Open Joint Stock Company
Chelyabinsk Tube-Rolling Plant

Consolidated Financial Statements
For the Year Ended 31 December 2010

OPEN JOINT STOCK COMPANY CHELYABINSK TUBE-ROLLING PLANT

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OPEN JOINT STOCK COMPANY CHELYABINSK TUBE-ROLLING PLANT

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Open Join Stock Company Chelyabinsk Tube-Rolling Plant and its subsidiaries (the "Group") at 31 December 2010, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

In preparing the consolidated financial statements, management is responsible for:

- properly selecting and applying accounting policies;
- presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance; and
- making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with legislation and accounting standards of the Russian Federation;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2010 were approved on 10 April 2011 by:

Alexander Fedorov	**Sergei Moiseyev**
Chief Executive Officer	Chief Financial Officer

Moscow, Russia
10 April 2011

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Open Joint Stock Company Chelyabinsk Tube-Rolling Plant:

We have audited the accompanying consolidated financial statements of Open Join Stock Company Chelyabinsk Tube-Rolling Plant and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position at 31 December 2010, and the consolidated statements of comprehensive income and loss, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory Notes 1 to 34.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group at 31 December 2010, and the results of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 to the accompanying consolidated financial statements which indicates that at 31 December 2010 current liabilities exceeded current assets for the Group by Russian Roubles 21,519,446 thousand (31 December 2009: Russian Roubles 29,347,184 thousand), a contributory factor of which related to non-compliance with certain financial covenants which resulted in the reclassification of Russian Roubles 11,247,746 thousand from non-current borrowings to current borrowings. These conditions, along with other matters set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte & Touche

Moscow, Russia
10 April 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010
(thousands of Russian Roubles)

	Notes	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	9	57,072,576	46,188,980
Advances for capital construction		2,589,488	2,984,577
Goodwill	11	5,502,040	1,105,295
Intangible assets	10	684,375	602,520
Investments in associates	12	697,617	808,935
Deferred tax assets	29	360,697	614,800
Other non-current assets		123,473	19,418
Total non-current assets		**67,030,266**	**52,324,525**
Current assets			
Inventory	13	18,856,621	10,120,435
Trade and other receivables	15	20,428,125	14,955,441
Current income tax prepayment		382,557	299,113
Promissory notes and loans receivable	14	1,588,537	8,062,064
Cash and cash equivalents	16	3,622,684	3,644,163
Other current assets	17	1,006,055	–
Total current assets		**45,884,579**	**37,081,216**
TOTAL ASSETS		**112,914,845**	**89,405,741**
EQUITY AND LIABILITIES			
Share capital	18	2,498,261	2,498,261
Legal reserve	18	70,857	70,857
Translation reserve		13,255	(2,007)
Treasury shares	18	(2,513,715)	(320,315)
Retained earnings/(accumulated deficit)		4,344,430	(435,691)
Equity attributable to owners of the Company		**4,413,088**	**1,811,105**
Non-controlling interests	11	304,014	370,612
Total equity		**4,717,102**	**2,181,717**
Non-current liabilities			
Preferred shares		221,860	187,193
Borrowings	19	39,371,616	19,742,465
Retirement benefit obligations	20	411,596	337,878
Deferred tax liabilities	29	788,646	528,088
Total non-current liabilities		**40,793,718**	**20,795,624**
Current liabilities			
Borrowings	19	46,465,381	44,695,383
Accounts payable and accrued expenses	22	16,709,258	12,512,234
Advances from customers		3,315,892	7,214,752
Taxes payable	21	913,494	2,006,031
Total current liabilities		**67,404,025**	**66,428,400**
Total liabilities		**108,197,743**	**87,224,024**
TOTAL EQUITY AND LIABILITIES		**112,914,845**	**89,405,741**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND LOSS FOR THE YEAR ENDED 31 DECEMBER 2010

(thousands of Russian Roubles)

	Notes	2010	2009
Revenue	23	85,400,715	56,079,388
Cost of sales	24	(59,092,773)	(40,004,303)
Gross profit		**26,307,942**	**16,075,085**
Distribution costs	25	(6,498,925)	(3,823,152)
General and administrative expenses	26	(5,700,402)	(5,657,598)
Reversal of impairment/(impairment) of assets	27	354,144	(2,617,272)
Loss on disposal of property, plant and equipment		(174,093)	(139,084)
Other operating expenses	26	(464,139)	(416,965)
Operating profit		**13,824,527**	**3,421,014**
Interest income	28	1,220,376	1,953,389
Interest expense	28	(9,069,745)	(9,135,402)
Foreign exchange gain/(loss), net		856,472	(937,256)
Share of (loss)/profit of associates	12	(111,320)	12,969
Profit/(loss) before income tax		**6,720,310**	**(4,685,286)**
Income tax	29	(1,996,339)	238,761
Profit/(loss) for the year		**4,723,971**	**(4,446,525)**
Other comprehensive income, after tax			
Exchange difference on translation of foreign operations		15,262	991
Total comprehensive income/(loss) for the year		**4,739,233**	**(4,445,534)**
Profit/(loss) for the year attributable to:			
Owners of the Company		4,780,693	(4,195,531)
Non-controlling interests		(56,722)	(250,994)
		4,723,971	**(4,446,525)**
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		4,795,955	(4,194,540)
Non-controlling interests		(56,722)	(250,994)
		4,739,233	**(4,445,534)**
Earnings/(loss) per share attributable to owners of the Company, basic and diluted (Russian Roubles per share)	30	10.51	(8.97)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010
(thousands of Russian Roubles)

	Notes	2010	2009
Operating activities			
Profit/(loss) before income tax		6,720,310	(4,685,286)
Adjustments for:			
Depreciation and amortisation	24,25,26	3,061,643	2,344,591
Change in pension accruals and payroll provisions		33,640	315,519
Changes in inventory allowance	24	(403,699)	(583,868)
(Reversal of impairment)/impairment of assets	27	(354,144)	2,617,272
Loss on disposals of property, plant and equipment		174,093	139,084
Share of loss/(profit) of associates	12	111,320	(12,969)
Loss/(gain) on disposal of subsidiary	26	166,690	(104,321)
Interest income	28	(1,220,376)	(1,953,389)
Interest expense	28	9,069,745	9,135,402
(Decrease)/increase in provisions for VAT recoverable	26	(340,850)	295,702
Foreign exchange differences on non-operating items		(781,853)	584,646
Other non-cash movements		62,623	(2,717)
Operating cash flows before working capital changes		**16,299,142**	**8,089,666**
Movements in working capital			
(Increase)/decrease in accounts receivable and prepayments		(7,178,209)	4,627,154
(Increase)/decrease in inventories		(7,697,043)	3,441,838
(Decrease)/increase in trade and other payables		(639,913)	4,726,286
Cash generated from operations		**783,977**	**20,884,944**
Income tax (paid)/refunded		(1,683,186)	498,581
Interest paid		(9,104,085)	(9,281,293)
Interest received		152,981	130,911
Net cash (used in)/generated from operating activities		**(9,850,313)**	**12,233,143**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(11,312,238)	(11,366,631)
Proceeds from sale of property, plant and equipment		232,793	78,506
Purchase of promissory notes and loans given		(446,977)	(9,428,270)
Proceeds from sale of promissory notes and loans repaid		6,393,174	3,115,082
Net cash outflow on acquisitions of subsidiaries	7	(7,486,913)	(73,886)
Cash (disposed)/received with sale of subsidiary		(4,298)	2,142
Net cash used in investing activities		**(12,624,459)**	**(17,673,057)**
Financing activities			
Proceeds from borrowings and promissory notes		53,358,103	117,686,133
Repayment of borrowings and promissory notes		(30,782,155)	(109,660,688)
Payment of finance lease obligations		(118,984)	(201,945)
Cash paid to acquire treasury shares		(1,921)	—
Acquisition of non-controlling interest		(1,750)	(281,975)
Net cash generated from financing activities		**22,453,293**	**7,541,525**
Net (decrease)/increase in cash and cash equivalents		**(21,479)**	**2,101,611**
Cash and cash equivalents at the beginning of the period	16	3,644,163	1,542,552
Cash and cash equivalents at the end of the period	16	**3,622,684**	**3,644,163**

Non-cash transaction

In 2010, the Group obtained 21,810,197 treasury shares for total amount of RUB 2,191,479 thousand after the buyer failed to fulfil payment for such treasury shares to the Group in accordance with the terms of the agreement (Note 18).

OPEN JOINT STOCK COMPANY CHELYABINSK TUBE-ROLLING PLANT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010
(thousands of Russian Roubles)

	Attributable to owners of the Company							
	Share capital	Legal reserve	Retained earnings/ (accumulated deficit)	Treasury shares	Translation reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2009	**2,498,261**	**70,857**	**3,759,962**	**(504,375)**	**(2,999)**	**5,821,706**	**1,214,428**	**7,036,134**
Loss for the year	–	–	(4,195,531)	–	–	(4,195,531)	(250,994)	(4,446,525)
Other comprehensive income	–	–	–	–	992	992	–	992
Total comprehensive (loss)/income for the year	–	–	**(4,195,531)**	–	**992**	**(4,194,539)**	**(250,994)**	**(4,445,533)**
Disposal of treasury shares	–	–	(97,680)	184,060	–	86,380	–	86,380
Purchase of non-controlling interests	–	–	97,558	–	–	97,558	(552,875)	(455,317)
Disposal of subsidiary	–	–	–	–	–	–	(39,947)	(39,947)
Balance at 31 December 2009	**2,498,261**	**70,857**	**(435,691)**	**(320,315)**	**(2,007)**	**1,811,105**	**370,612**	**2,181,717**
Profit/(loss) for the year	–	–	4,780,693	–	–	4,780,693	(56,722)	4,723,971
Other comprehensive income	–	–	–	–	15,262	15,262	–	15,262
Total comprehensive income/(loss) for the year	–	–	**4,780,693**	–	**15,262**	**4,795,955**	**(56,722)**	**4,739,233**
Additions of treasury shares	–	–	–	(2,193,400)	–	(2,193,400)	–	(2,193,400)
Disposal of subsidiary	–	–	–	–	–	–	(8,700)	(8,700)
Purchase of non-controlling interests	–	–	(572)	–	–	(572)	(1,176)	(1,748)
Balance at 31 December 2010	**2,498,261**	**70,857**	**4,344,430**	**(2,513,715)**	**13,255**	**4,413,088**	**304,014**	**4,717,102**

1. GENERAL INFORMATION

Open Joint Stock Company Chelyabinsk Tube-Rolling Plant (the "Company" or "ChelPipe") was established as a state owned enterprise in 1942 and was incorporated as an open joint stock company on 21 October 1992 as part of and in accordance with the Russian government's privatisation programme. The Company is domiciled in the Russian Federation. The Company's registered address is Russia, 454129, Chelyabinsk, Mashinostroiteley str., 21. Hereinafter, the Company together with its subsidiaries is referred to as the Group.

The immediate parent of the Company is Mountrise Limited, a company incorporated under the laws of Cyprus, which owns 76.8% of the Company's issued share capital. Mr. A.I. Komarov is the ultimate controlling party of the Group.

On 20 August 2010, at an Extraordinary General Meeting of shareholders the Company decided to increase the number of authorised shares by 472,382,880 ordinary shares with a par value of RUB 1 per share, none of which have been issued at 31 December 2010.

On 31 May 2010, the Group acquired 100% of share capital of CJSC Pipe Bend Plant ("SOT") and OJSC Magnitogorsk Mechanical Assembly Plant ("MZMZ"). On 25 August 2010, the Group acquired 100% of the share capital of MSA a.s. ("MSA") with its subsidiaries and associates.

The Group's principal activities include the production and distribution of pipes and pipe products for the oil and gas industry, housing and utilities infrastructure and industrial applications. The Group has three reportable segments namely steel pipe production ("SPP"), oilfield services ("OFS") and trunk pipeline systems ("TPS"). The Group is one of the largest pipe producers in Russia holding significant domestic market shares in welded large diameter pipes, oilfield tubular and stainless seamless pipes. The oilfield services segment manufactures and provides support services for oil well extraction equipment such as electric submersible pumps, sucker-rod drilling pumps and a number of other products and services for various stages of an oilfield's development. The Group's trunk pipeline systems segment produces highly customised components for the construction of oil and gas pipelines, including valves, hot-formed and cold-formed pipeline bends and hubs.

The Group's principal manufacturing facilities are based in the Ural and West Siberia regions of Russia and in the Czech Republic.

The Company's principal subsidiaries are disclosed in Note 6. All companies of the Group are incorporated under the laws of the Russian Federation, except ARKLEY (UK) LIMITED, which is incorporated under the laws of the United Kingdom and MSA a.s. and its subsidiaries, which are incorporated in the Czech Republic.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which includes Standards and Interpretations issued by the International Accounting Standards Board ("IASB"), including International Accounting Standards ("IAS") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The accounting policies set out below have been applied in preparing the consolidated financial statements for the year ended 31 December 2010, and the comparative information presented in these financial statements, except for the impact of the adoption of new standards, amendments to standards or interpretations as described in Note 4.

Basis of preparation and going concern

These consolidated financial statements have been prepared by management on the assumption that the Group will continue as a going concern, which presumes that the Group will, for the foreseeable future, be able to realise its assets and discharge its liabilities in the normal course of business.

The Group's performance and liquidity situation were significantly impacted by the worldwide economic crisis, which commenced in 2008. The liquidity position of the Group, as well as its operating performance, were negatively affected by economic and industry conditions and by other financial and business factors, many of which were beyond the control of the Group. Whilst trading conditions have improved considerably during 2010 with the Group returning to profitability, the Group experienced negative operating cash flow during 2010 and at 31 December 2010 current liabilities exceeded current assets in the amount of RUB 21,519,446 and RUB 29,347,184 at 31 December 2009. A contributing factor to the negative working capital position at 31 December 2010 was the Group's non-compliance with certain financial covenants contained in lending agreements with BNP Paribas and Bank of Moscow. As a result of these breaches, the long term portion of these borrowings in the amount of RUB 11,247,746 was reclassified as a current obligation at 31 December 2010. Prior to the date of authorisation of these consolidated financial statements, the Group remediated these two breaches by obtaining waivers from the lenders.

During 2010, management of the Group continued to focus on the recovery plan developed in 2009 in response to the global economic crisis. During the year, the Group has successfully renegotiated the majority of its borrowings and obtained more favourable terms and with the exception of the two financial covenant breaches referred to above, the Group was in compliance with all its financial covenants. Additionally, the Group has continued to improve operating performance through cost-cutting and productivity gains and at the reporting date, the Group has available and unused credit facilities of RUB 10,655,528 thousand.

Although the Group was able to obtain a waiver on its covenants, its historical experience of negative operating cash flows, working capital deficits and covenant breaches indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Were the Group not to be able to continue as a going concern adjustments would have to be made to the classification and carrying value of assets and liabilities and accruals would be made for other liabilities that might arise. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Although demand for the Group's products remains well below what it was before the commencement of the global financial crisis in 2008, management believes the improvement in demand experienced in 2010 will continue to improve in the future and that the Group's recent modernisation program and its acquisitions of oilfield services and trunk pipelines businesses has left the Group better positioned to capitalise on such increases in demand. In this regard the Group estimates that its production volume in 2011 will be approximately 2 million tones, an increase of 33% from the prior year, and the Group's business plan for the twelve months from the date of approval of these financial statements indicate that the Group will be able to operate within the terms of its available bank facilities.

Accordingly management believes it is appropriate for the Group to prepare its consolidated financial statements on a going concern basis.

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 (Note 4).

Presentation and functional currency

All amounts in these consolidated financial statements are presented in thousands of Russian Roubles ("RUB"), unless otherwise stated.

The functional currency of the Company's subsidiaries located in the Russian Federation is the Russian Rouble. The functional currency of ARKLEY (UK) LIMITED located in the United Kingdom is the US Dollar ("USD"). The functional currency of MSA a.s. located in Czech Republic is the Czech Koruna. At the reporting date, the assets and liabilities of the subsidiaries with a functional currency other than Russian Rouble are translated into the presentation currency at the rate of exchange ruling at the reporting date, and their statements of comprehensive income and loss are translated at the weighted average exchange rates for the year, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. The exchange differences arising on translation are taken directly to a separate component of comprehensive income (loss) and accumulated in equity. On disposal of a subsidiary with a functional currency other than Russian Rouble, the deferred cumulative amount recognised in other comprehensive income (loss) relating to that particular subsidiary is recognised in profit or loss.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the reporting period are included in the consolidated statement of comprehensive income and loss from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. Total comprehensive income (loss) of subsidiaries is attributed to the owners of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. Identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interest is initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets/liabilities. The choice of measurement basis is made on a transaction-by-transaction basis. Non-controlling interests form a separate component of the Group's equity and may have a deficit balance.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Step acquisitions and changes in the Group's ownership interests in existing subsidiaries

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in retained earnings and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate.

Revenue recognition

Revenues from sales of goods 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.

Oilfield service revenue represents amounts chargeable to clients for professional services provided during the year. Services provided to clients that at the reporting date have not been billed to clients, are recognised as revenue. Revenue recognised in this manner is based on an assessment of the cost of the services provided at the reporting date as a proportion of the total estimated cost of the engagement plus the Group's estimated margin on the specific contract. Revenue is only recognised where the Group has a contractual right to receive consideration for work undertaken.

Revenues are shown net of VAT and discounts and are measured at the value of the consideration received or receivable.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any recognised impairment loss. Cost for qualifying assets includes borrowing costs incurred to finance construction of property, plant and equipment in accordance with the Group's policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Costs of minor repairs and maintenance are expensed when incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is derecognised.

At each reporting date, the Group's management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the consolidated statement of comprehensive income and loss. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount and are recognised in profit or loss.

Depreciation

Land is not depreciated. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their deemed cost less estimated residual value over their estimated useful lives as follows:

	Useful lives in years
Buildings and infrastructure	20 to 50
Plant and equipment	10 to 30
Other	5 to 15

Other property, plant and equipment represent fixed assets such as equipment and vehicles.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its 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 reporting date.

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 under the equity method of accounting and carried at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment. The carrying amount of investments includes goodwill identified on acquisition, which represents any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate acquired. The goodwill is assessed for impairment as part of the impairment test of the investment, which is performed at least annually. If the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities is in excess of the cost of acquisition the difference, after reassessment, is recognised immediately in profit or loss.

The Group's share of the post-acquisition profits or losses of investments in associates is recorded in the consolidated statement of comprehensive income and loss. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (directly attributable to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding 3 years.

Capitalised development costs are tested for impairment at least annually.

Other intangible assets (excluding goodwill and development costs)

The Group's intangible assets, excluding goodwill and development costs, have definite useful lives and include computer software, lease rights and customer lists.

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring them to use. Such costs are amortised using the straight-line method over their useful lives, but not exceeding 5 years.

Acquired customer lists are amortised using the straight-line method over their useful lives. The average useful life is 3 years.

Lease rights recognised as part of a business combination are amortised using straight-line method over the lease period not exceeding 50 years. They are stated at cost less accumulated amortisation and impairment losses.

Other intangible assets mainly represent licenses for production of tubes and engineering.

Impairment of intangible assets (excluding goodwill)

Where an indication of impairment exists, the recoverable amount of any intangible asset is assessed. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount is estimated to be less than the carrying amount of the asset, an impairment loss is recognised immediately in profit and loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments – key measurement terms

Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models or models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses.

Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the consolidated statement of financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

The Group classifies its financial assets as loans and receivables. Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Initial recognition of financial instruments

Trading investments are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus or minus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between the 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. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Derecognition of financial assets

The 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.

Financial assets carried at amortised cost

The fair value of floating rate instruments approximates 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 receivables approximate their fair values. Cash and cash equivalents are carried at amortised cost which approximates their current fair value.

Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. An allowance 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 the receivables. The amount of the allowance 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 amount of the allowance is recognised in the consolidated statement of comprehensive income and loss.

The Group recognises an allowance for doubtful debts of 100% against all receivables over 180 days based on historical experience of irrecoverability of receivables that are past due beyond 180 days. Allowance of 50% for doubtful debts are recognised against receivables between 90 days and 180 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position

The Group considers the following other principal criteria also used to determine whether there is objective evidence that an impairment loss has occurred:

- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty is considering bankruptcy or a financial reorganisation;
- there is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; and
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

The amount of the allowance 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 statement of comprehensive income and loss within 'impairment of assets' 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 against 'impairment of assets' expenses in the consolidated statement of comprehensive income and loss. Receivables are tested for impairment at each reporting date.

Loans receivable

Loans receivable initially are recognised at fair value plus transaction costs and subsequently are carried at amortised cost using the effective interest rate method less any impairment. Interest income is recognised by applying the effective interest rate.

An allowance for impairment of loans 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 the receivables. The amount of the allowance 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 amount of the allowance is recognised in the consolidated statement of comprehensive income and loss.

Liabilities carried at amortised cost

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 using the effective interest rate method. Refer to Note 19 for the estimated fair values of borrowings.

Borrowings

Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense only if they are not related to qualifying assets in accordance with IAS 23 “Borrowing costs” and calculated based on a time proportion using the effective interest method.

Trade and other payables

Trade payables and other payables are accrued when the counterparty has performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Compound instruments

The component parts of compound instruments (convertible preferred shares) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion.

The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Advances paid

Advances paid are carried at cost less allowance for impairment. An advance is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year from reporting date, or when the advance relates to an asset which will itself be classified as non-current upon initial recognition. Advances 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 advances are written off to profit or loss when the goods or services relating to the advances are received. If there is an indication that the assets, goods or services relating to an advance will not be received, the carrying value of the advance is written down accordingly and a corresponding impairment loss is recognised in the consolidated statement of comprehensive income and loss.

Income tax

Income tax has been provided in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income and loss unless it relates to transactions that are recognised, in the same or a different period, 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.

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 reporting 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 sufficient future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings 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.

The Group's uncertain tax positions are reassessed by management at every reporting date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the reporting date and any known court or other rulings on such issues. Liabilities for penalties and interest are recognised based on management's best estimate of the expenditure required to settle the obligations at the reporting date.

Inventories

Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. 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 costs to be incurred in marketing, selling and distribution.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits held at call with banks, short-term promissory notes and other short-term highly liquid investments with original maturities of 3 months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method, which approximates their current fair value.

Share capital

Ordinary shares 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.

Treasury shares

Where any Group company purchases the Company's shares, the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's owners until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners. Any difference between the price of treasury shares sold and the price at which they were purchased is recognised through retained earnings. Treasury shares are accounted for on a weighted average basis.

Dividends

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

Value added tax

Value added taxes ("VAT") related to sales are payable to the tax authorities in the quarter in which the Group (a) receives an advance on sales or (b) records sales revenue. The VAT liability is paid in the quarter following accrual of the liability. VAT incurred for purchases may be reclaimed, subject to certain restrictions against VAT related to sales. Unclaimed VAT related to purchase transactions that is validly reclaimable as of the reporting date is recorded as value added tax recoverable in the consolidated financial statements.

VAT and other taxes recoverable are reviewed for impairment at each reporting date.

Leasing

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

Where the Group is a lessee in a lease which transferred substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the consolidated statement of comprehensive income and loss over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over the shorter of their useful life or of the lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

On operating leases, the total lease payments, are charged to profit or loss on a straight-line basis over the period of the lease.

Provisions

Provisions are 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. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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.

Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs if a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each reporting date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the remaining commitment at the reporting date.

Foreign currency translation

The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles.

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the Central Bank of the Russian Federation ("CBRF") at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2010, the official USD to RUB exchange rate, as determined by CBRF, was US Dollar ("USD") 1 = RUB 30.4769 (31 December 2009: USD 1 = RUB 30.2442). The official Euro to RUB exchange rate at 31 December 2010, as determined by CBRF, was Euro 1 = RUB 40.3331 (31 December 2009: Euro 1 = RUB 43.3883).

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. These amounts represent an implicit cost of employing production workers and administrative workers and, accordingly, have been charged to the consolidated statement of comprehensive income and loss as cost of sales, distribution expenses or general and administrative expenses depending on the nature of work performed by the employee.

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

In addition, Group companies operate various pension schemes. The schemes are generally funded through payments to pension insurance plans. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. Contributions to defined contribution plans are recognised as employee benefit expense when they are due.

A defined benefit plan is a pension plan under which the Group pays pension benefits to an employee on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the unfunded defined benefit obligation at the reporting date, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent 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 to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged in profit or loss in the period in which they arise. 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.

Pension plan liabilities under defined benefit plans are included in the consolidated statement of financial position line "Retirement benefit obligations". The Group did not have pension plan assets at the reporting date.

Earnings per share

Basic and diluted earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of voting shares outstanding during the reporting year.

Operating profit

Operating profit is stated after charging impairment of assets but before the share of results of associates, foreign exchange profit/(loss) on non-operating transactions, interest income and interest expenses.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes 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. Actual results may differ from estimates. Management also makes certain judgments, apart from those involving estimates, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the 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:

Fair value of assets acquired and liabilities assumed in business combinations

During the last several years, as described in Note 7, the Group has made certain business combinations. According to IFRS 3 "Business combinations" (Revised), the Group is required to allocate the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair value estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired, liabilities assumed is recorded as goodwill. The Group exercises significant judgment in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful life. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include estimates of future cash flow discounted at appropriate rates. The use of valuation assumptions includes discounted cash flow estimates or discount rates and may result in estimated values that are different from the assets acquired and liabilities assumed.

If actual results are not consistent with estimates and assumptions considered, the Group may be exposed to losses that could be material.

Impairment of goodwill

The Group tests goodwill for impairment at least annually, at the cash-generating units ("CGU") level using value-in-use calculations.

The value-in-use calculation is based on projections for expected discounted cash flows and taking into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans, and long-term economic-financial forecasts.

Goodwill was allocated to the following CGUs: Meta, OFS and TPS. All CGUs were tested for impairment at 31 December 2010. The tests carried out did not identify any impairment to the Group's goodwill (Note 11).

Impairment of tangible assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management is required to make assumptions in estimating the value of the assets, including the timing and value of cash flows to be generated from the assets. The cash flow projections are based on reasonable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and are based on the most recent financial plan that management has approved. Due to its subjective nature, these estimates will likely differ from future actual results of operations and cash flows, any such difference may result in impairment in future periods.

Deferred taxes

The Group is primarily subject to income taxes in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Various factors are considered in assessing the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. Based on a change in estimate, the Group recognised a deferred tax asset in the amount of RUB 51,029 thousand in respect of tax losses from prior years, which the Group now believes it will be able to offset against future profits.

Related party transactions

In the normal course of business the Group enters into transactions with related parties. Judgment is applied in determining which entities are related parties of the Group. In applying this judgment, management obtains listing of the majority shareholder's interests in other entities on a regular basis, it monitors the level of transactions with any individual entity, and commencing in 2011 will report its identified related parties to those charged with governance for their review and approval on an annual basis.

Accounts receivable

When receivables are recognised initially the Group measures them at a fair value. The fair value of long-term or short-term receivables from major customers that carries no interest is estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating. The difference between the fair value and the nominal amount of the consideration is recognised as a reduction of income. Subsequently receivables are measured at amortised cost using the effective interest method. Short-term receivables from other customers that carry no interest are measured at the original invoice amount if the effect of discounting is immaterial less allowance for impairment.

The Group creates allowance for doubtful debts to account for estimated losses resulting from the inability of customers to make the required payments. At 31 December 2010, the allowance for doubtful debts amounted to RUB 3,367,231 thousand (31 December 2009: RUB 3,197,458 thousand) as further specified in Note 15. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimate on current overall economic conditions, ageing of the accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in consolidated financial statements.

Promissory notes receivable

When promissory notes receivables are recognised initially the Group measures them at a fair value. The fair value is estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating. The difference between the fair value and the nominal amount of the consideration is recognised in the consolidated statement of comprehensive income and loss. Subsequently promissory notes receivable are measured at amortised cost using the effective interest method.

The Group creates an allowance against promissory notes receivable to account for estimated losses resulting from the inability of customers to make the required payments. At 31 December 2010, the allowance amounted to RUB 498,810 thousand (31 December 2008: RUB 271,514 thousand) as further specified in Note 14. When evaluating the adequacy of the allowance, management bases its estimate on current overall economic conditions, ageing of the promissory notes receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance recorded in consolidated financial statements.

Inventory obsolescence

The allowance for obsolete and slow-moving inventory reduces the cost of inventory to its net realisable value, defined as the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution. In determining net realisable value the Group considers, amongst other things, arm's length transactions in the period around the reporting date.

Useful life of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates, related to those assets.

The factors that could affect the estimation of useful lives and residual values of the Group's assets include the following:

- changes in asset utilisation rates;
- changes in regulations and legislation;
- changes in the Group's business plans; and
- unforeseen operational issues.

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Employee benefits/pensions

The Group contributes to certain defined benefit plans. The liability recognised in the consolidated statement of financial position in respect of such plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. This method involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.), as well as financial assumptions (discount rate, future salary and benefits levels, expected rate of return on plan assets, etc.). The most critical assumptions are the discount rate and future salary and benefits levels. The discount rate is determined by reference to market yields at the reporting date on high-quality corporate bonds or, if there is no active market for such bonds, the market yields on government bonds. A lower discount rate increases the present value of the pension liability and the annual pension cost. Deviations may arise from other assumptions such as actual inflation levels and salary adjustments deviating from the Group's assumptions. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be materially affected (Note 20).

(thousands of Russian Roubles)

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new standards, amendments to standards or interpretations were adopted by the Group during the current period:

- IFRS 8 "Operating segments" – amendment;
- Improvements to IFRS (April 2009).

The first time application of the aforementioned amendments to standards and interpretations from 1 January 2010 had no material effect on the consolidated financial statements of the Group.

5. NEW ACCOUNTING PRONOUNCEMENTS

At the date of approval of the Group's consolidated financial statements, the following new and revised Standards and Interpretations have been issued, but are not effective for the reporting period:

	Effective for annual periods beginning on or after
IAS 24 "Related party disclosures" ("IAS 24") – revision	1 January 2011
IAS 27 "Consolidated and separate financial statements" – amendment	1 July 2010
IFRS 9 "Financial instruments"	1 January 2013
IFRIC 19 "Extinguishing financial liabilities with equity"	1 July 2010
Annual Improvements to IFRS (May 2010)	1 January 2011

The impact of the adoption of these Standards and Interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by the Group's management, however, no material effect on the Group's financial position or results of its operations is anticipated.

(thousands of Russian Roubles)

6. SUBSIDIARIES

The Company's effective ownership interest of principal subsidiaries, including the Company's ownership interest through its subsidiaries, is as follows:

Subsidiary	Country of incorporation	Activities	Operating segment	Effective ownership, % 31 December 2010	Effective ownership, % 31 December 2009
OJSC "Pervouralsk New Pipe Plant" ("PNTZ")	Russia	Tube manufacturing	SPP	100.00%	100.00%
CJSC "Uraltrubostal" Trade House ("UTS")	Russia	Tube distribution	SPP	100.00%	99.00%
CJSC SKS "MeTriS"	Russia	Tube distribution	SPP	100.00%	100.00%
ARKLEY (UK) LIMITED	United Kingdom	Tube distribution	SPP	100.00%	100.00%
CJSC "ChTPZ-Meta"	Russia	Scrap procurement	SPP	–	99.90%
Meta Ltd.	Russia	Scrap procurement	SPP	99.00%	–
OJSC "Samaravtormet"	Russia	Scrap procurement	SPP	98.05%	97.95%
OJSC "UNP "Vtorchermet"	Russia	Scrap procurement	SPP	100.00%	100.00%
LLC "Meta-Invest"	Russia	Rent of property	SPP	100.00%	100.00%
CJSC "Pipe Bend Plant" ("SOT")	Russia	Manufactures and sells valves	TPS	100.00%	–
OJSC "Magnitogorsk Mechanical Assembly Plant" ("MZMZ")	Russia	Manufactures and sells short radius elbows	TPS	100.00%	–
MSA a.s. ("MSA")	Czech Republic	Manufactures trunk pipeline bends	TPS	100.00%	–
CJSC "RIMERA"	Russia	Oilfield service	OFS	100.00%	100.00%
OJSC "ALNAS"	Russia	Oilfield service	OFS	100.00%	100.00%
LLC "Alnas-N"	Russia	Oilfield service	OFS	100.00%	100.00%
InvestFinansGrupp Ltd.	Russia	Oilfield service	OFS	–	100.00%
Tomskneftegazgeofizika Ltd.	Russia	Oilfield service	OFS	100.00%	100.00%
Uganskneftegazgeofizika Ltd.	Russia	Oilfield service	OFS	100.00%	99.00%
CJSC "Taymyrnefterazvedka"	Russia	Oilfield service	OFS	–	100.00%
OJSC "Izhneftemash"	Russia	Oilfield service	OFS	50.42%	50.42%

7. BUSINESS COMBINATIONS AND DISPOSALS

Acquisitions of TPS operating segment companies

During 2010, the Group created a new business and operating segment, TPS, through the acquisition of a range of companies engaged in the production of trunk pipeline bends and other pipeline components; this operating segment is also a CGU. Goodwill arising on such acquisitions has been allocated to the new CGU and is attributable to:

- anticipated increases in the demand for the acquiree's products in 2011 through 2012 arising from national projects (Nord Stream project, Yamal-Europe project etc.); and
- expected synergies arising from the business combinations.

<u>SOT and MZMZ</u>

On 31 May 2010, the Group acquired from a related party 100% of the share capital of SOT, a company that manufactures pipeline bends and hubs, and MZMZ, a company that manufactures short radius elbows, for cash consideration of RUB 6,163,119 thousand. The consideration was fully paid during the reporting period. The Group has not finalised the determination of the fair value of the assets and liabilities acquired. The following represents the allocations of the purchase price based on provisional values that will be updated upon completion of the fair value assessments.

(thousands of Russian Roubles)

	Notes	Provisional value
Trade and other accounts receivable		1,074,401
Cash and cash equivalents		264,742
Property, plant and equipment	9	1,190,929
Inventories		440,100
Loans receivable		416,000
Deferred tax assets, net	29	35,872
Taxes payable		(72,234)
Trade and other payables		(435,502)
Provisional value of net assets of subsidiaries		**2,914,308**
Goodwill arising from the acquisition	11	3,248,811
Total purchase consideration		**6,163,119**
Less cash and cash equivalents of subsidiaries acquired		(264,742)
Foreign exchange differences		(95,759)
Net outflow of cash and cash equivalents on acquisition		**(5,802,618)**

The consolidation of the acquired subsidiaries resulted in a decrease in the Group's consolidated revenue by RUB 89,181 thousand due to the elimination of intra-group transactions and contributed profit of RUB 156,109 thousand in 2010. If the acquisitions had occurred on 1 January 2010, consolidated revenue of the Group for the year ended 31 December 2010 would have decreased by RUB 10,546 thousand and consolidated profit would have increased by RUB 323,449 thousand.

The accounts receivable and loans acquired in these transactions with a provisional value of RUB 1,074,401 thousand and RUB 416,000 thousand, respectively, had gross contractual amounts of RUB 1,150,463 thousand and RUB 416,000 thousand, respectively. The best estimate at acquisition date of the contractual cash flows not expected to be collected is RUB 76,062 thousand and nil thousand, respectively.

(thousands of Russian Roubles)

MSA

On 25 August 2010, the Group acquired from a related party 100% of MSA and its subsidiaries, a group that manufactures valves, for total consideration of RUB 1,751,364 thousand payable in cash. The consideration was fully paid during the reporting period. The Group has not finalised the determination of the fair value of the assets and liabilities acquired. The following represents the allocations of the purchase price based on provisional values that will be updated upon completion of the fair value assessments.

	Notes	Provisional value
Trade and other accounts receivable		240,531
Cash and cash equivalents		60,665
Property, plant and equipment	9	1,382,361
Intangible assets	10	1,333
Inventories		252,823
Other non-current assets		43,498
Deferred tax liabilities, net	29	(113,044)
Borrowings		(544,194)
Taxes payable		(9,683)
Trade and other payables		(698,708)
Provisional value of net assets of subsidiary		**615,582**
Goodwill arising from the acquisition	11	1,135,782
Total purchase consideration		**1,751,364**
Less cash and cash equivalents of subsidiary acquired		(60,665)
Foreign exchange differences		(6,403)
Net outflow of cash and cash equivalents on acquisition		**(1,684,296)**

The acquired subsidiary contributed revenue of RUB 559,086 thousand and a loss of RUB 19,613 thousand to the Group in 2010. If the acquisition had occurred on 1 January 2010, consolidated revenue of the Group for the year ended 31 December 2010 would have increased by RUB 970,836 thousand and consolidated profit would have decreased by RUB 206,102 thousand.

Trade and other accounts receivable resulting from this acquisition with a provisional value of RUB 240,531 thousand had gross contractual amounts of RUB 368,965 thousand. The Group's best estimate on the acquisition date of the contractual cash flows not deemed collectible is RUB 128,434 thousand.

(thousands of Russian Roubles)

Acquisitions of CGU Meta companies

In 2009 and 2010, the Group acquired a range of companies engaged in scrap collection and processing with intention to form a regional scrap procurement network. The acquisition of these scrap suppliers significantly strengthens the Group's supply of raw materials needed for an electric arc furnace mini-mill. This mini-mill is being constructed by the Group and is expected to be completed and operating at full capacity during 2011.

All acquired entities are incorporated in the Russian Federation and are located throughout the Russian Federation, in the following regions: Samara, Ulyanovsk, Chelyabinsk, Perm, Kazan, Ekaterinburg, Tyumen and Ufa. Goodwill arising on these acquisitions has been allocated to CGU Meta, former CGU Meta-Invest (Note 11) and is attributable to the security of ensuring a firm supply of scrap for the new mini-mill.

CJSC ChTPZ-Meta

On 2 April 2009, the Group acquired 99.9% of CJSC ChTPZ-Meta and subsidiaries for a cash consideration of RUB 176,937 thousand which was fully paid in 2009. CJSC ChTPZ-Meta is engaged in scrap procurement activity. It contributed revenue of RUB 1,350,671 thousand and a loss of RUB 495,960 thousand in 2009. If the acquisition had occurred on 1 January 2009, consolidated revenue of the Group for the year ended 31 December 2009 would have increased by RUB 1,738,621 thousand and consolidated loss increased by RUB 647,709 thousand.

	Notes	Attributed fair value*
Accounts receivable		1,343,800
Cash and cash equivalents		4,499
Property, plant and equipment	9	447,597
Intangible assets	10	4,745
Inventories		169,426
Loans receivable		77,959
Deferred tax assets, net	29	10,955
Borrowings		(1,345,167)
Trade and other payables		(1,008,150)
Fair value of net liabilities of subsidiary		**(294,336)**
Non-controlling interest	11	(1,205)
Fair value of acquired interest in net liabilities of subsidiary		**(295,541)**
Goodwill arising from the acquisition	11	472,478
Total purchase consideration		**176,937**
Less cash and cash equivalents of subsidiary acquired		(4,499)
Net outflow of cash and cash equivalents on acquisition		**(172,438)**

* The valuation of identifiable assets, liabilities and contingent liabilities was performed by the Group with assistance from independent professional appraisers.

The accounts receivable and loans acquired in these transactions with a fair value of RUB 1,343,800 thousand and RUB 77,959 thousand, respectively, had gross contractual amounts of RUB 1,378,288 thousand and RUB 77,959 thousand, respectively. The best estimate at acquisition date of the contractual cash flows not expected to be collected on accounts receivable was RUB 34,488 thousand.

(thousands of Russian Roubles)

Disposal of a number of non-performing subsidiaries of CJSC ChTPZ-Meta

In September 2009, the Group finalised disposals to related parties of its full controlling interests in a number of non-performing subsidiaries of the newly acquired CJSC ChTPZ-Meta. The carrying amounts of the major classes of disposed assets and liabilities were as follows:

	Notes	14 September 2009
Property, plant and equipment	9	58,811
Intangible assets	10	281
Other non-current assets		4,580
Inventories		63,656
Accounts receivable		226,120
Loans receivable		9,813
Cash and cash equivalents		14,692
Deferred tax assets	29	43,324
Borrowings		(1,144)
Trade and other payables		(741,597)
Net liabilities disposed of		**(321,464)**
Consideration received in cash		16,834
Gain on disposal	26	**338,298**

Disposal of RNGG group of companies

During the course of 2010, the Group discontinued its exploratory drilling operations, resulting in the disposal on 30 December 2010 of 100% of OJSC “Regional Oil and Gas Wells Contractors Association” (“RNGG”), 100% of CJSC “Taymyrnefterazvedka” and 82.86% of LLC “Taymyrtransgruz” to a third party for total consideration of RUB 100 thousand. As part of the disposal of RNGG, the Group impaired trade and other receivables of RUB 181,799 thousand (Note 15) and loans receivable of RUB 439,916 thousand (Note 14) due from RNGG, which were previously eliminated in consolidation. This has resulted in an overall loss on disposal.

	Notes	30 December 2010
Property, plant and equipment	9	240,535
Intangible assets	10	28
Other non-current assets		5,471
Inventories		340,711
Trade and other accounts receivable		129,181
Loans receivable		10,013
Cash and cash equivalents		4,094
Deferred tax liabilities, net	29	(16,057)
Borrowings		(444,216)
Trade and other payables		(666,300)
Net liabilities disposed of		**(396,540)**
Non-controlling interest disposed of	11	8,700
Consideration received in cash		100
Impairment of trade receivables and loans due from disposed subsidiaries	14,15	(621,715)
Loss on disposal	26	**(216,375)**

(thousands of Russian Roubles)

Other 2009 and 2010 disposals

Alnas+

In April 2010, the Group disposed 100% of Alnas+ to third parties for total consideration of RUB 10 thousand.

	Notes	26 April 2010
Property, plant and equipment	9	544
Inventories		6,225
Trade and other accounts receivable		4,403
Cash and cash equivalents		314
Borrowings		(29,759)
Trade and other payables		(31,402)
Net liabilities disposed of		**(49,675)**
Consideration received in cash		10
Gain on disposal	26	**49,685**

OJSC Bugulma Electric Pump Plant

OJSC Bugulma Electric Pump Plant (“BENZ”) was disposed to third parties in September 2009. The purchase consideration comprised RUB 100,000 thousand.

	Note	11 September 2009
Property, plant and equipment	9	331,224
Intangible assets	10	137
Inventories		97,424
Accounts receivable		44,230
Cash and cash equivalents		1,448
Deferred tax liabilities, net	29	(20,912)
Trade and other payables		(17,932)
Retirement benefit obligations	20	(9,847)
Other liabilities		(50,643)
Net assets disposed of		**375,129**
Non-controlling interest disposed of	11	(41,152)
Consideration received in cash		100,000
Loss on disposal	26	**(233,977)**

8. SEGMENT REPORTING

The Group has identified the following segments based upon the reports used by chief operating decision maker ("CODM"):

- steel pipe production or SPP – representing manufacturing and distribution of pipes and other related products, including activities related to the procurement of scrap and its further utilisation as raw materials in manufacturing of steel billets used in seamless pipe production;
- oilfield services or OFS – representing equipment manufacturing and support services for oil well extraction equipment such as electric submersible pumps, sucker-rod drilling pumps and a number of other products and services for various stages of an oilfield's development; and
- trunk pipeline systems or TPS – representing production of highly customised components for the construction of oil and gas pipelines, including valves, hot-formed and cold-formed pipeline bends and hubs.

In prior periods, the Group's segments consisted of SPP, OFS and scrap procurement. The segments were revised during the period as a result of the following:

- the CODM reporting was modified to combine scrap procurement activities into SPP.
  With startup of Electron-Arc Furnace mini-mill, which is part of SPP, it will gradually become the sole consumer of scrap collected by the regional scrap procurement network. To be consistent with changes in business processes management revised its internal reporting and combined these activities as one segment in its internal management reporting.
- the creation of TPS upon the acquisition of SOT, MZMZ, and MSA.

The previously reported segment information has been adjusted to reflect the new reporting structure.

Transactions between business segments are on normal commercial terms and conditions. Internal charges between segments have been reflected in the performance of each business segment.

Segment assets consist of current and non-current assets. Segment liabilities comprise current and non-current liabilities. Capital expenditure comprises additions to property, plant and equipment and intangible assets. Impairment loss provisions relate only to those charges made against allocated assets.

The CODM assesses the performance of the operating segments based on a measure of segment earnings before interest, tax, depreciation and amortisation ("Segment EBITDA"). Segment EDITDA is determined as segment's operating profit adjusted to exclude depreciation and amortisation expense, and to include share of profit/(loss) of associates, foreign exchange profit and loss and other costs. Since this term is not defined in IFRS the Group's definition of Segment EBITDA may differ from that of other companies.

The segment information presented is based on information reviewed by the CODM, which differs from IFRS. Reconciliations are provided for the differences between this information and the information included in the consolidated financial statements. The adjustments between the information reviewed by the CODM and IFRS financial information (included in the Adjustment column in the following tables) include the following:

- scope of consolidation: Entities consolidated into the Group for IFRS are not consistent with those included for management reporting purposes;
- reclassifications: The CODM reviews information classified and presented in conformity with Russian statutory accounting which includes recording amounts gross versus net, and aggregating and reclassifying some line items for purpose of making decisions about resources allocation to the segments and assessing the performance; and

(thousands of Russian Roubles)

- other adjustments: Other adjustments arise due to differences between IFRS and Russian statutory accounting and they are primarily related to adjustments for impairment of property, plant and equipment; intangible assets and promissory notes; discounting of borrowings; and recalculation of deferred taxes.

Segment information related to the Group's consolidated statement of comprehensive income and loss for the year ended 31 December 2010:

	SPP (as reviewed by CODM)	OFS (as reviewed by CODM)	TPS (as reviewed by CODM)	Adjustments	Eliminations	Total (as per IFRS consolidated financial statements)
Revenue from external customers	75,251,798	7,924,222	2,815,850	(591,155)	–	85,400,715
Inter-segment revenue	284,600	15,898	6,674	–	(307,172)	–
Cost of sales	(51,189,386)	(7,138,993)	(2,052,162)	971,787	315,981	(59,092,773)
Distribution costs	(5,923,968)	(254,987)	(270,017)	(51,026)	1,073	(6,498,925)
General and administrative expenses	(3,681,220)	(1,107,406)	(217,712)	(684,182)	(9,882)	(5,700,402)
Gain/(loss) on disposal of property, plant and equipment	3,699	(101,692)	2,640	(78,740)	–	(174,093)
(Impairment)/reversal of impairment of assets	(48,195)	(152,831)	(313,166)	868,336	–	354,144
Other operating expenses	(870,277)	(169,988)	(89,060)	665,186	–	(464,139)
Foreign exchange gain/(loss), net	876,769	(24,949)	6,557	(1,905)	–	856,472
Share of loss of associates	–	(111,320)	–	–	–	(111,320)
Other expenses, net	(151,759)	(97,918)	(5,271)	254,948	–	–
Less: depreciation and amortisation	1,937,142	896,787	102,513	125,202	–	3,061,644
Segment EBITDA	**16,489,203**	**(323,177)**	**(13,154)**	**1,478,451**	**–**	**17,631,323**
Depreciation and amortisation	(1,937,142)	(896,787)	(102,513)	(125,202)	–	(3,061,644)
Interest income	2,495,062	108,381	48,223	(454,948)	(976,342)	1,220,376
Interest expenses	(8,933,488)	(1,460,186)	(20,052)	367,639	976,342	(9,069,745)
Income tax	(2,682,167)	207,862	(71,618)	549,584	–	(1,996,339)
Profit/(loss) for the year	**5,431,468**	**(2,363,907)**	**(159,114)**	**1,815,524**	**–**	**4,723,971**

Segment information related to the Group's consolidated statement of financial position at 31 December 2010:

	SPP (as reviewed by CODM)	OFS (as reviewed by CODM)	TPS (as reviewed by CODM)	Adjustments	Total (as per IFRS consolidated financial statements)
Current assets	57,267,084	3,638,240	3,586,281	(18,607,026)	45,884,579
Non-current assets	91,345,519	6,943,118	2,627,684	(33,886,055)	67,030,266
Total assets	**148,612,603**	**10,581,358**	**6,213,965**	**(52,493,081)**	**112,914,845**
Current liabilities	61,872,058	5,937,042	3,056,913	(3,461,988)	67,404,025
Non-current liabilities	55,886,060	8,997,640	21,896	(24,111,878)	40,793,718
Total liabilities	**117,758,118**	**14,934,682**	**3,078,809**	**(27,573,866)**	**108,197,743**

(thousands of Russian Roubles)

The information analysed by the CODM is reconciled to the IFRS consolidated financial statements as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
As reviewed by CODM	**64,491,605**	**100,916,321**	**70,866,013**	**64,905,596**
Scope of consolidation	30,279	(1,837,104)	(674,373)	46,874
Reclassifications	(18,003,405)	(8,175,960)	(14,877,312)	(11,302,054)
Other	(633,900)	(23,872,991)	12,089,697	(12,856,698)
As per IFRS consolidated financial statements	**45,884,579**	**67,030,266**	**67,404,025**	**40,793,718**

Segment information related to the Group's consolidated statement of comprehensive income and loss for 2009:

	SPP (as reviewed by CODM)	OFS (as reviewed by CODM)	Adjustments	Eliminations	Total (as per IFRS consolidated financial statements)
Revenue from external customers	44,296,603	10,379,088	1,403,697	—	56,079,388
Inter-segment revenue	27,485	3,864		(31,349)	—
Cost of sales	(31,851,525)	(8,827,656)	643,606	31,272	(40,004,303)
Distribution costs	(2,045,260)	(484,576)	(1,293,552)	236	(3,823,152)
General and administrative expenses	(3,334,987)	(1,505,327)	(817,125)	(159)	(5,657,598)
Gain/(loss) on disposal of property, plant and equipment	35,905	1,075	(176,064)	—	(139,084)
Reversal of impairment/(impairment) of assets	1,203	(261,793)	(2,356,682)	—	(2,617,272)
Other operating expenses	(214,749)	(149,240)	(52,976)	—	(416,965)
Foreign exchange loss, net	(370,517)	(28,426)	(538,313)	—	(937,256)
Share of results of associates	—	12,969	—	—	12,969
Other income, net	28,012	352,535	(380,547)	—	—
Less: depreciation and amortisation	1,121,017	727,937	495,637	—	2,344,591
Segment EBITDA	**7,693,187**	**220,450**	**(3,072,319)**	**—**	**4,841,318**
Depreciation and amortisation	(1,121,017)	(727,937)	(495,637)	—	(2,344,591)
Interest income	2,302,165	211,885	(1,134)	(559,527)	1,953,389
Interest expenses	(8,165,580)	(1,511,370)	(17,979)	559,527	(9,135,402)
Income tax	(386,226)	(55,643)	680,630	—	238,761
Income/(loss) for the year	**322,529**	**(1,862,615)**	**(2,906,439)**	**—**	**(4,446,525)**

(thousands of Russian Roubles)

Segment information related to the Group's consolidated statement of financial position at 31 December 2009:

	SPP (as reviewed by CODM)	OFS (as reviewed by CODM)	Adjustments	Total (as per IFRS consolidated financial statements)
Current assets	48,745,632	4,543,705	(16,208,121)	37,081,216
Non-current assets	49,112,314	9,920,797	(6,708,586)	52,324,525
Total assets	**97,857,946**	**14,464,502**	**(22,916,707)**	**89,405,741**
Current liabilities	31,132,964	11,321,993	23,973,443	66,428,400
Non-current liabilities	51,636,603	365,398	(31,206,377)	20,795,624
Total liabilities	**82,769,567**	**11,687,391**	**(7,232,934)**	**87,224,024**

The information analysed by the CODM is reconciled to the IFRS consolidated financial statements as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
As reviewed by CODM	**53,289,337**	**59,033,111**	**42,454,957**	**52,002,001**
Scope of consolidation	10,320,043	7,755,043	12,057,973	6,575,114
Reclassifications	(22,221,062)	(4,103,164)	65,339	(26,389,565)
Other	(4,307,102)	(10,360,465)	11,850,131	(11,391,926)
As per IFRS audited consolidated financial statements	**37,081,216**	**52,324,525**	**66,428,400**	**20,795,624**

Geographical information

The Group operates in three main geographical areas. Sales are based on the country in which the customer is located, while total assets and capital expenditures are based on where the assets are located. Nearly all of the Group's assets and capital expenditures are located in Russia with the exception of MSA, which is located in the Czech Republic.

For the geographical segments of the Group's sales and sales to major customers refer to the table below:

Revenue for the year ended 31 December	Russian Federation	Common-wealth of Independent States	Other	Total
2010	80,149,408	2,107,203	3,144,104	85,400,715
2009	51,179,125	2,568,551	2,331,712	56,079,388

Major customers

The Group's sales to major customers for the year ended 31 December 2010 and 2009 are set out in the table below:

	2010	2009
Customer 1	17,643,077	6,825,882
Customer 2	4,298,232	2,988,480
Customer 3	3,271,336	2,232,648
Total revenue (all attributable to steel pipe production)	**25,212,645**	**12,047,010**

(thousands of Russian Roubles)

9. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Notes	Land	Buildings	Infrastructure	Plant and equipment	Other	Construction in progress	Total
Cost or valuation at 31 December 2008		378,399	12,710,558	1,909,717	22,315,535	2,101,061	19,717,391	59,132,661
Accumulated depreciation at 31 December 2008		–	(6,605,194)	(1,302,175)	(13,204,908)	(767,811)	–	(21,880,088)
Accumulated impairment at 31 December 2008		–	(65,497)	(40,937)	(173,878)	(4,657)	(443,627)	(728,596)
Carrying amount at 31 December 2008		**378,399**	**6,039,867**	**566,605**	**8,936,749**	**1,328,593**	**19,273,764**	**36,523,977**
Additions and transfers		8,370	464,676	86,036	4,966,156	52,862	6,961,507	12,539,607
Acquired in a business combination	7	3,706	64,176	31,410	267,848	54,391	26,066	447,597
Disposals (cost)		(2,591)	(55,462)	(64,116)	(195,676)	(135,404)	(386,396)	(839,645)
Disposals (accumulated depreciation)		–	2,889	542	120,384	47,435	–	171,250
Disposals (accumulated impairment)		–	–	–	–	–	1,714	1,714
Depreciation charge		–	(294,083)	(46,632)	(1,622,364)	(225,924)	–	(2,189,003)
Impairment recognised	27	–	(48,731)	–	(113,704)	(249)	(41,934)	(204,618)
Impairment reversed	27	–	14,163	350	6,958	794	105,871	128,136
Disposal of subsidiaries (cost)	7	(2,679)	(257,735)	(1,363)	(149,024)	(20,842)	(12,465)	(444,108)
Disposal of subsidiaries (accumulated depreciation)	7	–	14,935	87	33,292	5,759	–	54,073
Cost or valuation at 31 December 2009		385,205	12,928,537	1,961,782	27,223,306	2,052,180	26,306,103	70,857,113
Accumulated depreciation at 31 December 2009		–	(6,883,777)	(1,348,276)	(14,692,063)	(940,653)	–	(23,864,769)
Accumulated impairment at 31 December 2009		–	(100,065)	(40,587)	(280,624)	(4,112)	(377,976)	(803,364)
Carrying amount at 31 December 2009		**385,205**	**5,944,695**	**572,919**	**12,250,619**	**1,107,415**	**25,928,127**	**46,188,980**
Additions and transfers		13,737	4,732,363	508,485	11,070,304	267,766	(3,806,218)	12,786,437
Acquired in a business combination	7	88,195	1,848,435	–	539,132	73,710	23,818	2,573,290
Disposals (cost)		(1,582)	(239,665)	(22,188)	(437,855)	(107,640)	(207,271)	(1,016,201)
Effect of foreign currency exchange differences (cost)		295	11,626	–	2,299	613	(178)	14,655
Disposals (accumulated depreciation)		–	26,678	5,645	318,062	51,660	–	402,045
Disposals (accumulated impairment)		–	–	–	13,218	–	151	13,369
Depreciation charge		–	(310,035)	(55,365)	(2,376,592)	(219,355)	–	(2,961,347)
Effect of foreign currency exchange differences (depreciation)		–	613	–	2,534	606	–	3,753
Impairment recognised	27	–	–	–	–	–	(48,156)	(48,156)
Impairment reversed	27	–	–	–	4,015	–	205,459	209,474
Disposal of subsidiaries (cost)	7	–	(178,241)	–	(80,633)	(15,528)	(27,812)	(302,214)
Disposal of subsidiaries (accumulated depreciation)	7	–	16,088	–	33,503	11,545	–	61,136
Transfers to other current assets		–	–	–	–	–	(852,645)	(852,645)
Cost or valuation at 31 December 2010		485,850	19,103,055	2,448,079	38,316,553	2,271,101	21,435,797	84,060,435
Accumulated depreciation at 31 December 2010		–	(7,150,433)	(1,397,996)	(16,714,556)	(1,096,197)	–	(26,359,182)
Accumulated impairment at 31 December 2010		–	(100,065)	(40,587)	(263,391)	(4,112)	(220,522)	(628,677)
Carrying amount at 31 December 2010		**485,850**	**11,852,557**	**1,009,496**	**21,338,606**	**1,170,792**	**21,215,275**	**57,072,576**

During the year ended 31 December 2010, the Group recognised an impairment reversal in the amount of RUB 117,242 thousand for construction in progress relating to the Group's workshop No. 1, which was suspended in 1998, but is now being utilised as service and office building for a newly commissioned large diameter pipe (LDP) facility "Vysota 239".

At 31 December 2010, bank borrowings were secured on property, plant and equipment with carrying value of RUB 11,374,600 thousand (31 December 2009: RUB 12,721,698 thousand) (Notes 19 and 32).

Additionally, at 31 December 2010, the Group has RUB 316,711 thousand of plant and equipment under finance leases (31 December 2009: RUB 80,327 thousand). The entire amount guarantees the related finance lease obligation as discussed in Note 19.

During 2010, the Group transferred RUB 852,645 thousand from construction in progress to other current assets as the Group now intends to sell the gas station being constructed for which it has obtained a signed contract at 31 December 2010 (Note 17).

(thousands of Russian Roubles)

10. INTANGIBLE ASSETS

	Notes	Software	Lease rights	Customer lists	Development costs capitalised	Other	Total
Cost at 31 December 2008		393,382	121,283	267,577	227,511	129,006	1,138,759
Accumulated amortisation and impairment at 31 December 2008		(247,317)	(4,958)	(34,245)	–	(28,270)	(314,790)
Accumulated impairment at 31 December 2008		(18,800)	(78,485)	–	–	–	(97,285)
Carrying amount at 31 December 2008		**127,265**	**37,840**	**233,332**	**227,511**	**100,736**	**726,684**
Additions		29,856	–	2	(5,404)	83,208	107,662
Disposals (cost)		(107,926)	–	–	(40,137)	(19,350)	(167,413)
Disposals (accumulated amortisation and impairment)		78,359	–	–	–	8,489	86,848
Amortisation charge		(68,466)	(2,754)	(51,058)	–	(33,310)	(155,588)
Acquired in business combination	7	4,285	–	–	–	460	4,745
Disposals of subsidiaries (cost)	7	–	–	–	–	(788)	(788)
Disposals of subsidiaries (accumulated amortisation)	7	–	–	–	–	370	370
Cost at 31 December 2009		319,597	121,283	267,579	181,970	192,536	1,082,965
Accumulated amortisation at 31 December 2009		(237,424)	(7,712)	(85,303)	–	(52,721)	(383,160)
Accumulated impairment at 31 December 2009		(18,800)	(78,485)	–	–	–	(97,285)
Carrying amount at 31 December 2009		**63,373**	**35,086**	**182,276**	**181,970**	**139,815**	**602,520**
Additions and transfers		120,481	–	–	115,886	49,966	286,333
Disposals (cost)		(213,275)	–	–	(48,347)	(7,038)	(268,660)
Disposals (accumulated amortisation)		207,783	–	–	–	7,038	214,821
Disposals (impairment)		5,800	–	–	–	–	5,800
Amortisation charge		(76,519)	(764)	(46,953)	(1,525)	(31,981)	(157,742)
Acquired in business combination	7	1,332	–	–	–	–	1,332
Disposals of subsidiaries (cost)	7	(55)	–	(11,925)	–	–	(11,980)
Disposals of subsidiaries (accumulated amortisation)	7	26	–	11,925	–	–	11,951
Cost at 31 December 2010		228,080	121,283	255,654	249,509	235,464	1,089,990
Accumulated amortisation at 31 December 2010		(106,134)	(8,476)	(120,331)	(1,525)	(77,664)	(314,130)
Accumulated impairment at 31 December 2010		(13,000)	(78,485)	–	–	–	(91,485)
Carrying amount at 31 December 2010		**108,946**	**34,322**	**135,323**	**247,984**	**157,800**	**684,375**

(thousands of Russian Roubles)

11. GOODWILL AND NON-CONTROLLING INTERESTS

Movements of goodwill allocated by CGUs and non-controlling interests in 2010 and 2009 are presented in the table below:

	2010		2009	
	Goodwill	**Non-controlling interests**	**Goodwill**	**Non-controlling interests**
At 1 January	**1,105,295**	**(370,612)**	**632,817**	**(1,214,428)**
Cost	11,228,998	(370,612)	10,756,520	(1,214,428)
Accumulated impairment	(10,123,703)	–	(10,123,703)	–
Loss attributable to non-controlling interests	–	56,722	–	250,994
Increase in participation interest				
Alnas (CGU Rimera)	–	–	–	478,201
WSGC* (CGU Rimera)	–	–	–	61,851
Other (CGU Rimera)	–	–	–	12,823
PNTZ (CGU PNTZ)	–	1,176	–	–
Acquired in business combination				
ChTPZ-Meta CJSC (CGU Meta)	–	–	472,478	(1,205)
SOT and MZMZ (CGU TPS)	3,248,811	–	–	–
MSA (CGU TPS)	1,135,782	–	–	–
Decrease due to disposal				
BENZ (CGU OFS)	–	–	–	41,152
Taymyrtransgruz (CGU OFS)	–	8,700	–	–
Effect of foreign currency exchange differences (cost)				
MSA (CGU TPS)	12,152	–	–	–
At 31 December	**5,502,040**	**(304,014)**	**1,105,295**	**(370,612)**
Cost	15,625,743	(304,014)	11,228,998	(370,612)
Accumulated impairment	(10,123,703)	–	(10,123,703)	–

*WSGC – West Siberian Geophysical Company

Goodwill acquired is allocated to the Group's cash-generating units, which are Meta, OFS and TPS (former Rimera).

The goodwill allocation to the Group's cash generating units is presented in the table below:

	31 December 2010	**31 December 2009**
TPS	4,396,745	–
Meta	732,557	732,557
OFS	372,738	372,738
Total carrying value of goodwill	**5,502,040**	**1,105,295**

(thousands of Russian Roubles)

In 2009, the Group acquired from related parties 11.25% of Alnas for a consideration of RUB 182,740 thousand and 13.7% from third parties under a proposal of a mandatory redemption for a consideration of RUB 203,452 thousand increasing its participation to 100%. As a result of this transaction non-controlling interest decreased by RUB 478,201 thousand.

In 2009, WSGC acquired treasury shares that comprise 45% of the share capital for a consideration of RUB 56,838 thousand. As a result of this transaction non-controlling interest decreased by RUB 61,851 thousand.

Goodwill impairment test

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period were extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

Management determined budgeted gross margin based on past performance and its expectations of market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to CGU.

At 31 December 2010, the Group tested goodwill for impairment using following key assumptions for value-in-use calculations:

	OFS	TPS	Meta
Excess of recoverable amounts over carrying values of CGU	1,352,418	958,779	1,029,192
Used key assumptions			
EBITDA margin	19.46%-29.00%	16.02%-22.99%	4.00%-6.00%
Pre tax discount rate	17.91%-18.81%	17.80%	27.90%
Terminal growth rate	2.50%	2.50%	2.00%

The recoverable amount of the OFS CGU would be equal to its carrying value if the EBITDA margin decrease by 2.5 percentage point or used discount rate would be higher by 2.28 percentage points.

The recoverable amount of the TPS CGU would be equal to its carrying value if the EBITDA margin decrease by 1.82 percentage point or used discount rate would be higher by 1.17 percentage points.

The recoverable amount of the Meta CGU would be equal to its carrying value if the EBITDA margin decrease by 0.98 percentage point or used discount rate would be higher by 5.52 percentage points.

(thousands of Russian Roubles)

12. INVESTMENTS IN ASSOCIATES

Summarised financial information in respect of the Group's associates is set out below.

	31 December 2010	31 December 2009
Total assets	2,057,812	2,347,626
Total liabilities	(585,483)	(750,558)
Net assets	1,472,329	1,597,068
Group's share of net assets of associates	**697,617**	**808,935**

	2010	2009
Total revenue	1,412,740	1,005,093
Total (loss)/profit for the year	(199,578)	26,737
Group's share of (loss)/profit of associates	**(111,320)**	**12,969**

13. INVENTORY

	31 December 2010	31 December 2009
Raw materials	12,786,751	6,024,735
Finished goods and goods for resale	4,197,748	3,221,640
Work in progress	3,003,069	2,050,699
Allowance for obsolete and slow-moving inventory	(1,130,947)	(1,176,639)
Total inventory	**18,856,621**	**10,120,435**

At 31 December 2010, bank borrowings were secured on inventory with carrying value of RUB 2,590,881 thousand (31 December 2009: RUB 2,563,117 thousand) (Note 32).

14. PROMISSORY NOTES AND LOANS RECEIVABLE

	31 December 2010	31 December 2009
Promissory notes and loans receivable from related parties at interest rates as follows		
- Interest free	12,993	152,909
- 1% p.a.	11,542	650
- 6.5% to 11% p.a.	—	313,849
- 10% to 13% p.a.	945,510	400,273
- 17% p.a.	120,400	—
- 19.76% p.a.	—	6,503,184
Promissory notes and loans receivable from third parties at interest rates as follows		
- Interest free	86,278	272,069
- MOSPRIME 1M + 5.7% p.a.	359,335	447,037
- 5% to 13% p.a.	496,449	139,607
- 13% to 20% p.a.	54,840	104,000
Allowance for impairment of promissory notes	(498,810)	(271,514)
Total promissory notes and loans receivable	**1,588,537**	**8,062,064**

(thousands of Russian Roubles)

The fair value of promissory notes does not differ significantly from their net carrying value due to either having variable interest rates or being recently renegotiated. The Group's receivables denominated in currencies are disclosed in Note 33.

Movements in the allowance for impairment of promissory notes and loans receivable are as follows:

	2010	2009
At 1 January	**(271,514)**	**(256,514)**
Impairment of loans receivable disposed in a subsidiary (Note 7)	(439,916)	—
Loans receivable written-off during the year as uncollectible	282,988	23,334
Allowance recorded (Note 27)	(70,268)	(38,334)
Allowance reversed (Note 27)	3,500	—
Other	(3,600)	—
At 31 December	**(498,810)**	**(271,514)**

The creation and release of allowance for impaired promissory notes and loans receivable were included in the consolidated statement of comprehensive income and loss (Note 27). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

During the reporting period, the Group created an allowance of RUB 282,988 thousand against interest-free promissory notes and loans receivable from third parties.

15. TRADE AND OTHER RECEIVABLES

	31 December 2010	31 December 2009
Trade receivables	11,626,468	9,024,431
Interest receivables	2,512,847	1,625,067
Other receivables	799,104	2,916,274
Allowance for impairment of trade, other and interest receivables	(2,993,629)	(2,843,511)
Total financial assets	**11,944,790**	**10,722,261**
VAT and other taxes recoverable	2,606,783	3,339,281
Allowance for impairment of VAT and other taxes receivable	(293,921)	(303,569)
Advances and prepayments	6,544,075	1,551,415
Allowance for impairment of advances and prepayments	(373,602)	(353,947)
Total non-financial assets	**8,483,335**	**4,233,180**
Total trade and other receivables	**20,428,125**	**14,955,441**

Management believes that the fair value of accounts receivable does not differ significantly from their carrying amounts due to their short-term nature. No accounts receivable were renegotiated at during 2010 (2009: nil). The Group's receivables denominated in foreign currencies are disclosed in Note 33.

At 31 December 2010, advances and prepayments include an advance payments made by the Group for high quality steel strips for newly commissioned large diameter pipe (LDP) facility "Vysota 239" to a foreign supplier in the amount of RUB 4,573,730 thousand.

(thousands of Russian Roubles)

The Group usually provides customers with an average of 25-60 days credit period. The ageing analysis of unimpaired trade, other and interest receivables (except advances and prepayments), based on origination date is as follows:

	31 December 2010	31 December 2009
Less than 3 months	9,270,263	5,145,203
3-6 months	356,411	1,729,003
More than 6 months	2,271,975	3,640,448
Trade, other and interest receivables not impaired	**11,898,649**	**10,514,654**

The Group identified trade, other and interest receivables of RUB 3,039,769 thousand (31 December 2009: RUB 3,051,118 thousand) that were subject to individual impairment reviews. Of this amount, the Group has recognised allowance of RUB 2,993,629 thousand at 31 December 2010 (31 December 2009: RUB 2,843,511 thousand).

Individually impaired receivables are identified for customers that are in unexpectedly difficult economic situations or to balances with long periods of settlement. The ageing of these receivables identified for individual impairment is as follows:

	31 December 2010	31 December 2009
Less than 3 months	24,998	–
3-6 months	94,819	415,215
More than 6 months	2,919,952	2,635,903
Total gross amount of impaired trade, other and interest receivables	**3,039,769**	**3,051,118**

Movements in the allowance for impairment of trade, other and interest receivables and advances and prepayments are as follows:

	Trade, other and interest receivables		Advances and prepayments	
	2010	**2009**	**2010**	**2009**
At 1 January	**(2,843,511)**	**(835,212)**	**(353,947)**	**(208,092)**
Acquired in a business combination	(327,972)	(80,333)	(8,363)	(94,628)
Expense recorded (Note 27)	(210,354)	(2,531,237)	(132,404)	(283,995)
Allowance reversed	502,467	455,448	90,912	129,059
Expense of foreign currency exchange differences	(3,696)	–	–	–
Impairment of receivables from disposed subsidiaries (Note 7)	(181,799)	–	–	–
Receivables written-off during the year as uncollectible	39,881	68,514	16,484	3,618
Disposal of a subsidiary	31,355	79,309	13,716	100,091
At 31 December	**(2,993,629)**	**(2,843,511)**	**(373,602)**	**(353,947)**

The accrual and reversal of allowance for impaired receivables was included in the consolidated statement of comprehensive income and loss (Note 27). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(thousands of Russian Roubles)

16. CASH AND CASH EQUIVALENTS

Balances with banks can be withdrawn on demand and are non-interest bearing. Term deposits have an original maturity of three months or less, and are interest bearing.

	31 December 2010	31 December 2009
Cash on hand and balances with banks, RUB	2,142,498	292,648
Cash balances with banks, USD	33,478	50,445
Cash balances with bank, Euro, CHF, GBP	56,254	28,698
Term deposits in RUB (interest rate: 5.0% p.a.)	1,132,078	2,599,100
Term deposits in USD, Euro (interest rate: 0.01% to 3.5% p.a.)	225,492	652,062
Term promissory note	32,884	21,210
Total cash and cash equivalents	**3,622,684**	**3,644,163**

17. OTHER CURRENT ASSETS

In 2008, the Group commenced construction of an industrial gas station, which it intended to use internally at its manufacturing sites. During 2010, the Group concluded it was not in the business of operating and producing gas and in December 2010, entered into an agreement with a third party to sell the industrial gas station upon the completion of its construction. At that time, the Group will purchase its gas requirements from this third party. Management expects its subcontractor will complete the construction of this asset in June 2011. The Group has therefore reclassified its construction cost at 31 December 2010 of RUB 852,645 thousand from property, plant and equipment to other current assets. The remaining balance of RUB 153,410 thousand represents other assets related to the planned sale of this gas station.

18. EQUITY

At 31 December 2010, the total authorised number of ordinary shares is 944,765,760 (2009: 472,382,880 shares) with a par value of RUB 1 per share of which 472,382,880 ordinary shares are issued and fully paid. Each ordinary share carries one vote. During the year ended 31 December 2010, the Company authorised an additional 472,382,880 of ordinary shares, none of which have been issued at 31 December 2010.

At 1 January 2009, the Group held 5,260,083 treasury shares for a total amount of RUB 504,375 thousand. During the year ended 31 December 2009, the Group sold 1,919,543 of the Company's treasury shares, with a weighted average cost of RUB 184,060 thousand, for cash consideration of RUB 86,380 thousand. The difference between the weighted average cost and the consideration received on reissuance of RUB 97,680 thousand has been recognised as a debit to retained earnings.

At 31 December 2009, the Group held 3,340,540 treasury shares for a total amount of RUB 320,315 thousand.

In 2008, the Group sold 24,172,111 treasury shares to a third party for cash consideration of RUB 2,426,390 thousand. The terms of the sale deferred the third party's payment until 20 February 2010. In February 2010, the third party breached the terms of the contract after not meeting the agreed upon payment terms. Consequently, the Group commenced pursuing legal transfer of its shares. At 31 December 2010, the Group successfully obtained legal transfer of 21,810,197 of these shares back from the third party. The remaining amount is still undergoing legal transfer at the end of 2010.

During the year ended 31 December 2010, the Group also purchased an additional 44,991 treasury shares for total cash consideration of RUB 1,921 thousand.

(thousands of Russian Roubles)

According to the Company's charter, the Company is required to establish a legal reserve through the allocation of 5 percent of net profit as computed under Russian accounting regulations. The total amount of the reserve is limited to 15 percent of the nominal registered amount of the Company's issued share capital. The legal reserve may only be used to offset losses of the Company and cannot be distributed to shareholders. At 31 December 2010 and 2009, the legal reserve is RUB 70,857 thousand.

During the years ended 31 December 2010 and 2009, the Company did not declare or pay dividends.

19. BORROWINGS

	31 December 2010	31 December 2009
Non-current		
Term loans with fixed rates	3,012,431	5,259,364
Term loans with floating rates	11,244,082	2,014,044
Credit lines with fixed rates	20,312,310	8,700,115
Credit lines with floating rates	4,599,600	—
Bonds payable	—	3,717,486
Finance lease liabilities	199,377	47,993
Promissory notes issued	3,816	3,463
Total non-current borrowings	**39,371,616**	**19,742,465**
Current		
Term loans with fixed rates	10,153,651	12,910,813
Term loans with floating rates	12,532,844	12,336,550
Credit lines with fixed rates	13,840,844	6,761,600
Credit lines with floating rates	5,578,549	8,656,668
Term loans due to related parties	44,913	1,597,610
Bonds payable	4,170,172	2,287,369
Promissory notes issued	42,358	49,460
Finance lease liabilities	102,050	95,313
Total current borrowings	**46,465,381**	**44,695,383**
Total borrowings	**85,836,997**	**64,437,848**

Bonds payable

The bonds payable represent bonds issued by the Group at various times, as described below.

In June 2005, the Company issued 3 million bonds at par value of RUB 1 thousand each ("Bond 01"). The interest yield on the bonds amounted to 9.5% p.a. The bonds were fully redeemed in June 2010, the 1,820-th day following the date of placement (the carrying value of Bond 01 at 31 December 2009 was RUB 2,287,369 thousand).

In April 2008, the Company issued 8 million bonds at par value of RUB 1 thousand each ("Bond 03"). The bonds are repayable beginning 21 April 2015, the 2,548-th day following the date of placement. The bonds contain a buy back option by the holder or the Company beginning on 26 April 2011 equal to the amortised cost of the bonds on the date the option is exercised. During the year ended 31 December 2010, the Group repaid 1,209 bonds for RUB 1,209 thousand. The carrying value of Bond 03 at 31 December 2010 was RUB 3,209 thousand (31 December 2009: RUB 4,418 thousand). The interest yield on the bonds amounts to 8.0% p.a.

In 2009, the Company repurchased 3,040,406 bonds for RUB 3,054,297 thousand (2008: 1,149,401 bonds for RUB 1,372,942 thousand). In October 2009, during first buy-back option 1,155,779 bonds were redeemed at 98% face-value. Also in December 2009, the Company converted 2,649,996 bonds into exchange bonds ("BO 01") for a higher interest rate.

In December 2009, the Company issued 5 million bonds BO 01 at par value of RUB 1 thousand each. The bonds contain a buy-back option commencing 8 December 2011. The bonds are repayable beginning December 2012, the 1,092-th day following the date of placement. The interest yield amounts to 16.5% p.a. In 2009, the Company repurchased 1,257,634 bonds for RUB 1,257,634 thousand. During the year ended 31 December 2010, the Group sold 418,149 bonds to third parties for RUB 428,606 thousand. The carrying value of the BO 01 at 31 December 2010 was RUB 4,166,963 thousand (31 December 2009: RUB 3,717,486 thousand).

Term loans and credit lines

The Group has various borrowing agreements with lenders including term loans, revolving credit facilities and letter of credit facilities.

During the year, the Group negotiated additional borrowing facilities totaling RUB 52,097,046 thousand which comprised term loans of RUB 8,594,295 thousand and credit lines of RUB 43,502,751 thousand including the following:

- two credit lines each of RUB 10,000,000 thousand are repayable in quarterly installments from 2011 through 2014;
- various term loans totaling RUB 8,594,295 thousand that have various maturity dates through June 2015;
- two credit lines denominated in US Dollar totaling RUB 1,130,693 thousand are repayable in full in April and August 2011;
- credit lines from various banks denominated in Russian Roubles totaling RUB 22,372,058 thousand are each repayable through January 2015.

The above facilities bear interest at rates varying between 7.0% and 17.0% and were used to retire debts and fund working capital.

In June 2010, the Group renegotiated the terms of a long-term loan amounting to RUB 6,653,736 thousand from BNP Paribas (31 December 2010: RUB 5,080,298 thousand outstanding). The repayment period was extended from June 2010-November 2017 to June 2011-December 2020. The loan was originally issued to the Group in February 2008. The terms of the modified loan are not substantially different, and fees paid in the modification are treated as an adjustment to the carrying amount of the original liability and are amortised over the remaining life of the modified loan.

In August 2010, the Group renegotiated the terms of a short-term loan amounting to RUB 2,540,000 thousand from ZAO Raiffeisenbank (31 December 2010: RUB 1,424,477 thousand outstanding). The repayment date was extended from August 2010 to February 2013, and the maximum interest rate was reduced from MOSPRIME 1M+7.5% to MOSPRIME 1M+5%. The loan was originally issued to the Group in February 2009. The terms of the modified loan are not substantially different, and fees paid in the modification are treated as an adjustment to the carrying amount of the original liability and are amortised over the remaining life of the modified loan.

In addition, at 31 December 2010 the Group had available undrawn amounts under credit lines totaling RUB 10,655,528 thousand, of which the RUB 8,944,354 thousand is denominated in RUB and the rest is in Euro and USD.

(thousands of Russian Roubles)

The nominal interest rates at 31 December 2010 were as follows:

	RUB	USD	Euro
Term loans with fixed rates	9.0%-16.0%	5.0%-11.0%	–
Term loans with floating rates	MOSPRIME + from 2.5% to 5.5%, 10.0-12.0%	LIBOR + 6.75%	EURIBOR + from 1.0% to 3.1%
Credit lines with fixed rates	7.5%-17.0%	–	–
Credit lines with floating rates	MOSPRIME + from 5.0% to 6.0%, CBRF rate* + 6.5%, 10.0%-15.1%	LIBOR + 5.7%	–
Bonds payable	8%-16.5%	–	–
Term loans due to related parties	10.0%	–	–

At 31 December 2009:

	RUB	USD	Euro
Term loans with fixed rates	9.0%-20.0%	–	–
Term loans with floating rates	MOSPRIME + from 2.5% to 7.5%	LIBOR + from 3.5% to 6.75%	EURIBOR + from 0.29% to 3.1%
Credit lines with fixed rates	13.75%-17.63%	–	–
Credit lines with floating rates	MOSPRIME + 4.5%, CBRF rate*+5.5%	LIBOR +from 3,2% to 5.7%	–
Bonds payable	9.5% - 16.5%	–	–
Term loans due to related parties	–	3%	–

* CBRF refinancing rate

The non-current borrowings maturity schedule, excluding the present value of minimum lease payments, is as follows:

	31 December 2010	31 December 2009
1 to 2 years	15,508,897	4,181,170
2 to 3 years	12,448,975	9,361,118
3 to 4 years	8,574,311	3,612,120
4 to 5 years	1,953,955	2,536,600
Beyond 5 years	686,101	3,464
Total non-current borrowings	**39,172,239**	**19,694,472**

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilised, covenants with respect to disposal of assets, incurring of additional liabilities, issuance of loans or guarantees, obligations under any future reorganisation procedures or bankruptcy of borrowers and also maintain that the respective Group entities maintain pledged assets. In addition, these agreements contain financial covenants which include, compliance with several financial ratios, clauses regarding the acceleration of payment upon default, including cross-fault provisions.

(thousands of Russian Roubles)

At 31 December 2009, the Group did not comply with certain covenants such as financial ratios and bank account turnovers. The borrowings amount breached at 31 December 2009 were borrowings of RUB 14,261,596 thousand. Consequently, non-current borrowings of RUB 10,882,146 thousand have been reclassified to short-term borrowings.

At 31 December 2010, the Group was still out of compliance with certain financial covenants contained in lending agreements with BNP Paribas and Bank of Moscow. As a result of these breaches, RUB 11,247,746 thousand of non-current borrowings remained classified as short-term borrowings on the consolidated statement of financial position. Prior to the date of authorisation of the consolidated financial statements for issue, the Group has obtained waivers from the lenders.

The Group's lenders have allowed the Group to continue to pay these obligations based on the original maturity schedule. The original maturity of the discounted long term borrowings classified as current borrowings is as follows:

	31 December 2010	31 December 2009
1 to 2 years	6,180,651	3,177,545
2 to 3 years	1,569,728	2,437,192
3 to 4 years	491,870	1,455,099
4 to 5 years	494,510	1,010,446
Beyond 5 years	2,510,987	2,801,864
Total non-current borrowings (excluding finance lease liabilities)	**11,247,746**	**10,882,146**

Minimum lease payments under finance leases and their present values are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
Due in 1 year	160,558	127,449	102,050	95,313
Due between 1 and 5 years	280,270	57,114	199,377	47,993
Total	**440,828**	**184,563**	**301,427**	**143,306**

All finance lease liabilities are effectively collateralised by the leased equipment as the right to the asset reverts to the lessor if the Group defaults on the lease.

Management believes that fair values of borrowings do not differ significantly from their carrying amounts. The Group's borrowings denominated in foreign currencies are disclosed in Note 33.

(thousands of Russian Roubles)

20. RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations consist of the following:

	2010	2009
Present value of unfunded obligations at 1 January	445,393	359,274
Unrecognised past service cost at 1 January	(107,515)	(122,875)
At 1 January	**337,878**	**236,399**
Current service cost	22,240	14,772
Interest cost (Note 28)	40,077	31,904
Past service cost	15,360	15,360
Actuarial losses	2,946	53,633
Disposal of subsidiary (Note 7)	—	(9,847)
Settlements	(6,905)	(4,343)
Present value of unfunded obligations at 31 December	503,751	445,393
Unrecognised past service cost at 31 December	(92,155)	(107,515)
At 31 December	**411,596**	**337,878**

Expense recognised in the consolidated statement of comprehensive income and loss:

	2010	2009
Current service cost	22,240	14,772
Interest expense (Note 28)	40,077	31,904
Past service cost	15,360	15,360
Actuarial losses	2,946	53,633
Total net benefit expense	**80,623**	**115,669**

Pension plan liabilities are estimated using actuarial techniques and the following assumptions:

	31 December 2010	31 December 2009
Discount rate	7.5%-8.0%	9.0%
Initial rate	6.0%-8.0%	6.50%-10.25%
Future salary increases	6.0%-8.0%	8.00%-10.25%
Future pension increases	6.0%-8.0%	6.50%-10.25%
Withdrawal rate	Depending on years of service	4.5%-5.8%

Actuarial results may differ from the estimates, and may be revised in the future.

Sensitivity analysis for pension plan obligations is as follows:

	31 December	Discount rate		Salary rate		Withdrawal rate	
	2010	0.75%	-0.75%	0.75%	-0.75%	1.50%	-1.50%
ChelPipe	178,234	169,216	188,374	188,250	169,196	159,423	196,335
PNTZ	209,491	201,004	218,912	218,798	200,986	191,149	230,244
OJSC “ALNAS”	116,026	104,672	129,400	129,601	104,374	110,529	122,495
Total	**503,751**	**474,892**	**536,686**	**536,649**	**474,556**	**461,101**	**549,074**

(thousands of Russian Roubles)

21. TAXES PAYABLE

Current taxes payable consist of the following:

	31 December 2010	31 December 2009
Value added tax	298,065	1,218,123
Unified social tax	283,893	161,974
Income tax	20,052	77,003
Salary withholding tax	89,110	68,376
Property tax	137,594	68,126
Other taxes	84,780	71,579
Provisions for VAT and other taxes (other than income tax) fines and penalties	–	340,850
Total taxes payable	**913,494**	**2,006,031**

22. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December 2010	31 December 2009
Trade payables	15,195,556	11,130,188
Interest payable	196,856	407,905
Accrued liabilities and other creditors	410,855	301,258
Total financial liabilities	**15,803,267**	**11,839,351**
Wages and salaries payable*	905,991	672,883
Total accounts payable and accrued expenses	**16,709,258**	**12,512,234**

*Non-financial liabilities

The Group's payables denominated in foreign currencies are disclosed in Note 33.

23. REVENUE

	2010	2009
Domestic sales of steel pipes	63,728,545	38,448,999
Domestic sales of oilfield services	11,374,632	9,991,772
Domestic sales of scrap	4,690,969	2,080,805
Export of steel pipes	4,456,952	4,611,084
Export of oilfield services	793,855	289,179
Domestic sales of other goods	355,762	657,549
Total revenue	**85,400,715**	**56,079,388**

24. COST OF SALES

	2010	2009
Raw materials	43,513,039	25,319,662
Salaries and salary taxes	6,579,829	5,132,033
Cost of goods for resale	3,665,694	4,086,918
Production overheads and repairs	2,942,973	1,727,269
Energy and utilities	2,643,089	2,108,502
Deprecation and amortisation	2,443,765	1,671,212
Change in balances of work in progress and finished goods	(2,291,917)	542,575
Change in inventory allowance	(403,699)	(583,868)
Total cost of sales	**59,092,773**	**40,004,303**

(thousands of Russian Roubles)

25. DISTRIBUTION COSTS

	2010	2009
Transportation and customs expenses	4,570,089	2,097,539
Salaries and salary taxes	897,506	835,006
Packaging, storage and handling	305,394	162,689
Commission	248,107	239,175
Office expenditure	160,854	111,344
Operating lease expense	120,780	124,203
Depreciation and amortisation	76,157	94,812
Advertising and marketing expenses	46,612	91,103
Other	73,426	67,281
Total distribution costs	**6,498,925**	**3,823,152**

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2010	2009
Salaries and salary taxes	1,888,185	1,606,124
Non-production overheads and repairs	1,278,668	985,861
Taxes other than income tax	818,965	573,882
Depreciation and amortisation	541,722	578,567
Management services	468,280	697,255
Insurance	243,112	245,353
Consultancy, audit and legal services	229,116	226,823
Loss/(gain) on disposal of subsidiary	166,690	(104,321)
Auxiliary materials	40,325	270,642
Operating lease expense/(income)	28,756	(158,086)
(Decrease)/increase in provisions for VAT recoverables	(340,850)	295,702
Other	337,433	439,796
Total general and administrative expenses	**5,700,402**	**5,657,598**

In 2010, total staff cost in cost of sales, distribution costs and general and administrative expenses amounted to RUB 9,365,520 thousand (2009: RUB 7,573,163 thousand).

In 2010, other operating expenses of RUB 464,139 thousand (2009: RUB 416,965 thousand) disclosed in the consolidated statement of comprehensive income and loss mainly consist of financial aid to employees and war veterans, donations to a health resort for employees and their families, donation to child day-care centres, football and hockey teams sponsorship.

27. REVERSAL OF IMPAIRMENT/(IMPAIRMENT) OF ASSETS

	2010	2009
Trade and other receivables (Note 15)	250,621	(2,230,725)
VAT recoverable allowance	8,973	(271,731)
Property, plant and equipment (Note 9)	161,318	(76,482)
Promissory notes receivables (Note 14)	(66,768)	(38,334)
Total reversal of impairment/(impairment) of assets	**354,144**	**(2,617,272)**

(thousands of Russian Roubles)

28. INTEREST INCOME AND EXPENSE

	2010	2009
Interest income on loans receivable	1,186,086	1,604,158
Unwinding of discount on trade receivables	34,290	349,231
Total interest income	**1,220,376**	**1,953,389**
Interest expense on borrowings	8,991,880	9,068,703
Finance charges under finance lease	37,788	34,795
Interest on employee benefits liabilities (Note 20)	40,077	31,904
Total interest expense	**9,069,745**	**9,135,402**

29. INCOME TAX

Income taxes comprise the following:

	2010	2009
Current tax	1,542,791	368,938
Deferred tax	453,548	(607,699)
Income tax expense/(benefit)	**1,996,339**	**(238,761)**

Reconciliation between the statutory rate and actual income tax charge is provided below:

	2010	2009
Profit/(loss) before income tax	6,720,310	(4,685,286)
Theoretical tax expense/(benefit) at the statutory rate (2010: 20%-Russia, 19%-Czech, 2009: 20%-Russia)	1,344,062	(937,057)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Unrecognised deferred tax assets	418,994	404,232
- Interest expenses	46,294	101,381
- Non-deductible employee benefits	39,251	25,885
- Foreign exchange loss	3,245	32,062
- Taxes, fines and penalties	1,656	5,389
- (Gain)/loss on disposal of investments and property, plant and equipment	(57,309)	41,277
- Other non-deductible expenses	200,146	88,070
Income tax expense/(benefit)	**1,996,339**	**(238,761)**

Differences between IFRS and Russian and Czech Republic tax principles 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 20% for Russia and 19% for Czech Republic:

(thousands of Russian Roubles)

	31 December 2008	(Charged)/ credited to profit or loss	Acquired in a business combination (Note 7)	Disposal of subsidiaries (Note 7)	31 December 2009	(Charged)/ credited to profit or loss	Acquired in a business combination	Disposal of subsidiaries (Note 7)	31 December 2010
Deductible temporary differences:									
Originated financial guarantees	5,726	(5,726)	–	–	–	–	–	–	–
Accounts receivable	180,274	539,401	25,883	(32,753)	712,805	(96,508)	37,170	(16)	653,451
Accounts payable and accruals	173,670	(29,337)	–	(3,686)	140,647	95,432	513	(341)	236,251
Receivables for treasury shares	75,569	(68,711)	–	–	6,858	(6,858)	–	–	–
Other deductible temporary differences	36,876	19,774	15,474	(13,214)	58,910	11,527	432	–	70,869
Inventories	123,551	(118,743)	–	(9,117)	(4,309)	10,085	69,050	(2,190)	72,636
Losses carried forward	371	72,760	–	–	73,131	(40,259)	18,157	–	51,029
Total deductible temporary differences	**596,037**	**409,418**	**41,357**	**(58,770)**	**988,042**	**(26,581)**	**125,322**	**(2,547)**	**1,084,236**
Offset with deferred tax liabilities	(430,180)				(373,242)				(723,539)
Deferred tax assets	**165,857**				**614,800**				**360,697**
Taxable temporary differences:									
Investment in associates	(128,350)	371	–	–	(127,979)	22,770	–	–	(105,209)
Property, plant and equipment and intangible asset	(891,070)	232,602	(30,109)	36,065	(652,512)	(293,927)	–	18,604	(927,835)
Borrowings and loans	(70,068)	(25,943)	–	–	(96,011)	(142,424)	–	–	(238,435)
Other taxable temporary differences	(16,079)	(8,749)	(293)	293	(24,828)	(13,386)	(202,492)	–	(240,706)
Total taxable temporary differences	**(1,105,567)**	**198,281**	**(30,402)**	**36,358**	**(901,330)**	**(426,967)**	**(202,492)**	**18,604**	**(1,512,185)**
Offset with deferred tax assets	430,180				373,242				723,539
Deferred tax liabilities	**(675,387)**				**(528,088)**				**(788,646)**

(thousands of Russian Roubles)

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to do so and intends to settle on a net basis.

30. EARNINGS PER SHARE

For the year ended 31 December 2010, basic earnings per share is calculated by dividing the profit attributable to owners of the Company in the amount of RUB 4,780,693 thousand (year ended 31 December 2009: loss RUB 4,195,531 thousand) by the weighted average number of ordinary shares outstanding during the year ended 31 December 2010, excluding treasury shares, which comprised 454,705,728 shares (2009: 467,599,522 shares).

The Company has no potentially dilutive ordinary shares; accordingly there is no difference between diluted earnings per share and basic earnings per share.

31. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Generally 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, or is under significant influence of 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.

Related parties may enter into transactions, which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. Related parties of the Group predominantly comprise parties under the control of the Group's controlling shareholders.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2010 are detailed below:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Gross amount of trade and other receivables	119,987	879,468	2,249,245
Originated loans and promissory notes receivable	121,050	123,930	845,465
Trade and other payables	(150,360)	(585,864)	(291,704)
Loans payable	(23,913)	–	(21,000)

During year ended 31 December 2010, the Group transferred debts of third parties to related parties at fair value of RUB 189,918 thousand under cession agreements (2009: RUB 126,826 thousand).

(thousands of Russian Roubles)

Income and expense items with related parties in year ended 31 December 2010 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	(1,225,100)	2,509,886	152,373
Purchases	19,033	(995,352)	1,183,599
Distribution expenses	—	(218,903)	24,484
General and administrative expenses	27,732	(393,355)	78,971
Finance income and expenses, net	(16,746)	(54,635)	1,028,060

At 31 December 2010, no guarantees were issued or received by the Group on behalf of related parties.

Transactional cash flows with related parties in year ended 31 December 2010 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	1,458,950	(6,512,638)	(1,367,520)
Financing activities	(21,132)	(503,145)	(481,875)
Investing activities	(120,400)	126,231	6,045,391

On 30 December 2008, ChelPipe agreed a RUB 5,800,000 thousand loan agreement, lending that amount to Nistycreek Ltd., a Cyprus holding company. In September 2010, the Company deemed Nistycreek a related party in accordance with IAS 24 as the entity is under the significant influence of Mr. Andrei Komarov, ChelPipe's controlling beneficial owner. The loan became effective on 29 January 2009, at which time the loan agreement was also amended to increase the loan amount to RUB 7,057,183 thousand. The loan is unsecured and bears interest at an annual rate of 12.2%.

The related party disclosures below have been restated to reflect the Nistycreek loan as a related party transaction.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2009 are detailed below:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Gross amount of trade and other receivables	163,366	1,335,703	1,435,968
Originated loans and promissory notes receivable	—	107,877	7,109,430
Trade and other payables	(151,929)	(390,836)	(606,950)
Loans payable	(45,045)	(499,029)	(1,053,536)

(thousands of Russian Roubles)

Income and expense items with related parties in 2009 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	820,996	1,777,739	315,747
Purchases	(7,788)	(573,977)	(43,640)
Selling, general and administrative expenses	(938)	(792,561)	(34,957)
Finance income and expenses, net	2,244	(49,015)	1,599,222

Transactional cash flows with related parties in 2009 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	923,025	(275,999)	(1,898,045)
Financing activities	(6,101)	387,595	(1,811,724)
Investing activities	–	464,916	(6,504,633)

Directors' and key management remuneration

At 31 December 2010, the Board of Directors comprised 7 directors (31 December 2009: 7 directors). During the year ended 31 December 2010, compensation of the Board amounted to RUB 15,718 thousand and was included in general and administrative expenses (2009: RUB 62,083 thousand).

The remuneration of key management of the Group consists of salary and bonuses, which are discretionary and can be accrued based on annual results, but the Group does not have any legal or constructive obligation to do so. During the year ended 31 December 2010, the aggregate remuneration amounted to RUB 84,564 thousand were accrued and paid to executives of the Group (2009: nil).

Non-controlling interests

At 31 December 2010, RUB 188,568 thousand of a non-controlling interest of 26.4% of the net assets of OJSC "Izhneftemash" was attributable to an entity controlled by the Group's key management personnel (31 December 2009: RUB 193,246 thousand).

32. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings

The Group is involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group.

Tax legislation

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

The Russian tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. The Supreme Arbitration Court issued guidance to lower courts on reviewing tax cases providing a systemic roadmap for anti-avoidance claims, and it is possible that this will significantly increase the level and frequency of tax authorities' scrutiny. 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 preceding the year of submission of tax declaration. Under certain circumstances reviews may cover longer periods.

At 31 December 2010, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations in such areas that may impact the overall tax rate of the Group and such interpretations may be subject to challenge by the tax authorities.

Management estimates that the Group has possible obligations from exposure to other than remote tax risks related to recovery of input VAT. The impact of any challenge by the tax authorities cannot be reliably estimated, however, it may be significant to the financial condition and/or the overall operations of the Group.

In addition to the matters above, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RUB 533,543 thousand at 31 December 2010 (31 December 2009: RUB 346,990 thousand) which relate primarily to VAT and corporate profit tax. There is no liability recorded for this exposure as management does not believe payment is probable.

Capital expenditure commitments

At 31 December 2010, the Group had contractual capital expenditure commitments to acquire equipment and works of capital nature totaling RUB 3,641,192 thousand (31 December 2009: RUB 7,058,850 thousand).

(thousands of Russian Roubles)

Assets pledged and restricted

At 31 December 2010, the Group has the following assets pledged as collateral:

		31 December 2010		31 December 2009	
	Notes	Asset pledged, carrying value	Related liability	Asset pledged, carrying value	Related liability
ZAO Raiffeisenbank	19	854,995	5,131,782	756,967	6,381,004
UniCredit Bank AG (Munich)	19	2,735,572	2,942,400	2,942,790	3,590,822
European Bank for Reconstruction and Development	19	–	–	2,254,527	3,525,299
OJSC SBERBANK	19	3,280,755	11,497,665	3,583,853	4,230,587
OJSC Bank of Moscow	19	962,146	8,442,541	790,271	8,443,100
ZAO UniCredit Bank (Moscow)	19	421,453	476,850	421,453	669,230
OJSC Gazprombank	19	1,087,284	9,856,613	1,231,127	4,588,895
OJSC VTB Bank	19	–	–	740,710	500,000
OJSC Alfa-Bank	19	1,040,430	673,000	–	–
OJSC Nordea Bank	19	145,401	349,840	–	–
JSC NOMOS-BANK	19	108,830	1,290,000	–	–
JSCB SOYUZ	19	651,175	500,000	–	–
OJSC AKIBANK	19	86,559	30,000	–	–
Property, plant and equipment	9	**11,374,600**	**41,190,691**	**12,721,698**	**31,928,937**
OJSC SBERBANK	19	2,240,881	4,989,636	2,139,388	4,076,146
ZAO UniCredit Bank (Moscow)	19	350,000	396,005	423,729	555,770
Inventory	13	**2,590,881**	**5,385,641**	**2,563,117**	**4,631,916**
JSCB Metallinvestbank	19	–	–	9,000	9,000
Promissory notes	14	–	–	**9,000**	**9,000**
Total		**13,965,481**	**46,576,332**	**15,293,815**	**36,569,852**

At 31 December 2010, the total loan indebtedness due to ZAO Raiffesenbank, ZAO UniCredit Bank, OJSC Bank of Moscow and Ural Bank for Reconstruction and Development in amount of RUB 11,233,166 thousand is secured by a pledge of UTS future revenue proceeds in amount of RUB 6,048,372 thousand (31 December 2009: RUB 11,098,725 thousand of loan indebtedness is secured by pledge in amount of RUB 5,522,651 thousand). At 31 December 2010, the total loan indebtedness due to OJSC SBERBANK and JSC NOMOS-BANK in the amount of RUB 1,050,000 thousand is secured by a pledge of LLC “Alnas-N” and LLC “Ulyanovsk Alnas Service” future revenue proceeds in amount of RUB 3,671,201 thousand (31 December 2009: RUB 70,000 thousand of loan indebtedness is secured by pledge in amount of RUB 264,588 thousand).

The guarantees, provided by OJSC Bank of Moscow to pipeline construction companies on behalf of the Group, were secured by pledge of the property, plant and equipment in amount of RUB 317,782 thousand and inventories in amount of RUB 424,122 thousand at 31 December 2010.

(thousands of Russian Roubles)

At 31 December 2010, the following Group's shares were pledged as collateral:

Company	Pledger	Pledgee	Year of pledge	Percent of share capital
ChelPipe	Group's shareholders	OJSC Gazprombank	2010	50%+1 share
ChelPipe	Group's shareholders	OJSC SBERBANK	2010	11.24%
ChelPipe	Group's shareholders	OJSC Bank of Moscow	2009	1.94%
PNTZ	The Group	OJSC SBERBANK	2010	50%+1 share
PNTZ	The Group	ZAO Raiffeisenbank	2009	20.00%
CJSC SKS "Metris", UTS	The Group	OJSC Bank of Moscow	2009	100.00%
SOT	The Group	OJSC SBERBANK	2010	50%+1 share
OJSC "ALNAS"	The Group	ZAO Raiffeisenbank	2008	95%+1 share
OJSC "Izhneftemash"	The Group	OJSC Nordea Bank	2009	50.27%
Tomskneftegazgeofizika Ltd.	The Group	OJSC Nordea Bank	2009	68.42%

Insurance policies

Under the bank loan covenants the Group is to insure its assets during the loan period. The Group has insured all its manufacturing property, plant and equipment during the year ended 31 December 2010 for a maximum of RUB 19,013,444 thousand (deductible of RUB 2,907 thousand) (2009: for a maximum of RUB 25,515,000 thousand (deductible of RUB 81,000 thousand). However, the insurance does not cover the risks of damage to third parties and losses from temporary suspension in the production process. Management does not believe exposure to those risks is significant.

33. FINANCIAL RISK MANAGEMENT

33.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Although the Group lacks formalised risk management programs, its overall risk management procedures focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance and exposures. The Group does not use derivative financial instruments to hedge its risk exposures.

Risk management is carried out by treasury departments of each of the Group companies under general guidance of the treasury department of the Company. Treasury departments of the companies of the Group identify, evaluate and take measures to minimise financial risks in close co-operation with Chelpipe's treasury department.

(a) Market risk

<u>(i) Foreign exchange risk</u>

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and USD.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency other than the Group's functional currency. Group companies do not have a formal policy to manage their foreign exchange risk against their functional currency. Management of the Group minimises cash held with banks to reduce or eliminate foreign exchange risk exposure on its cash balances.

(thousands of Russian Roubles)

At 31 December 2010, if the Russian Rouble had weakened/strengthened by 20% (31 December 2009: 20%) against the USD with all other variables held constant, the Group's post-tax profit for the year would have been 894,577 thousand lower/higher (31 December 2009: post-tax loss for the year would have been RUB 293,235 thousand higher/lower), mainly as a result of foreign exchange losses/gains on translation of USD denominated receivables and borrowings denominated in USD.

At 31 December 2010, if the Russian Rouble had weakened/strengthened by 20% (31 December 2009: 20%) against the Euro with all other variables held constant, the Group's post-tax profit for the year would have been RUB 1,746,298 thousand lower/higher (31 December 2009: post-tax loss for the year would have been RUB 1,796,886 thousand higher/lower), mainly as a result of foreign exchange losses/gains on translation of Euro-denominated borrowings and accounts payable.

Analysis by currency is as follows:

	31 December 2010			31 December 2009		
	RUB	**USD**	**Euro**	**RUB**	**USD**	**Euro**
Monetary financial assets	**16,451,361**	**309,798**	**394,850**	**20,497,934**	**1,841,094**	**89,460**
Trade accounts receivables	8,576,546	62,126	316,499	6,203,102	47,765	60,207
Other accounts receivables	473,444	3,326	—	2,341,965	444,155	—
Promissory notes and loans receivable	1,581,250	7,287	—	7,448,198	613,310	556
Interests receivable	2,510,960	1,887	—	1,591,710	33,357	—
Cash	3,309,161	235,172	78,351	2,912,959	702,507	28,697
Monetary financial liabilities	**(84,430,149)**	**(5,900,904)**	**(11,309,210)**	**(55,912,787)**	**(6,719,692)**	**(13,644,720)**
Borrowings	(72,759,445)	(4,707,252)	(8,022,698)	(45,576,234)	(5,651,447)	(11,337,077)
Promissory notes and loans payable	(46,174)	—	—	(712,369)	(1,017,415)	—
Trade accounts payable	(10,767,939)	(1,185,256)	(3,242,361)	(8,848,625)	(40,023)	(2,241,540)
Other accounts payable	(404,812)	(6,043)	—	(296,240)	(4,969)	(49)
Finance lease payments	(260,431)	—	(40,996)	(143,306)	—	—
Interests payable	(191,348)	(2,353)	(3,155)	(336,013)	(5,838)	(66,054)
Total, net	**(67,978,788)**	**(5,591,106)**	**(10,914,360)**	**(35,414,853)**	**(4,878,598)**	**(13,555,260)**

(ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of quoted equity securities. The Group is not exposed to commodity price risk because its finished products and raw materials are not traded on a public market.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant assets bearing interest at floating rates, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from 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. Management of the Group minimises exposure to fluctuations in interest rates by holding unused facilities both under fixed and variable interest rate loans. All loan agreements permit early redemption. Management of the Group is able to redeem and withdraw loans managing its exposure to interest rate risk. In 2010 and 2009, the Group's borrowings at variable rate were denominated in RUB, USD and Euro.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal, existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent major interest-bearing positions and include all type of loan agreements with floated and fixed rates. During year ended 31 December 2010, based on the simulations performed, the impact on post-tax profit of a 100 basis points shift in interest rate would be an increase/decrease of RUB 598,840 thousand (2009: the impact on post-tax loss would have been a decrease/increase of RUB 527,636 thousand).

(thousands of Russian Roubles)

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of its foreign currency liabilities or interest rate exposures.

(b) Credit risk

Credit risk is managed at the level of individual Group companies. The maximum exposure to credit risk at the reporting date was equal to RUB 17,156,010 thousand (31 December 2009: RUB 22,428,488 thousand) and approximates the fair value of each class of receivables, promissory notes and loans receivable, deposits with banks and financial institutions and cash and cash equivalents.

The Group's major clients are represented by final customers, i.e. large oil and gas or pipeline construction companies. Limits of the accounts receivable are established on quarterly basis and monitored by the management of the Group.

The table below shows the major balances with banks at the reporting date.

	Agency	Rating	31 December 2010	31 December 2009
Cash and cash equivalents				
OJSC SBERBANK	Fitch Ratings	BBB	1,178,420	2,557,425
OJSC Bank of Moscow	Fitch Ratings	BBB-	913,480	–
«AVANGARD» Joint Stock BANK	Moody's	B2	542,725	–
ZAO UniCredit Bank (Moscow)	Fitch Ratings	BBB+	–	738,185
ZAO Raiffeisenbank	Fitch Ratings	BBB+	–	127,089
Total risk concentrations within cash and cash equivalent			**2,634,625**	**3,422,699**

The tables below show the balances of the three major counteragents for trade receivables and promissory notes and loans receivable, at the reporting date:

	31 December 2010	31 December 2009
Trade receivables		
Counterparty 1	1,685,294	2,338,724
Counterparty 2	1,412,852	1,070,175
Counterparty 3	892,633	355,646
Total risk concentrations within trade receivables	**3,990,779**	**3,764,545**
Promissory notes and loans receivable		
Counterparty 1	834,224	6,503,184
Counterparty 2	422,437	422,437
Counterparty 3	104,000	400,273
Total risk concentrations within promissory notes and loans receivable	**1,360,661**	**7,325,894**

(thousands of Russian Roubles)

At 31 December 2010, cash and cash equivalents comprise RUB 3,622,684 thousand (31 December 2009: RUB 3,644,163 million). Out of this amount cash on hand and balances with banks are RUB 2,232,230 thousand (31 December 2009: RUB 371,791 thousand) and term deposits and bank promissory notes account for RUB 1,390,454 thousand (31 December 2009: RUB 3,272,372 thousand). All deposits were withdrawn shortly after the reporting date. For banks and financial institutions, only the top 20 Russian banks by capital are used by the Group. The Group does not hold any collateral as security for these financial assets.

At 31 December 2010, trade receivables and other receivables (Note 15) comprise RUB 9,431,943 thousand (31 December 2009: RUB 9,097,194 thousand). Balances due from third parties account for RUB 6,183,243 thousand and from related parties account for RUB 3,248,700 thousand of this amount (31 December 2009: RUB 6,162,157 thousand and RUB 2,935,037 thousand respectively). Management of the Group believes that credit risks on trade and other receivables balances are limited to specific customers because a majority of their customers have good payment history due to their long business relationships with the Group.

At 31 December 2010, balances due from overseas customers comprise RUB 288,918 thousand (31 December 2009: RUB 358,491 thousand). The customers are mainly represented by state-owned companies and/or large oil and gas companies and/or large companies engaged in construction of pipelines with which the Group has a long history of doing business.

At 31 December 2010, balances of promissory notes, loans and interest receivable comprise RUB 4,101,384 thousand (31 December 2009: RUB 9,687,131 thousand) and include balances due from related parties of RUB 1,090,445 thousand (31 December 2009: RUB 8,653,275 thousand).

Cash was collected according to the contractual terms during the reporting period, and management does not expect any losses from non-performance by these counterparties.

(c) Liquidity risk

The Group believes prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. As disclosed in Note 2, the Group was significantly impacted by the economic downturn and has been taking steps to improve its liquidity. Management is actively focused on obtaining additional financing, managing its available working capital and as needed, modifying its debt agreements.

The table below analyses the Group’s financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2010				
Trade and other payables	16,512,402	–	–	–
Promissory notes payable	42,359	–	–	31,495
Borrowings	50,319,603	27,448,187	29,733,697	3,464,603
Finance lease liabilities	160,558	280,270	–	–
At 31 December 2009				
Trade and other payables	12,104,328	–	–	–
Promissory notes payable	49,460	–	–	31,495
Borrowings	46,502,326	13,114,050	16,307,601	4,814,718
Finance lease liabilities	127,449	51,044	6,070	–

At 31 December 2010, current liabilities of the Group exceed its current assets. For further discussion of liquidity risk see Note 2.

(thousands of Russian Roubles)

33.2 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. Management understands the term ‘capital’ as a financial notion of capital defined as invested money or invested purchasing power.

Consistent with other companies in the industry, the Group monitors capital on the basis of portion of net debt in total equity and debt. This measure is calculated as net debt divided by total capital. Net debt is calculated as total debt (including long- and short-term borrowings (Note 19) and preferred shares, as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

The Group's ability to issue new shares or otherwise modify share capital and to pay dividends is not limited by debt covenants but is subject to approval from banks.

Measures of net debt to total equity and debt at 31 December 2010 and 2009 were as follows:

	31 December 2010	31 December 2009
Total debt	86,058,857	64,625,041
Less: cash and cash equivalents	(3,622,684)	(3,644,163)
Net debt	**82,436,173**	**60,980,878**
Total equity	4,717,102	2,181,717
Total equity and net debt	87,153,275	63,162,595
Net debt to total equity and debt	**95%**	**97%**

34. EVENTS AFTER THE REPORTING PERIOD

In 2011, the Group signed loan agreements to finance operating activities with Evrofinans Mosnarbank and ZAO “Surgutneftegazbank” in the total amount of RUB 2,000,000 thousand with interest rates of 7.75-10.5% and maturing between 2011 and 2012.

In February 2011, the Group obtained legal transfer of the remaining 2,361,914 treasury shares due from a third party after such third party breached the agreed upon payment terms (Note 18).