	22% – 10%
Revenue growth rate	-19% – 58%	1% – 28%
Growth rate in perpetual period	3%	3%
Gross margins	45% – 74%	44% – 45%
EBITDA margins	20% – 62%	49% – 50%
Coke and coal		
Post-tax discount rate	11.2%	22% – 10%
Revenue growth rate	-6% – 17%	2% – 57%
Growth rate in perpetual period	3%	3%
Gross margins	25% – 34%	16% – 25%
EBITDA margins	20% – 31%	22% – 28%

Management used a single discount rate of 11.2% for all periods (2009: multi-period discount rate ranging from 22% in 2010 to 10% in 2013, which stabilizes at 10% in 2013 and onwards).

The values assigned to the key assumptions represent management's assessment of future trends in the business and are based on both external and internal sources. Management estimates that current market conditions, under which iron ore and coal suppliers earn significant margins while steelmakers nearly break even, will change in several years, which will result in partial reallocation of margins from producers of raw materials to steel producers starting from 2015.

8 Goodwill (continued)

During 2010, an impairment charge of USD 675 million has been recorded against the Steel Division mainly in relation to the Group's European assets acquired in 2008. The main reason for this impairment charge is the prolonged decline in margins of steel producers due to significantly increased prices for iron ore and coke and coal.

The table below summarises the impact of change of main assumptions with other variables held constant to the impairment of goodwill related to Steel division:

Change in assumption	Additional impairment loss required
Decrease of volumes of sales in all the periods by 5%	USD 764 million
Decrease of prices in all the periods by 1%	USD 1,050 million
Increase of discount rates in all periods by 1%	USD 1,413 million

With regard to impairment testing of the goodwill related to Iron Ore and Coke and Coal divisions, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value to materially exceed the recoverable amount.

9 Other intangible assets

The movements of other intangible assets were as follows:

	Coal reserves	Long-term sales contracts	Licenses and mining permits	Other intangible assets	Total
					2010
As at 1 January	**415**	**79**	**656**	**17**	**1,167**
Additions	–	–	–	8	**8**
Amortisation	(5)	(47)	(50)	(2)	**(104)**
Disposal of subsidiaries	–	–	–	(1)	**(1)**
Currency translation differences	–	–	2	–	**2**
As at 31 December	**410**	**32**	**608**	**22**	**1,072**

The iron ore license is being amortised using the units-of-production method over its remaining useful life of approximately 13 years.

The coal reserves and long-term sales contracts were acquired as part of the acquisition of UCC. The coal reserves are being amortised using the units-of-production method over its useful life of approximately 90 years.

The long-term sales contracts are being amortised over the remaining term of the contracts. Expected amortisation based on the fulfilment of the contracts for 2011 is USD 27 million.

The movements of other intangible assets in 2009 were as follows:

	Coal reserves	Long-term sales contracts	Licenses and mining permits	Other intangible assets	Total
					2009
As at 1 January	**–**	**–**	**699**	**13**	**712**
Acquisition of subsidiaries (Note 6)	418	144	15	8	**585**
Amortisation	(3)	(65)	(37)	(3)	**(108)**
Currency translation differences	–	–	(21)	(1)	**(22)**
As at 31 December	**415**	**79**	**656**	**17**	**1,167**

10 Property, plant and equipment

The movements of property, plant and equipment were as follows:

Cost or valuation	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
As at 1 January 2009	**–**	**1,697**	**2,520**	**46**	**494**	**4,757**
Acquisition of subsidiaries	55	79	261	20	60	**475**
Additions	–	–	–	1	314	**315**
Transfers	28	110	199	–	(337)	**–**
Reclassification to inventory	–	(2)	(2)	–	(7)	**(11)**
Disposals	(3)	(13)	(15)	(6)	(7)	**(44)**
Elimination against gross carrying amount	–	(193)	(356)	(15)	–	**(564)**
Revaluation	–	383	665	6	37	**1,091**
Currency translation differences	1	(70)	(71)	–	(9)	**(149)**
As at 31 December 2009	**81**	**1,991**	**3,201**	**52**	**545**	**5,870**
Acquisition of subsidiaries	–	375	878	100	109	**1,462**
Disposal of subsidiaries	–	(42)	(45)	(5)	(7)	**(99)**
Additions	–	–	–	–	570	**570**
Transfers	–	138	297	12	(447)	**–**
Disposals	–	(7)	(15)	(4)	(10)	**(36)**
Reclassification to inventory	–	–	–	–	(4)	**(4)**
Elimination against gross carrying amount	–	(19)	(24)	(1)	–	**(44)**
Revaluation	–	45	107	1	–	**153**
Currency translation differences	(6)	(2)	(17)	(1)	–	**(26)**
As at 31 December 2010	**75**	**2,479**	**4,382**	**154**	**756**	**7,846**

10 Property, plant and equipment (continued)

Accumulated depreciation and impairment	Land	Buildings and structures	Plant and machinery	Furniture, fittings and equipment	Construction in progress	Total
As at 1 January 2009		**(89)**	**(191)**	**(10)**	**(5)**	**(295)**
Charge for the year		(140)	(308)	(14)	–	**(462)**
Disposals		2	4	5	2	**13**
Impairment or devaluation	–	(19)	(30)	–	–	**(49)**
Elimination against gross carrying amount		193	356	15	–	**564**
Currency translation differences		6	2	–	–	**8**
As at 31 December 2009		**(47)**	**(167)**	**(4)**	**(3)**	**(221)**
Charge for the year	–	(148)	(430)	(14)	–	**(592)**
Disposal of subsidiaries	–	3	6	2	–	**11**
Disposals		3	6	2	–	**11**
Elimination against gross carrying amount		19	24	1	–	**44**
Impairment		(22)	(15)	–	(15)	**(52)**
Currency translation differences	–	1	4	1	–	**6**
As at 31 December 2010	**–**	**(191)**	**(572)**	**(12)**	**(18)**	**(793)**
Net book value as at						
31 December 2009	**81**	**1,944**	**3,034**	**48**	**542**	**5,649**
31 December 2010	**75**	**2,288**	**3,810**	**142**	**738**	**7,053**

The assets transferred to the Ukrainian subsidiaries of the Group upon privatisation did not include the land on which the Group's factories and buildings are situated. The Group has the option to purchase this land upon application to the state registration body or to continue occupying this land under a rental agreement. Ukrainian legislation does not specify an expiry date to this option. As at 31 December 2010, the Group has not filed any application to exercise the purchase option. Total payments under land lease agreement for 2010 and 2009 were insignificant.

As at 31 December 2010 USD 300 million of buildings, plant and machinery were pledged to third parties as collateral for loans and borrowings (31 December 2009: USD 192 million) (Note 20).

11 Investments in associates

The principal associates of the Group are as follows:

		2010		2009	
Name	**Segment**	**% of ownership**	**Carrying value**	**% of ownership**	**Carrying value**
IMU	Steel	49.90%	55	49.90%	81
JSC Donetskkoks	Coke and coal	37.46%	13	24.50%	9
JSC Zaporozhkoks	Coke and coal	25.00%	39	25.00%	33
Other	Iron ore	n/a	2	n/a	21
Total			**109**		**144**

No associates are listed on international stock exchanges.

Movements in the carrying amount of the Group investments in associates are presented below:

	2010	2009
Carrying amount at 1 January	**144**	**123**
Share of other equity movements of associates	(26)	30
Increase of interest in JSC Donetskkoks through acquisition of Ilyich Group	6	–
Disposal of associates	(21)	–
Share of after tax results of associates	5	(5)
Currency translation differences	1	(4)
Carrying amount at 31 December	**109**	**144**

In February 2010 the Group has sold its interests in associates with a total carrying value of USD 21 million to SCM for total consideration of USD 144 million, generating a gain of USD 123 million. As discussed in Note 4, the gain on disposal was recognised directly in equity.

As further discussed in Note 6, the disposal consideration was partly set-off with the payables for acquisition of remaining equity interests in MetalUkr Holding Limited

11 Investments in associates (continued)

The summarised financial information of the Group's major associates is as follows:

2010	Segment	% of ownership	Total assets	Total liabilities	Revenue	Profit/(loss)
IMU	Steel	49,9%	116	–	–	–
JSC Donetskkoks	Coke and coal	37.5%	41	5	15	1
JSC Zaporozhkoks	Coke and coal	25.0%	211	94	362	19

2009	Segment	% of ownership	Total assets	Total liabilities	Revenue	Profit/(loss)
IMU	Steel	49.9%	162	–	–	–
JSC Donetskkoks	Coke and coal	24.5%	58	24	16	(3)
JSC Zaporozhkoks	Coke and coal	25.0%	159	61	219	(7)

12 Available-for-sale investments

As at 31 December 2009 securities available-for-sale were represented by investment in Ilyich I&SW. The movement for 2010 is as follows:

	2010	2009
Carrying amount at 1 January – interest in Ilyich I&SW	**18**	**10**
Acquisition of interest in Ilyich I&SW from SCM	64	–
Change in fair value of available-for-sale investments	(54)	8
Derecognition of investment in Ilyich I&SW through reclassification to investments in subsidiaries (Note 6)	(28)	–
Carrying amount at 31 December	**–**	**18**

13 Non-current Assets Held for Sale

As of 31 December 2010 non-current assets held for sale represent non-core businesses acquired with Ilyich Group. Major part is the agriculture holding, dealing with live-stock and crop farming. Management plans to transfer these to SCM and Smart (or, alternatively, to third party buyers) in 2011. Carrying value as of 31 December 2010 of USD 146 million was defined based on current price negotiations with SCM and Smart and approximates the market value.

14 Other non-current assets

	2010	2009
Long-term loans issued to related parties (USD denominated, Libor + 3%, mature in 2011)	–	46
Long-term loans issued to related parties (USD denominated, 7%, mature in 2011)	–	149
Long-term loans issued to related parties (USD denominated, 11.5%, mature in 2013)	79	–
Other non-current financial assets	24	10
Other non-current non-financial assets	9	8
Total	**112**	**213**

Analysis by credit quality of financial non-current assets is as follows:

	2010	2009
Balances neither past due nor impaired:		
– Related parties	84	195
– Other	19	10
Total non-current and not impaired	**103**	**205**

The maximum exposure to credit risk at the reporting date is the fair value of non-current assets. The Group does not hold any collateral as security.

15 Inventories

	2010	2009
Finished goods and work in progress	846	456
Raw materials	455	205
Ancillary materials, spare parts and consumables	311	222
Goods for resale	12	15
Total inventories	**1,624**	**898**

Inventory write down recognised as an expense in 2010 was USD 32 million (2009: zero).

As at 31 December 2010, inventories totalling USD 150 million (31 December 2009: USD 356 million) have been pledged as collateral for borrowings (Note 20).

16 Trade and other receivables

	2010	2009
Trade receivables and receivables on commission sales	1,510	1,141
Receivables for bonds and promissory notes sold	362	403
Loans issued	212	39
Interest accrued on loans issued	44	31
Receivables for disposal of subsidiaries and associates	167	5
Receivables for deposit certificates sold	59	26
Other financial receivables	28	28
Total financial assets	**2,382**	**1,673**
Recoverable value added tax	319	117
Prepayments made	144	63
Income tax prepaid	39	88
Other receivables	49	38
Total trade and other receivables	**2,933**	**1,979**

Movements in the impairment provision for trade and other receivables are as follows:

	2010		2009	
	Trade receivables	Other financial receivables	Trade receivables	Other financial receivables
Provision for impairment at 1 January	**68**	**20**	**40**	**37**
Net impairment during the year	7	4	30	(19)
Reclasses	(8)	8		
Currency translation differences	1	(5)	(2)	2
Provision for impairment at 31 December	**68**	**27**	**68**	**20**

16 Trade and other receivables (continued)

Analysis by credit quality of financial trade and other receivables is as follows:

	2010		2009	
	Trade and other receivables on commission	Other financial receivables	Trade and other receivables on commission	Other financial receivables
– Key customers	225	12	79	–
– SCM and other related companies, including associates	7	265	44	73
– Balances covered with bank letters of credit	128	–	53	–
– Balances insured	125	–	100	–
– Existing customers with no history of default	223	28	147	32
– New customers	38	7	24	–
– Balances renegotiated with key customers	1	–	9	–
– Balances renegotiated with SCM and other related companies, including associates	139	543	5	423
– Balances renegotiated with other customers	13	11	24	–
Total current and not impaired	**899**	**866**	**485**	**528**
Past due but not impaired				
– less than 30 days overdue	202	–	71	–
– 30 to 90 days overdue	201	–	143	–
– 90 to 180 days overdue	24	–	91	–
– 180 to 360 days overdue	44	–	146	1
– over 360 days overdue	140	6	205	1
Total past due but not impaired	**611**	**6**	**656**	**2**
Total individually impaired	**68**	**27**	**68**	**22**
Less impairment provision	**(68)**	**(27)**	**(68)**	**(20)**
Total	**1,510**	**872**	**1,141**	**532**

As of 31 December 2010 77% of overdue but not impaired over 30 days receivables related to key customers (2009: 72%) and 21% to SCM and other related parties (2009: 22%).

As at 31 December 2010, trade and other receivables totalling USD 334 million (31 December 2009: zero) have been pledged as collateral for borrowings (Note 20).

Credit concentration. As at 31 December 2010, 15% of trade receivables and receivables on commission are due from a single party, as the Group has an arrangement to sell pipe and plates for pipes (31 December 2009: 33%). The payments from this customer have been delayed and the Group has extended the credit terms to approximately three months beyond the standard credit terms. An impairment charge totalling USD 19 million computed as the present value of the deferred payment schedule has been recorded in the income statement in 2010.

17 Cash and cash equivalents

	2010	2009
Current accounts	301	155
Bank deposits up to 3 months	148	4
Total cash and cash equivalents	**449**	**159**

No bank balances and term deposits are past due or impaired.

18 Share capital

	Number of outstanding shares	Ordinary shares	Share premium	Total
At 1 January 2009	**9,000**	**–**	**4,172**	**4,172**
At 31 December 2009	**9,000**	**–**	**4,172**	**4,172**
At 31 December 2010	**9,000**	**–**	**4,172**	**4,172**

As at 31 December 2010 and 2009, the authorised, issued and fully paid share capital comprised 9,000 ordinary shares with a par value of EUR 10. Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

On 28 May 2010, Metinvest B.V. declared dividends in the amount of USD 400 million payable from 28 May 2010 through 27 May 2013. On 29 December 2010 Metinvest B.V declared dividends in the amount of USD 384 million payable from 29 December 2010 through 29 December 2013**.** Based on management's estimate of future cash flows, the present value of these dividends, using an effective interest rates of 5.35% and 5.76% per annum respectively, is USD 756 million and has been recorded in retained earnings. As of 31 December 2010, USD 49 million of these dividends are included in Other non-current liabilities and USD 523 million are included in Trade and other payables, and USD 184 million were paid during the period.

19 Other reserves

	Revaluation of available-for-sale investments and share in equity of associates	Revaluation of property, plant and equipment	Merger reserve	Cumulative currency translation reserve	Total
Balance as at 1 January 2009	**33**	**941**	**(3,035)**	**(2,278)**	**(4,339)**
Total comprehensive income for the period	21	475	–	(123)	**373**
Depreciation transfer, net of tax	–	(160)	–	–	**(160)**
Acquisition of interest in the existing subsidiaries from SCM and related parties (Note 6)	–	–	7	–	**7**
Balance as at 31 December 2009	**54**	**1,256**	**(3,028)**	**(2,401)**	**(4,119)**
Total comprehensive income for the period	(36)	529	–	(50)	**443**
Depreciation transfer, net of tax	–	(153)	–	–	**(153)**
Disposal of subsidiaries to SCM	–	(9)	147	105	**243**
Acquisition of additional interest in existing subsidiaries from SCM and related parties	–	165	(106)	–	**59**
Balance as at 31 December 2010	**18**	**1,788**	**(2,987)**	**(2,346)**	**(3,527)**

The revaluation reserve for available-for-sale investments is transferred to profit or loss when realised through sale or impairment. Revaluation reserve for property, plant and equipment is transferred to retained earnings when realised through depreciation, impairment, sale or other disposal. Currency translation reserve is transferred to profit or loss when realised through disposal of a subsidiary by sale, liquidation, repayment of share capital or abandonment of all, or part of, that subsidiary.

Retained earnings of the Group represent the earnings of the Group entities from the date they have been established or acquired by the entities under common control. Company subsidiaries distribute profits as dividends or transfer them to reserves on the basis of their statutory financial statements prepared in accordance with local GAAP as appropriate. Ukrainian legislation identifies the basis of distribution as retained earnings only, however this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes at present it would not be appropriate to disclose the amount of distributable reserves in these consolidated financial statements.

20 Loans and borrowings

As at 31 December, loans and borrowings were as follows:

	2010	2009
Non-current		
Bank borrowings	967	750
Bonds	493	175
Non-bank borrowings	4	4
	1,464	**929**
Current		
Bank borrowings	524	529
Trade finance	623	482
Bonds	185	3
	1,332	**1,014**
Total loans and borrowings	**2,796**	**1,943**

20 Loans and borrowings (continued)

	2010	2009
Loans and borrowings due:		
– up to 1 year	1,332	1,014
– between 1 and 5 years	1,460	871
– after 5 years	4	58
Total borrowings	**2,796**	**1,943**

The majority of the Group's borrowings have variable interest rates. The weighted average effective interest rates and currency denomination of loans and borrowings as at the balance sheet dates are as follows:

	31 December 2010			31 December 2009		
In % per annum	USD	EUR	UAH	USD	EUR	UAH
Bank borrowings	5%	5%	–	3%	4%	27%
Bonds issued	10%	–	–	9%	–	–
Trade finance	2%	2%	–	3%	2%	–
Non-bank borrowings	6%	–	–	4%	–	–
Reported amount	**2,330**	**466**	**–**	**1,381**	**544**	**18**

As at 31 December 2010, bonds issued carry fixed interest rates (31 December 2009: fixed interest rate); bank borrowings and trade finance denominated in EUR carry interest rates of EURIBOR 1-6 months plus margins of 0.2%-4.5% (31 December 2009: EURIBOR 1-6 months plus margins of 0.1%-2.0%); the bank borrowings and trade finance denominated in USD carry interest rates of LIBOR 1 month plus margins of 0.1%-5.5% (31 December 2009: LIBOR 1-3 months plus margins of 0.6%-7%).

In May 2010, Metinvest B.V. placed Eurobonds with a par value of USD 500 million on the Irish Stock Exchange. The bonds carry a coupon rate of 10.25% per annum, paid semi-annually, were placed with a discount of 0.95% and are repayable in 2015.

In July 2010 the Group obtained new loan in the nominal amounts of USD 700 million bearing nominal interest of LIBOR 1 month plus margin of 5.5% per annum, paid monthly. Principal is repayable in equal monthly instalments starting from July 2011 through July 2013.

As at 31 December 2010, borrowings totalling to USD 191 million were secured with inventories and property, plant and equipment (31 December 2009: USD 396 million), borrowings totalling to USD 311 million were secured with trade and other accounts receivable (31 December 2009: zero) and borrowings totalling to USD 1,414 million were secured with the future sales proceeds (31 December 2009: USD 818 million).

As at 31 December 2010, the Group had pledged 100% of the issued share capital of Metinvest Trametal S.P.A. and 100% of the issued share capital of Spartan UK Ltd for loans drawn by Metinvest Trametal S.P.A. with balance outstanding as at 31 December 2010 of EUR 245 million (equivalent of USD 326 million).

As at 31 December 2010, the fair value of bonds was USD 718 million (31 December 2009: USD 150 million) as determined by reference to observable market quotations. The fair value of bank borrowings was USD 1,473 million (31 December 2009: USD 1,231 million) as estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. As at 31 December 2010, the fair value of trade finance borrowings is approximately equal to their carrying value.

21 Seller's notes

	2010	2009
Non-current portion	276	330
Current portion	92	161
Total seller's notes	**368**	**491**

UCC notes are unsecured and subordinated to other borrowings of the Group (up to USD 3 billion excluding interest).

As at of 31 December 2010 the fair value of seller's notes was USD 397 million (31 December 2009: USD 491 million).

22 Retirement benefit obligations

	2010	2009
Present value of unfunded defined benefit obligations	667	385
Unrecognised net actuarial loss	(79)	12
Unrecognised past service cost	(46)	(54)
Liability in the consolidated balance sheet	**542**	**343**

The amounts recognised in the consolidated income statement were as follows:

	2010	2009
Current service cost	24	29
Recognised cost of past service	9	8
Interest cost	55	45
Recognized actuarial (gains)/losses	(12)	(3)
Total	**76**	**79**

Changes in the present value of the defined benefit obligation were as follows:

	2010	2009
Defined benefit obligation as at 1 January	**385**	**381**
Current service cost	24	29
Actuarial gains	80	(42)
Past service cost	1	2
Interest cost	55	45
Benefits paid	(30)	(33)
Acquired with subsidiaries	151	21
Currency translation differences	1	(18)
Defined benefit obligation as at 31 December	**667**	**385**

22 Retirement benefit obligations (continued)

The movement in the present value of the liability recognised in the consolidated balance sheet was as follows:

	2010	2009
As at 1 January	**343**	**287**
Benefits paid	(30)	(33)
Net expense recognised in the income statement	76	79
Acquired with subsidiaries	151	21
Currency translation differences	2	(11)
As at 31 December	**542**	**343**

The principal actuarial assumptions used were as follows:

	2010	2009
Nominal discount rate	14%	15%
Nominal salary increase	5.8%-30%	5%-20%
Nominal pension entitlement increase	5.8%-30%	5%-20%

Payments in respect of post-employment benefit plans obligations expected to be made during the year ending 31 December 2011 are USD 67 million.

Present value of unfunded defined benefit obligations totalled to USD 381 million as at 31 December 2008 (31 December 2007: USD 512 million, 31 December 2006: USD 347 million).

Experience adjustments for 2010 approximates USD 33 million (2009: USD 12 million; 2008: USD 38 million, 2007: USD 82 million, 2006: USD 38 million).

The sensitivity of the defined benefit obligation to changes in the principal assumptions is presented below:

	2010	2009
Nominal discount rate increase/decrease by 1%	(43)/49	(27)/31
Nominal salary increase increase/decrease by 1%	43/(38)	30/(27)

23 Other non-current liabilities

	2010	2009
Long-term dividends payable to shareholders of Metinvest B.V.	49	–
Long-term dividends payable to non-controlling shareholders of Company subsidiaries	1	25
Tax liabilities under moratorium (Note 23)	23	23
Asset retirement obligations	26	24
Other non-current liabilities	25	29
Deferred income	8	8
Total other non-current liabilities	**132**	**109**

During 2010 some of the Group non-wholly owned subsidiaries have declared dividends with the deferred payment through 2013.

Asset retirement obligations is primarily comprised of USD 25 million relate to obligation of UCC on recultivation of land after coal extraction.

As of 31 December 2010 the fair value of other non-current liabilities approximates its carrying values.

24 Trade and other payables

	2010	2009
Trade payables and payables on sales made on commission	902	661
Payables for acquired subsidiaries and non controlling interest	30	25
Dividends payable to shareholders of Metinvest B.V.	523	125
Dividends payable to non-controlling shareholders of Company subsidiaries	220	105
Promissory notes issued (UAH denominated with 15% effective interest)	120	125
Payable for acquired property, plant and equipment, intangibles	21	15
Other financial liabilities	28	98
Total financial liabilities	**1,844**	**1,154**
Income tax payable	44	23
Other tax payable	53	45
Wages and salaries payable	42	27
Prepayments received	202	77
Accruals for employees’ unused vacations and other payments to employees	61	32
Other allowances	22	39
Other non-financial liabilities	–	2
Total trade and other payables	**2,268**	**1,399**

25 Expenses by nature

	2010	2009
Raw materials including coke and coal and change in finished goods and work in progress	2,361	1,661
Goods for resale	621	232
Energy materials including gas, electricity	1,231	860
Wages and salaries	637	519
Transportation services	703	603
Repairs and maintenance expenses	398	232
Pension and social security costs	207	160
Pension costs – defined benefit obligations (Note 22)	76	79
Depreciation and amortisation	694	555
Impairment of property, plant and equipment (Note 10)	52	34
Impairment of trade and other receivables (Note 16)	11	11
Taxes and duties	85	71
Services and other costs	412	311
Total operating expenses	**7,488**	**5,328**
Classified in the income statement as		
– cost of sales	6,372	4,365
– distribution costs	820	696
– general and administrative expenses	296	267
Total operating expenses	**7,488**	**5,328**

Raw materials include coke and coal, costs of goods and inventory sold, ancillary and other materials and cost of transportation.

25 Expenses by nature (continued)

Auditor's fees

The following fees were expensed in the income statement in the reporting period:

	2010	2009
Audit of the financial statements	2	2
Tax services	–	–
Other non audit services	–	–
Total	**2**	**2**

26 Other operating (expenses)/income, net

Other operating income and expenses for the year ended 31 December were as follows:

	2010	2009
Maintenance of social infrastructure	(13)	(18)
Foreign exchange gains less losses	(20)	179
Sponsorship and other charity payments	(184)	(197)
Other expenses	(35)	(58)
Total other operating (expenses)/income, net	**(252)**	**(94)**

27 Finance income

Finance income for the year ended 31 December was as follows:

	2010	2009
Net foreign exchange income	9	–
Interest income		
– bank deposits	3	2
– imputed interest on other financial assets	17	8
– other	14	12
Gain on origination of financial liabilities	–	21
Other finance income	2	–
Total finance income	**45**	**43**

The majority of finance income relates to term deposits and long term loans issued to related parties.

28 Finance costs

Finance costs for the year ended 31 December were as follows:

	2010	2009
Net foreign exchange losses	–	18
Interest expense		
– borrowings	99	69
– bonds	48	16
– Seller's notes	13	10
– imputed interest on Seller's notes	37	25
– imputed interest on other financial liabilities	10	10
Loss on origination of financial assets	30	6
Other finance costs	9	13
Total finance costs	**246**	**167**

No material borrowing costs were capitalised in 2010.

29 Income tax

Income tax for the year ended 31 December was as follows:

	2010	2009
Current tax	608	298
Deferred tax	(338)	(157)
Income tax expense	**270**	**141**

The Group is subject to taxation in several tax jurisdictions, depending on the residence of its subsidiaries. In 2010 Ukrainian corporate income tax was levied on taxable income less allowable expenses at the rate of 25% (2009: 25%). In 2010, the tax rate for Swiss operations was 12% (2009: 11%) and for European Companies tax rate in 2009 varied from 29.2% to 45.8% (2009: varied from 29.2% to 45.8%). The tax rate for US operations was 40% (2009: 40%).

Reconciliation between the expected and the actual taxation charge is provided below.

	2010	2009
IFRS profit before tax	**707**	**475**
Tax calculated at domestic tax rates applicable to profits in the respective countries	(294)	(67)
Tax effect of items not deductible or assessable for taxation purposes:		
– charitable donations and sponsorship	(46)	(49)
– non-deductible expenses	(35)	(10)
– non-taxable income (primarily operating foreign exchange gains)	2	37
Effect of foreign exchange realised as a result of currency sale	(8)	(63)
Effect of changes in tax rates in Ukraine	61	–
Effect of changes in tax rules in Ukraine	50	–
Effect of PPE indexation for tax purposes	–	11
Income tax expense	**(270)**	**(141)**

The weighted average applicable tax rate was 41.6% in 2010 (2009: 14.1%). As discussed in Note 32, with effect from 1 January 2011, the Ukrainian tax system was significantly reformed by the adoption of a new Tax Code of Ukraine, resulting among other in the corporate profit tax rate gradual decrease from the current 25% to 16% by 2014.

29 Income tax (continued)

Differences between IFRS and Ukrainian and other countries' statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 25% (2009: 25%) for the majority of subsidiaries.

	1 January 2010	Business combinations	Disposal of subsidiaries	Credited/ (charged) to income statement	Charged to other comprehensive income	Currency translation difference	31 December 2010
Tax effect of deductible temporary differences							
Property, plant and equipment and intangible assets	46	–	(1)	51	–	–	96
Long-term receivables	2	–	–	45	–	–	47
Inventory valuation	33	1	–	18	–	–	52
Trade and other accounts receivable	22	9	–	(2)	–	–	29
Accrued expenses	48	–	–	(15)	–	–	33
Tax losses carried forward	83	–	–	(2)	–	–	81
Retirement benefit obligations	88	38	–	(18)	–	–	108
Prepayments received and deferred income	48	15	–	47	–	–	110
Other	16	5	–	(5)	–	–	16
Gross deferred tax asset	**386**	**68**	**(1)**	**119**	**–**	**–**	**572**
Less offsetting with deferred tax liabilities	(298)	(68)	1	(11)	–	–	(376)
Recognised deferred tax asset	**88**	**–**	**–**	**108**	**–**	**–**	**196**
Tax effect of taxable temporary differences							
Property, plant and equipment and intangible assets	(896)	(206)	8	216	473	(1)	(406)
Accounts receivable valuation	(202)	–	2	91	–	–	(109)
Advances paid	(40)	(7)	2	(52)	–	–	(97)
Inventory tax differences	(12)	(6)	1	(12)	–	–	(29)
Borrowings and long-term payables fair valuation	(50)	–	–	(25)	–	–	(75)
Other	(11)	–	–	1	–	–	(10)
Gross deferred tax liability	**(1,211)**	**(219)**	**13**	**219**	**473**	**(1)**	**(726)**
Less offsetting with deferred tax assets	298	68	(1)	11	–	–	376
Recognised deferred tax liability	**(913)**	**(151)**	**12**	**230**	**473**	**(1)**	**(350)**

29 Income tax (continued)

	1 January 2009	Business combinations	Credited/ (charged) to income statement	Charged to equity	Currency translation difference	31 December 2009
Tax effect of deductible temporary differences						
Property, plant and equipment and intangible assets	3	39	7	–	(3)	46
Long-term receivables	8	–	(6)	–	–	2
Inventory valuation	30	–	4	–	(1)	33
Trade and other accounts receivable	12	–	10	–	–	22
Accrued expenses	10	–	38	–	–	48
Tax losses carried forward	–	37	46	–	–	83
Retirement benefit obligations	72	3	16	–	(3)	88
Prepayments received and deferred income	32	7	10	–	(1)	48
Other	12	–	4	–	–	16
Gross deferred tax asset	**179**	**86**	**129**	**–**	**(8)**	**386**
Less offsetting with deferred tax liabilities	(157)	(61)	(80)	–	–	(298)
Recognised deferred tax asset	**22**	**25**	**49**	**–**	**(8)**	**88**
Tax effect of taxable temporary differences						
Property, plant and equipment and intangible assets	(623)	(76)	54	(273)	22	(896)
Accounts receivable valuation	(172)	–	(36)	–	6	(202)
Advances paid	(41)	–	–	–	1	(40)
Inventory tax differences	(17)	–	5	–	–	(12)
Borrowings and long-term payables fair valuation	–	(63)	13	–	–	(50)
Other	(3)		(8)	–		(11)
Gross deferred tax liability	**(856)**	**(139)**	**28**	**(273)**	**29**	**(1,211)**
Less offsetting with deferred tax assets	157	61	80	–	–	298
Recognised deferred tax liability	**(699)**	**(78)**	**108**	**(273)**	**29**	**(913)**

The tax charge relating to components of other comprehensive income is as follows:

	2010			2009		
	Before tax	Deferred tax charge	After tax	Before tax	Deferred tax charge	After tax
Revaluation of property, plant and equipment	153	(29)	124	1,091	(273)	818
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**

In the context of the Group's current structure, tax losses and current tax assets of different Group companies may not be offset against current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

30 Disposal of subsidiaries

As disclosed in Note 1, SCM and Smart agreed to combine their respective steel and mining assets however the Group also owned certain non steel and mining assets which the Company's shareholders have agreed to remove from the Group. In February 2010, 100% of JSC Avlita, a consolidated subsidiary at 31 December 2009 and other minor subsidiaries (part of Iron Ore and Coke and Coal segments), were sold to SCM. The assets and liabilities sold are as follows:

	February 2010
Cash and cash equivalents	2
Property, plant and equipment	88
Inventories	12
Other current and non-current assets	71
Deferred income tax liability	(12)
Other current and non-current liabilities	(44)
Non controlling interest	(3)
Goodwill	120
Total carrying amount of net assets disposed of	**234**
Total disposal consideration	**537**
Gain on disposal	**303**

The amount of disposal consideration was defined based on the management valuation of the businesses sold. As discussed in Note 4, the Group has recorded the gain on disposal of the subsidiaries directly in equity.

As discussed in Note 6, the disposal consideration was partly set-off with the payables for acquisition of remaining equity interests in MetalUkr Holding Limited.

31 Balances and transactions with related parties

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

Unless stated otherwise, other related parties are related through common control under SCM. As at 31 December 2010 and 2009 significant balances outstanding with related parties are detailed below:

	2010				2009			
	SCM	**Associates**	**Other related parties**	**Smart Group**	**SCM**	**Associates**	**Other related parties**	**Smart Group**
ASSETS								
Other non-current assets, including:	**–**	**5**	**–**	**79**	**191**	**10**	**–**	**3**
Receivables for promissory notes	–	5	–	–	–	6	–	–
Long-term loans issued	–	–	–	79	191	4	–	–
Other non-current assets	–	–	–	–	–	–	–	3
Trade and other receivables, including:	**556**	**55**	**471**	**8**	**222**	**174**	**286**	**7**
Trade receivable and receivables on commission sales	–	40	183	–	–	172	13	6
Prepayments made	–	13	27	–	–	–	2	–
Receivables for promissory notes and bonds sold	138	2	211	–	188	–	211	1
Loans issued	192	–	9	8	1			
Interest accrued on long term loans issued	43	–	–	–	31	–	–	–
Receivables for disposal of subsidiaries and associates	162	–	5	–				
Receivables for deposit certificates sold	19	–	32	–				
Other financial receivables	2	–	4	–	2	2	60	–
Cash and cash equivalents	**–**	**–**	**199**	**–**	**–**	**–**	**64**	**–**

	2010				2009			
	SCM	**Associates**	**Other related parties**	**Smart Group**	**SCM**	**Associates**	**Other related parties**	**Smart Group**
LIABILITIES								
Non-current liabilities, including:	**–**	**1**	**4**	**49**	**14**	**6**	**4**	**11**
Non-bank borrowings	–	–	3	–	–	–	3	–
Long-term dividends payable	–	–	–	49	14	–	–	11
Other non-current liabilities	–	1	1	–	–	6	1	–
Trade and other payables, including:	**546**	**80**	**283**	**159**	**174**	**233**	**122**	**68**
Accounts payable for promissory notes purchased	–	1	–	–	–	16	–	–
Payables for acquired subsidiaries and non-controlling interest	–	–	–	–	–	2	8	–
Dividends payable	545	1	12	159	173	–	–	41
Trade payables and payables on sales made on commission	–	40	234	–	–	213	72	–
Prepayments received	–	37	35	–	–	2	38	–
Other financial liabilities	1	1	2	–	1	–	4	27

31 Balances and transactions with related parties (continued)

Significant transactions (excluding purchases) with related parties during 2010 and 2009 are detailed below:

2010	SCM	Associates	Other related parties	Smart Group	Total
Sales, including:	**–**	**207**	**46**	**–**	**253**
Steel	–	1	39	–	40
Coke and coking coal	–	195	2	–	197
Other	–	11	5	–	16
Other operating income/(expense) net	**(12)**	**–**	**(131)**	**(15)**	**(158)**
Sponsorship and other charity payments	(12)	–	(131)	(15)	(158)
Other	–	–	–	–	–
Finance income, including:	**–**	**(3)**	**(2)**	**2**	**(3)**
Interest income – bank deposits	–	–	2	–	2
Interest income – other	12	–	–	2	14
Other finance income (expenses)	(12)	(3)	1	–	(14)
Interest expense – borrowings	–	–	(5)	–	(5)

2009	SCM	Associates	Other related parties	Smart Group	Total
Sales, including:		**132**	**17**	**–**	**149**
Steel		–	15	–	**15**
Coke and coking coal		120	–	–	**120**
Other		12	2	–	**14**
Other operating income/(expense) net	**(50)**		**(119)**	**(9)**	**(178)**
Sponsorship and other charity payments	(53)		(118)	(15)	**(186)**
Other	3		(1)	6	**8**
Finance income, including:	**15**	**–**	**–**	**–**	**15**
Interest income – bank deposits	–	–	1	–	**1**
Interest income – other	12	–	–	–	**12**
Other finance income	3	–	(1)	–	**2**
Interest expense – borrowings			(4)		**(4)**

OVERVIEW
EXECUTIVE REVIEW
BUSINESS REVIEW
CORPORATE GOVERNANCE
FINANCIAL STATEMENTS
ADDITIONAL INFORMATION

31 Balances and transactions with related parties (continued)

The following is a summary of purchases from related parties in 2010 and 2009:

2010	SCM	Associates	Other related parties	Smart Group	Total
Purchases, including:	**–**	**21**	**822**	**–**	**843**
Metal products	–	–	1	–	1
Coke and coking coal	–	19	133	–	152
Spare parts and materials	–	–	246	–	246
Electricity	–	–	363	–	363
Fuel	–	2	2	–	4
Services	–	–	43	–	43
Other	–	–	34	–	34
Acquisition of interest in subsidiaries from SCM or related parties (Note 6)	**510**	**–**	**–**	**–**	**510**
Acquisition of interest in Ilyich I&SW from SCM (Note 6)	**64**	**–**	**–**	**–**	**64**

2009	SCM	Associates	Other related parties	Smart Group	Total
Purchases, including:	**–**	**156**	**463**	**3**	**622**
Metal products	–	1	1	–	**2**
Coke and coking coal	–	13	98	–	**111**
Spare parts and materials	–	104	22	–	**126**
Electricity	–	–	305	–	**305**
Fuel	–	1	1	–	**2**
Services	–	37	7	–	**44**
Other	–	–	29	3	**32**
Acquisition of interest in subsidiaries from SCM or related parties (Note 6)	**122**	**–**	**–**	**–**	**122**

In 2010, the remuneration of key management personnel of the Group comprised current salaries and related bonuses totalling USD 9.8 million (in 2009 USD 7.8 million).

32 Contingencies, commitments and operating risks

Tax legislation. Ukrainian tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. With effect from 1 January 2011, the Ukrainian tax system was significantly reformed by the adoption of a new Tax Code of Ukraine. Applicable taxes include value-added tax, corporate income tax, customs duties and other taxes. As a result, there may be significant uncertainty as to the implementation or interpretation of the new legislation and unclear or non-existent implementing regulations. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and State authorities. It is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years proceeding the year of review. Under certain circumstances reviews may cover longer periods.

The Group occasionally may conduct intercompany transactions at terms that may be assessed by the Ukrainian tax authorities as non-market. Because of non-explicit requirements of the applicable tax legislation, such transactions have not been challenged in the past. However, it is possible with evolution of the interpretation of tax law in Ukraine and changes in the approach of tax authorities, that such transactions could be challenged in the future. The impact of any such challenge cannot be estimated; however, Management believes that it will not be significant.

Bankruptcy proceedings. During 2006, bankruptcy proceedings were initiated in respect of JSC Krasnodonugol. The amount of the creditors' claims summarised by the external manager was USD 219 million of which USD 128 million relates to the Group. During 2007 and 2008 liabilities of USD 19 million were re-purchased by the Group. Based on the previous court decisions made, management of the Group believes that the amount of USD 10 million not recognised by the Group will be rejected by the court and, therefore, is not recognised as a liability. Net amount of the liabilities recorded as at 31 December 2010 is USD 36 million. Group recognised USD 23 million as non current liability related to the bankruptcy moratorium. For the remaining balance the Group is continually negotiating early settlement and thus recorded those as part of trade and other payable.

Since April 2004, Company subsidiaries, Inguletsky GOK, Severniy GOK and Central GOK, have operated under the protection granted by law N 1677-IV *On specific features of privatization of companies within the Ukrrudprom government-run JSC* (further – "Law on Ukrrudprom entities"). The Law on Ukrrudprom entities provided a 5-year penalty free grace period over all tax and non tax arrears to the State budget of Ukraine, stayed any bankruptcy petitions against companies and prohibited the forced administration or sale of the Companies' assets. During this period, these companies together with Metinvest have sought to quantify, negotiated and amicably settle pre moratorium creditor claims. The 5 year moratorium expired on 9 April 2009 and subsequently the entities became subject to the Law on *Retrieval of Creditworthiness of a Debtor* (further – "Bankruptcy Law"). In December 2009, all bankruptcy proceedings against Severniy GOK and Central GOK were dismissed by the court and the unsettled pre moratorium debts were reclassified into the respective categories of trade and other payables from which these debts had been originally segregated. Subsequent to expiry of the 5-year moratorium introduced by the Law on Ukrrudprom entities in April 2009, up until March 2010, Inguletsky GOK continued to operate under the protection of a moratorium established initially in accordance with the "Bankruptcy Law".

Management also believes that the expiration of moratorium will not have any adverse effects on the operations of the Group or its financial position.

Legal proceedings. From time to time and in the normal course of business, claims against the Group are received. On the basis of its own estimates and both internal and external professional advice management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been made in these consolidated financial statements.

Environmental matters. The enforcement of environmental regulation in Ukraine is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluate its obligations (including assets retirement obligations) under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated, but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Capital expenditure commitments. As at 31 December 2010, the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling USD 206 million (31 December 2009: USD 128 million). The Group has already allocated the necessary resources in respect of these commitments. Management of the Group believes that future net income and funding will be sufficient to cover this and any similar commitments.

32 Contingencies, commitments and operating risks (continued)

Guarantees issued. As at 31 December 2010, the Group has outstanding guarantees to third parties in the amount of USD 18 million (31 December 2009: USD 60 million).

Assets pledged. As at 31 December 2010, the Group had pledged 60% plus 1 share of JSC Central Mining and Processing Works and JSC Severniy Mining and Processing Works for USD 240 million loan drawn by the Group's parent SCM (System Capital Management) Limited. For other assets pledged refer to Notes 10, 15, 16.

Compliance with covenants. The Group is subject to certain covenants related primarily to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group including growth in the cost of borrowings and declaration of default. As of 31 December 2010 the Group was in compliance with the covenants.

Insurance. At present, Metinvest maintains mandatory insurance policies against certain types of risk in accordance with Ukrainian law, including life and health insurance; third party liability insurance on hazardous industrial assets and in respect of cargo and motor vehicles; voluntary insurance cover for most of its production facilities in respect of cargo and motor vehicles; "All Risk" insurance to cover property damage and provide business interruption coverage including "inter-dependency" coverage for its key production facilities including JSC Azovstal Iron and Steel Works, JSC Ilyich I&SW, JSC Enakievo Metallurgical Works, JSC Makeevskiy Metallurgical Works, JSC Khartsyzsk Tube Works, JSC Severniy Mining and Processing Works, JSC Central Mining and Processing Works, JSC Inguletskiy Mining and Processing Works, JSC Avdiivka By-Product Coke Plant and Inkor Chemicals; property damage and business interruption policies in respect of Ferriera Valsider S.P.A., Metinvest Trametal S.P.A., Spartan UK Ltd and United Coal Company.

33 Financial risk management

The Group activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by a central treasury department (the Group treasury). The Group treasury identifies and evaluates financial risks in close co-operation with the Group's operating units. The Group treasury provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

(a) Market risk

(i) Foreign exchange risk.

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is managed through (i) borrowings denominated in the relevant foreign currencies; (ii) different treasury operations like forward, swap and other. Fair value of derivatives as at 31 December 2010 and 2009 is immaterial.

Foreign exchange risk is managed centrally by the Group treasury. The Group treasury has set up a policy to manage foreign exchange risk. The Group treasury sets limits on the level of exposure by currency and maximum amount of exposure. The subsidiaries have not entered into transactions designed to hedge against these foreign currency risks without permission of the Group treasury.

At 31 December 2010, if the UAH had strengthened/weakened by 10% against the US dollar with all other variables held constant, post-tax profit for the year would have been USD 11 million (2009: USD 68 million at 10% change) higher/lower, mainly as a result of foreign exchange losses/gains on translation of US dollar denominated trade receivables and foreign exchange gains/losses on translation of US dollar denominated borrowings.

At 31 December 2010, if the UAH had strengthened/weakened by 10% against the EUR with all other variables held constant, post-tax profit for the year would have been USD 23 million lower/higher (2009: USD 13 million higher/lower at 10% change), mainly as a result of foreign exchange losses/gains on translation of Euro denominated trade receivables and foreign exchange gains/losses on translation of Euro denominated borrowings.

(ii) Price risk.

The Group is exposed to equity securities price risk because of investments held by the Group and classified as available-for-sale.

The majority of the Group's equity investments are quoted on the over-the-counter electronic exchange. The Group determines related fair value gains/losses on the available-for-sale financial assets by reference to the available over-the-counter quotations.

Metinvest's revenue is exposed to the market risk from price fluctuations related to the sale of its steel and iron ore products. The prices of the steel and iron ore products sold both within Ukraine and abroad are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global economic growth. The prices of the products that Metinvest sells to third parties are also affected by supply/demand and global/Ukrainian economic growth. Adverse changes in respect of any of these factors may reduce the revenue that Metinvest receives from the sale of its steel or mined products.

Metinvest's exposure to commodity price risk associated with the purchases is limited as the Group is vertically integrated and is self sufficient for iron ore and coking coal requirements.

33 Financial risk management (continued)

(iii) Cash flow and fair value interest rate risk.
The Group's income and operating cash flows are dependent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced borrowings portfolio of fixed and floating rate instruments. As at 31 December 2010, 29% of the total borrowings were provided to the Group at fixed rates (31 December 2009: 29%). During 2010 and 2009, the Group's borrowings at variable rate were denominated in USD and EUR.

Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates. However, at the time of issuing new debt management uses its judgment to decide whether it believes that a fixed or variable rate would be more favourable to the Group over the expected period until maturity.

Refer to Note 16, 20 and 24 for information about maturity dates and effective interest rates of financial instruments.

At 31 December 2010, if interest rates on USD and EUR denominated borrowings had been on 1% higher/lower (2009: 1%) with all other variables held constant, post-tax profit for the year would have been USD 14 million (2009: USD 13 million) lower/higher.

(b) Credit risk
Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. When wholesale customers are independently rated, these ratings are used for credit quality assessment. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored.

Financial assets, which potentially subject the Group to credit risk, consist principally of cash, loans, trade and other accounts receivable.

Cash is placed with major Ukrainian and international reputable financial institutions, which are considered at time of deposit to have minimal risk of default.

The Group has policies in place to ensure that provision of loans and sales of products/services are made to customers with an appropriate credit history. The Group credit risk exposure is monitored and analysed on a case-by-case basis. Credit evaluations are performed for all customers requiring credit over a certain amount. The carrying amount of loans, trade and other accounts receivable, net of provision for impairment, represents the maximum amount exposed to credit risk. Concentration of credit risk mainly relates to CIS and European countries where the major customers are located.

The maximum exposure to credit risk at 31 December 2010 is USD 2,934 million (2009: USD 2,037 million) being the fair value of long and short term loans issued and receivables and cash. The Group does not hold any collateral as security

Management believes that credit risk is appropriately reflected in impairment allowances recognised against assets. No credit limits were exceeded during the reporting period, and management does not expect any significant losses from non-performance by these counterparties.

(c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The Group treasury analyses the ageing of their assets and the maturity of their liabilities and plans their liquidity depending on the expected repayment of various instruments. In case of insufficient or excessive liquidity in individual entities, the Group relocate resources and funds among the entities of the Group to achieve optimal financing of the business needs of each entity.

33 Financial risk management (continued)

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows

At 31 December 2010	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Bank borrowings	566	591	447	4
Trade finance	623	–	–	–
Bonds	234	51	628	–
Seller's notes	101	106	292	–
Other non-current liabilities	–	79	–	–
Trade and other payables	1,871	–	–	–
Guarantees issued	18	–	–	–
At 31 December 2009				
Bank borrowings	559	315	479	60
Trade finance	482	–	–	–
Bonds	16	183	–	–
Seller's notes	174	100	306	93
Other non-current liabilities	–	43	25	–
Trade and other payables	1,166	–	–	–
Guarantees issued	60	–	–	–

34 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 and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and Seller's Notes (including current and non-current parts) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The Group has yet to determine its optimum gearing ratio. Presently, the majority of debt is due within 1-5 years and the Group is actively pursuing mechanisms to extend the credit terms to match its long-term investment strategy. The Group has credit ratings assigned by two international rating agencies, Fitch and Moody's, B and B2 respectively, capped by the Sovereign rating.

	31 December 2010	31 December 2009
Total borrowings (Note 20)	2,796	1,943
Sellers notes (Note 21)	368	491
Less: cash and cash equivalents (Note 17)	449	159
Net debt	2,715	2,275
Total equity	8,212	6,972
Total capital	10,927	9,247
Gearing ratio	25%	25%

35 Fair values of financial instruments

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is required to interpret market data to determine the estimated fair value. Ukraine continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Available-for-sale investments are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

Fair values were determined based on quoted market prices except for certain investment securities available-for-sale for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of results of recent sales of equity interests in the investees between unrelated third parties.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade and other accounts receivable approximate their fair values.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period (“demandable liabilities”) is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid (Note 20, 21 and 23).

36 Reconciliation of classes of financial instruments with measurement categories

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2010:

	Loans and receivables	Available-for sale assets	Total
ASSETS			
Cash and cash equivalents (Note 17)			
– Current accounts	301	–	**301**
– Term deposits	148	–	**148**
Trade and other receivables (Note 16)			
– Trade receivables and receivables on commission	1,510	–	**1,510**
– Other financial receivables	872	–	**872**
Available-for-sale investments (Note 17)			
– Securities quoted on the Ukrainian stock market	–	–	**–**
– Other			
Other non-current assets (Note 14)	103	–	**103**
TOTAL FINANCIAL ASSETS	**2,934**	**–**	**2,934**
NON-FINANCIAL ASSETS			**11,734**
TOTAL ASSETS			**14,668**

All of the Group's financial liabilities are carried at amortised cost.

The following table provides a reconciliation of classes of financial assets with these measurement categories as of 31 December 2009:

	Loans and receivables	Available-for sale assets	Total
ASSETS			
Cash and cash equivalents (Note 17)			
– Current accounts	155	–	**155**
– Term deposits	4	–	**4**
Trade and other receivables (Note 16)			
– Trade receivables and receivables on commission	1,141	–	**1,141**
– Other financial receivables	532	–	**532**
Available-for-sale investments (Note 17)			
– Securities quoted on the Ukrainian stock market	–	18	**18**
– Other	–	–	**–**
Other non-current assets (Note 14)	205	–	**205**
TOTAL FINANCIAL ASSETS	**2,037**	**18**	**2,055**
NON-FINANCIAL ASSETS			**10,115**
TOTAL ASSETS			**12,170**

37 Events after the balance sheet date

On 14 February 2011, Metinvest B.V. placed Eurobonds with a par value of USD 750 million on the Irish Stock Exchange. The bonds carry a coupon rate of 8.75% per annum, paid semi-annually, were placed with a discount of 1.28% and are repayable in 2018.

As of 12 January 2011 SCM's facility under which the Group had pledged 60% plus 1 share of JSC Central Mining and Processing Works and JSC Severniy Mining and Processing Works was repaid in full. The pledges were released in March 2011.

As of 28 February 2011 JSC Azovstal Iron and Steel Works repaid in full the Eurobonds in total amount of USD 175 million.

In January–March 2011 the Group attracted long-term financing facilities from a number of international banks for the total principal amount of USD 325 million.

GLOSSARY

Technical metals and mining terms

Alloy steel
Steel alloyed with other elements, usually molybdenum, manganese, chromium, vanadium, silicon, boron or nickel, in amounts greater than 10.0% by weight.

Ammonium sulphate
$(NH_4)_2SO_4$ is an inorganic salt with a number of commercial uses. The most common use is as a soil fertiliser. It contains 21.0% nitrogen as ammonium cations, and 24.0% sulphur as sulphate anions. In fertiliser the purpose of the sulphate is to reduce the soil's pH.

Bars
Long steel products that are rolled from billets.

Basic oxygen furnace (BOF)
A pear-shaped furnace lined with refractory bricks that refines molten iron from the blast furnace and scrap into steel.

Batteries
Coke ovens are constructed in batteries of 10-100 ovens.

Beneficiation
A series of unit operations to liberate and then separate ore minerals from gangue minerals. The products of beneficiation are referred to as: concentrates (enriched in ore minerals), tailings (depleted of ore minerals) and slimes (fines rejected by washing).

Billet
A semi-finished steel product with a square cross section of up to 150mm x 150mm. This product is either rolled or continuously cast and is further processed by rolling to produce finished long products.

Blast furnace (BF)
A towering cylinder lined with heat-resistant (refractory) bricks, used by integrated steel mills to smelt iron from ore. Its name comes from the 'blast' of hot air and gases forced up through the iron ore, coke and limestone that load the furnace.

Blast furnace gas
A by-product of blast furnaces that is generated when the iron ore is reduced with coke to metallic iron. It consists primarily of nitrogen, oxygen and monoxide. It is commonly used as a fuel within steel works.

Bloom
A semi-finished steel product with a square cross section greater than 150mm x 150mm. This product is either rolled or continuously cast and is further processed by rolling to produce finished long products.

Bulb flat
Bulb flats are tailor-made for plate stiffening applications.

Carbon steel
Steel in which the only main alloying constituent is carbon; the other elements present are in quantities too small to affect the properties.

Channels
A rolled metal bar with a bracket-shaped section.

Closed-pit mine
A type of natural cave that is a vertical shaft rather than a horizontal cave passage.

Coal-tar pitch
Coal tar is a brown or black liquid of high viscosity, which smells of naphthalene and aromatic hydrocarbons. Coal tar is among the by-products when coal is carbonised to make coke or gasified to make coal gas. Coal tars are complex and variable mixtures of phenols, polycyclic aromatic hydrocarbons (PAHs) and heterocyclic compounds.

Coils
Steel sheets that have been wound. A slab, once rolled in a hot-strip mill, can be more than one mile long; coils are the most efficient way to store and transport sheet steel.

Coke
The basic fuel consumed in blast furnaces in the smelting of iron. Coke is a processed form of coal. About 450kg of coke is needed to process a tonne of hot metal, an amount which constitutes more than 50.0% of an integrated steel mill's total energy use. Coke is used because metallurgical coal burns sporadically and reduces into a sticky mass. Processed coke, however, burns steadily inside and out, and is not crushed by the weight of the iron ore in the blast furnace. It is produced inside the narrow confines of a coke oven, in which coal is heated without oxygen for 18 hours to drive off gases and impurities.

Coke breeze
The fine screenings from crushed coke or from coke as taken from ovens of varying size, but usually passing a 1/2-inch or 3/4-inch screen opening.

Coke oven
A set of ovens that process coal into coke.

Coking coal
Bituminous coal used in the production of steel in basic oxygen furnaces (BOFs), generally low in sulphur and phosphorous.

Concentrate
Material that has been processed to increase the percentage of valuable minerals in order to facilitate transportation and downstream processing.

Consumption coefficients of semi-finished products
The volume of semi-finished products consumed to produce a tonne of the finished product.

Continuous casting
A method of pouring steel directly from a ladle through a tundish into a mould shaped to form billets or slabs. Continuous casting avoids the need for large mills to roll ingots into slabs. Continuous cast slabs also solidify in a few minutes, versus several hours for an ingot. Because of this, the chemical composition and mechanical properties are more uniform.

Crude benzol
A coal-tar product, consisting mainly of benzene and toluene. It was formerly mixed with petrol and sold as a motor fuel under the trade name National Benzole Mixture.

Degasification
Exhaust, confine and deflate gas or other gas-air mixtures outside from mines. The exhaust of gas from mines is carried out through built-in pipelines and boreholes, which link mines with the surface.

Downstream
In manufacturing, this term refers to processes that occur later on in a production sequence or production line.

Electric arc furnace (EAF)
A furnace which refines molten pig iron from the blast furnace and scrap into steel. In this process, the proportion of scrap used can be increased to 100.0% of the metal charge. Once the furnace is charged and covered, graphite electrodes are lowered through holes in the roof. The electric arc travelling between the electrodes and the metallic charge creates intense heat which melts the charge. Alloying elements can be added during the process.

Fe content
Ferrum is the Latin word for iron and the source of its chemical symbol, Fe.

Ferroalloy
A metal product commonly used as a raw material feed in steelmaking, usually containing iron and other metals that improve the physical and chemical properties of the final steel product.

Finished products
Products obtained through the hot-rolling or forging of semi-finished steel (blooms/billets/slabs). These cover two broad categories of products, namely 'long' and 'flat' products.

Flat product
A product that is produced by rolling with smooth surfaces and a range of dimensions, varying in thickness and width. Flat products are used in the automotive and white goods industries, in the production of large welded pipes, and in ship building, construction, major works and boilers. They include heavy plates and coils.

Flotation
A process in which a prepared mixture of minerals is conditioned with reagents and subjected to agitation and aeration to cause those minerals rendered hydrophobic to float and the other minerals to sink.

Furnace coke
The term is used to refer to metallurgical coke that is used for iron making in BFs. BF coke fulfils 3 main functions in the blast furnace operation:

i) It acts as a fuel providing heat for all reactions.

ii) It acts as a reductant, providing carbon dioxide gas and carbon for the reduction of iron ore.

iii) It provides the required permeability for the movement of gases through the bed of iron ore, coke and limestone inside the blast furnace.

Gas sulphur
The chemical element that has the atomic number 16 and is denoted with the symbol S. It is an abundant, multivalent non-metal. Sulphur in its native form is a yellow crystalline solid. In nature, it can be found as a pure element and as sulphide and sulphate minerals.

Heavy plate
A steel sheet with a width up to 5m and a thickness of at least 5mm. It is mainly used for construction, heavy machinery, ship building or large diameter pipes.

Hot-rolled
Products that are sold in the 'as produced' state of the hot-rolling mill with no further reduction or processing steps, aside from being pickled and oiled (if specified).

Hot-rolling mill
A rolling mill that reduces hot slab into a coil of specified thickness; the whole production process is carried out at a relatively high temperature (when the steel is still red).

Integrated steel mill
A steel plant using iron ore as the basic raw material for the production of crude steel, which is further rolled into finished shapes in-house. Conventionally, these plants also have captive coke ovens and the sensible heat of the outgoing gases from iron/coke making is utilised as fuel for various applications. It therefore includes units with in-house coke making (optional) and iron making, followed by the production of liquid steel, crude steel and finished steel. Thus, all integrated steel plants adopting the BF-BOF route, and major producers adopting Corex-BOF, DRI-EAF or MBF-EOF technology fall under this category of mill.

Iron ore
A mineral containing enough iron to be a commercially viable source of the element for use in steelmaking.

Iron ore concentrate
Iron ore containing the valuable minerals of an ore from which most of the waste material has been removed.

JORC Code
The 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.

Ladle furnace
A furnace used for refining hot metal between basic oxygen furnaces, open-hearth furnaces or electric arc furnaces (EAF) and casting.

Limestone
A sedimentary rock composed largely of the mineral calcite (calcium carbonate or $CaCO_3$). It is used in the blast furnace to form slags, which are then used in construction and other applications.

Long products
A classification of steel products that includes bars, rods and structural products that are 'long' rather than 'flat' and that are produced from blooms or billets.

Low-alloyed steel
Steel alloyed with other elements, usually molybdenum, manganese, chromium, vanadium, silicon, boron or nickel, in amounts of up to 10.0% by weight to improve the hardening ability of thick sections.

Lurgi machine
The Lurgi process is an above-ground coal liquefaction and oil shale extraction technology. It is classified as a hot recycled solids technology.

Magnetic flotation
A method for mineral upgrading or concentration, in which a gangue-associated mineral having a hydrophobic surface and being in particulate form is contacted with particles of a magnetic material also having a hydrophobic surface, whereby the mineral particles become attached to the surface of the magnetic particles, the magnetic particles with the attached mineral particles are separated from the gangue by magnetic means, and the mineral particles are then detached from the magnetic particles.

Magnetic separation
Magnetic separation is a process in which magnetically susceptible material is extracted from a mixture using a magnetic force. This separation technique can be useful in mining iron which is attracted to a magnet.

Megapascal (MPa)
One megapascal is equal to 1,000,000 pascals. Pascal is the SI derived unit for pressure, and one pascal is equivalent to one newton per square metre.

Merchant bars
Merchants include long bars with round, square, flat, angled, and channeled cross sections.

Merchant concentrate
A term used to designate various types of concentrate products, which are sold to external customers for further processing or for direct use/consumption.

Metallurgical coal
Not all coke can be used in metallurgical operations; metallurgical coal is a high-quality coke made from specific blends of coking coal.

Mineral
A natural, inorganic, homogenous material that can be expressed by a chemical formula.

Mt
One million metric tonnes.

Nut coke
A wharf coke fraction with pieces ranging from 10-25mm.

Open-hearth furnace
A broad, shallow hearth used to refine pig iron and scrap into steel. Heat is supplied from a large flame over the surface and the refining takes 7-9 hours.

Open-pit mine
Surface mining in which the ore is extracted from a pit or quarry.

Ore dressing
The crushing and separating of ore into valuable substances or waste by any of a variety of techniques.

PCI (Pulverised Coal Injection)
Technologies whereby pulverised/granulated/dust coal is injected into the blast furnace through the tuyers along with the blast to replace part of the coke requirement.

Pellet plant
A processing facility that takes iron concentrate as its input and produces iron ore pellets.

Pelletising
Pelletising is the process of compressing or moulding a product into the shape of a pellet. Pelletising of iron ore produces spheres of typically 8-18mm (0.31-0.71") in diameter. The process combines agglomeration and thermal treatment to convert the raw ore into pellets with characteristics appropriate for use in a blast furnace. In the case of iron ore, which is transported over a large distance, the ore becomes powder due to friction. Therefore, it is first sintered and then compressed into pellets.

Pelletising machine
A pelletising machine has a rotatable matrix disc, a variety of vertically adjustable pressing rollers that control the position of the upper and lower plungers, a drive for adjusting the height of the rollers, a housing accommodating the drive, and a bearing block supporting the pressing roller. It is connected with the housing and can be released.

Pellets
An enriched form of iron ore shaped into small balls or pellets. Pellets are used as raw material in the steelmaking process.

Pig iron
Crude iron obtained directly from the blast furnace and cast in moulds.

Rail fasteners
Metal devices used to link rails on railway lines.

Rails
A steel bar that is laid on the ground, forming a railway track.

Raw steel
Steel in the primary form of hot molten metal.

Refining
A stage in the process of making crude steel during which most residual impurities are removed from the cured steel and additions of other metals may be made before it is cast (see also 'Ladle furnace').

Reinforcing bar (rebar)/Deformed bar (debar)
Commodity-grade steel used to strengthen concrete in highway and building construction.

Reserves (proven, probable, recoverable)
A 'Proven Ore Reserve' is the economically mineable part of a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate that, at the time of reporting, extraction could reasonably be justified.

A 'Probable Ore Reserve' is the economically mineable part of an Indicated Mineral Source and, in some circumstances, a Measured Mineral Resource. It includes diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments and studies have been carried out, and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments demonstrate that, at the time of reporting, extraction could reasonably be justified.

'Recoverable Reserves' are an estimate of how much recoverable coal/ore is still left in already-found deposits. It can only be an estimate since it is impossible to know exactly how much coal/ore is still in the ground. Because of this uncertainty, reserves are calculated with a certain probability. A reserve estimate followed with, for instance, 'P90' means that there is a 90.0% chance that there is at least as much recoverable coal/ore as the reserve estimate claims.

Rolled steel (products)
Steel produced to a desired thickness by being passed through a set of rollers.

SAW pipe
Pipes that are produced using submerged arc welding.

Scrap
Steel waste that is not usable as such in its existing form, which is further re-melted to produce liquid steel to produce various products. Depending on its form and type, scrap is classified as Heavy Melting Scrap, Light Melting Scrap, and Turnings/Borings, etc.

Secondary metallurgy
Using modern technology, the process of producing steel can be divided into two steps. All further steps required to produce high-grade steel take place exclusively in the ladle. Such ladle metallurgy is called secondary metallurgy.

Sections
Blooms or billets which are hot-rolled in a rolling mill to form shapes including 'L', 'U', 'T' or 'I', amongst others. Sections can also be produced by welding together pieces of flat products. Sections can be used for a wide variety of purposes in the construction, machinery and transportation industries.

Semi-finished (products)
A product category that includes pig iron, slabs, blooms and billets. Slabs, blooms and billets are the first solid forms in the steel making process. These usable shapes are further processed to become more finished products, including rebars, structural steel and wire rod.

Sinter
An aggregate that is normally produced from relatively coarse fine iron ore and other metallurgical return wastes used as an input/raw material in blast furnaces.

Slab
The most common type of semi-finished steel. Traditional slabs measure 18-25cm thick x 75-225cm wide, and are usually about 6-12m long, while the output of recently developed 'thin slab' casters is approximately 5cm thick. Subsequent to casting, slabs are sent to hot-strip mills to be rolled into coiled sheet and plate products.

Slab conticaster
In metalworking, casting involves pouring a liquid metal into a mould, which contains a hollow cavity of the desired shape, and then is allowed to solidify. The solidified part is also known as a casting, which is ejected or broken out of the mould to complete the process.

Slag
Slag is a by-product generated when nonferrous substances in iron ore, limestone and coke are separated from the hot metal. Slag is used in cement and fertiliser production as well as for base course material in road construction.

Thermal coal
A term used to describe coal that is used primarily to generate heat. It is defined as all other hard coal not classified as coking coal. Also included in this category are recovered slurries, middlings and other low-grade coal products not further classified by type. Thermal coal is also referred to as 'steam coal'.

Top blowing converter
A basic oxygen furnace (BOF) with a closed bottom and an open upper cone through which a water-cooled oxygen lance can be raised and lowered.

Upstream
Within the steel industry, upstream is a term which describes the exploration, extraction and production sectors.

Washing plant
Washing plants produce clean coking coal from raw coking coal through the process of decreasing the ash content to levels of 8.0-9.0%.

Wire
A broad range of products produced by cold and hot reducing, or by drawing wire rod through a series of dies to reduce the diameter, and improve surface finish, dimensional accuracy, and physical properties. Typical applications include nets, screws, rivets, upholstery springs, furniture wire, concrete wire, electrical conductors, rope wire and structural cables.

Wire rod
Formed from billets, wire rods in coils are an intermediate product with a uniform round cross section dimension.

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Metinvest-Resource
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Central GOK
PJSC Central Iron Ore Enrichment Works

Metinvest SMC
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Ilyich Steel
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Ingulets GOK
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Promet Steel
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Khartsyzsk Pipe
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SCM
JSC System Capital Management

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Smart
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Makiivka Steel
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Spartan
Spartan UK Limited

Metinvest
Metinvest Group

United Coal
United Coal Company LLC

Metinvest Eurasia
Metinvest Eurasia LLC

Yenakiieve Steel
PJSC Yenakiieve Iron and Steel Works and JV Metalen LLC

OTHER TERMS

ACCA
The Association of Certified Chartered Accountants

CSR
Corporate Social Responsibility

Executive Committee
A group of Directors appointed to act on behalf of, and within the powers granted to them by, the Board of Directors or Supervisory Board

GRI
Global Reporting Initiative

HSE
Health, Safety and the Environment

JSC
Joint Stock Company

PJSC
Public Joint Stock Company

PMD
Product and Marketing Development

PMO
Project Management Office

OSC
Open Stock Company

Supervisory Board
A group of individuals chosen by the shareholders of a company to promote their interests through the governance of the company and to hire and supervise the Executive Directors and CEO

CIS
Commonwealth of Independent States

ERP
Enterprise Resource Planning

ISO
International Organisation for Standardisation, the world's largest standards developing organisation. Between 1947 and the present day, ISO has published more than 16,500 international standards, ranging from standards for activities such as agriculture and construction, through mechanical engineering, to medical devices, and to the newest information technology developments

Kyoto Protocol
An international agreement linked to the United Nations Framework Convention on Climate Change. The Kyoto Protocol was adopted in Kyoto, Japan, on 11 December 1997 and came into force on 16 February 2005. The Kyoto Protocol establishes legally binding commitments for the reduction of greenhouse gas (GHG) emissions produced by industrialised countries and the European community

EU REACH
REACH (Registration, Evaluation, Authorisation, Chemicals) is regulation 1907/2006 of the European Parliament and the Council of EU Ministers. It addresses regulation of production, distribution in the EU market and further use of chemicals. The new law came into force on 1 June 2007. REACH sets rules for all stages of manufacture, sale and further use of products in terms of their chemical composition. It aims, primarily, to minimise harm to human health and the environment, which can be caused by the use of various chemicals and their compounds

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