Open Joint Stock Company Chelyabinsk Tube-Rolling Plant

Consolidated Financial Statements
For the Year Ended 31 December 2009

OPEN JOINT STOCK COMPANY CHELYABINSK TUBE-ROLLING PLANT

TABLE OF CONTENTS

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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 2009, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standard Board.

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 for the year ended 31 December 2009 were approved on 15 July 2010 by:

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

Moscow, Russia
15 July 2010

ZAO "Deloitte & Touche CIS"
5 Lesnaya Street
Moscow, 125047
Russia

Tel: +7 (495) 787 06 00
Fax: +7 (495) 787 06 01
www.deloitte.ru

INDEPENDENT AUDITORS' 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 2009, and the consolidated statements of comprehensive loss, cash flows and changes in equity for the year then ended and the related Notes 1 to 33.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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 auditors' 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 auditors consider 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 2009, 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 Standard Board.

Emphasis of matter – going concern

Without qualifying our opinion, we draw attention to Note 2 to the accompanying consolidated financial statements which indicate that the Group incurred a net loss of Russian Roubles 4,446,525 thousand, did not comply with certain debt covenants so that the non-current borrowings in the amount of Russian Roubles 10,882,146 thousand were reclassified to current debt and that the Group's current liabilities exceed its current assets by Russian Roubles 29,347,184 thousand. 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
15 July 2010

OPEN JOINT STOCK COMPANY CHELYABINSK TUBE-ROLLING PLANT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2009
(thousands of Russian Roubles)

	Notes	31 December 2009	31 December 2008
ASSETS			
Non-current assets			
Property, plant and equipment	10	46,188,980	36,523,977
Advances for capital construction		2,984,577	3,805,418
Goodwill	12	1,105,295	632,817
Intangible assets	11	602,520	726,684
Investments in associates	13	808,935	795,967
Promissory notes and loans receivable	15	—	58,450
Deferred tax assets	29	614,800	165,857
Other non-current assets		19,418	19,574
Total non-current assets		**52,324,525**	**42,728,744**
Current assets			
Inventory	14	10,120,435	12,812,394
Trade and other receivables	16	14,955,441	16,977,806
Current income tax prepayment		299,113	1,130,883
Promissory notes and loans receivable	15	8,062,064	2,662,526
Cash and cash equivalents	17	3,644,163	1,542,552
Total current assets		**37,081,216**	**35,126,161**
TOTAL ASSETS		**89,405,741**	**77,854,905**
EQUITY AND LIABILITIES			
Share capital	18	2,498,261	2,498,261
Legal reserve		70,857	70,857
Cumulative currency translation reserve		(2,007)	(2,999)
Treasury shares		(320,315)	(504,375)
(Accumulated deficit)/retained earnings		(435,691)	3,759,962
Equity attributable to shareholders of the parent company		**1,811,105**	**5,821,706**
Non-controlling interests		370,612	1,214,428
Total equity		**2,181,717**	**7,036,134**
Non-current liabilities			
Convertible preferred shares		187,193	166,198
Borrowings	19	19,742,465	2,343,317
Employee benefits	20	337,878	236,399
Deferred tax liability	29	528,088	675,387
Total non-current liabilities		**20,795,624**	**3,421,301**
Current liabilities			
Borrowings	19	44,695,383	52,824,590
Accounts payable and accrued expenses	22	12,512,234	12,954,913
Advances from customers		7,214,752	1,003,044
Unamortised balance of fair value of originated financial guarantees		—	28,628
Taxes payable	21	2,006,031	586,295
Total current liabilities		**66,428,400**	**67,397,470**
Total liabilities		**87,224,024**	**70,818,771**
TOTAL EQUITY AND LIABILITIES		**89,405,741**	**77,854,905**

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS FOR THE YEAR ENDED 31 DECEMBER 2009

(thousands of Russian Roubles)

	Notes	2009	2008
Revenue	23	56,079,388	75,621,331
Cost of sales	24	(40,004,303)	(60,918,076)
Gross profit		**16,075,085**	**14,703,255**
Distribution costs	25	(3,823,152)	(4,192,359)
General and administrative expenses	26	(5,657,598)	(4,213,170)
Impairment of assets	27	(2,617,272)	(9,257,776)
Loss on disposal of property, plant and equipment		(139,084)	(166,213)
Other operating expenses	26	(416,965)	(658,205)
Operating profit/(loss)		**3,421,014**	**(3,784,468)**
Interest income	28	1,953,389	934,342
Interest expense	28	(9,135,402)	(4,573,172)
Foreign exchange loss, net		(937,256)	(1,548,190)
Share of results of associates		12,969	271,744
Other financial costs, net		–	(6,766)
Loss before income tax		**(4,685,286)**	**(8,706,510)**
Income tax benefit/(expense)	29	238,761	(459,531)
Loss for the year		**(4,446,525)**	**(9,166,041)**
Other comprehensive income/(loss), after tax			
Exchange difference on translating foreign operations		991	(2,999)
Total comprehensive loss for the year		**(4,445,534)**	**(9,169,040)**
(Loss)/income for the year attributable to:			
Shareholders of the parent company		(4,195,531)	(9,233,715)
Non-controlling interests		(250,994)	67,674
		(4,446,525)	**(9,166,041)**
Total comprehensive (loss)/income for the year attributable to:			
Shareholders of the parent company		(4,194,540)	(9,236,714)
Non-controlling interests		(250,994)	67,674
		(4,445,534)	**(9,169,040)**
Loss per share attributable to shareholders of the parent company, basic and diluted (Russian Rouble per share)	30	(8.97)	(19.83)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2009
(thousands of Russian Roubles)

	Notes	2009	2008
Operating activities			
Loss before income tax		(4,685,286)	(8,706,510)
Adjustments for:			
Excess in share of net assets acquired in a subsidiary over purchase consideration	12, 26	–	(109,017)
Amortisation of fair value of originated financial guarantees	26	(28,628)	(69,213)
Depreciation and amortisation of property, plant and equipment and intangible assets	10,11,24, 25,26	2,344,591	2,018,759
Change in pension accruals and payroll provisions		315,519	141,456
Changes in inventory provision	25	(583,868)	1,336,463
Impairment of assets	16,27	2,617,272	9,257,776
Loss on disposal of property, plant and equipment		139,084	166,213
Share of results of associates		(12,969)	(271,744)
Gain on disposal of subsidiary		(104,321)	(67,365)
Interest income	28	(1,953,389)	(934,342)
Interest expense	28	9,135,402	4,573,172
Gain from sale of securities		–	6,434
Provisions for uncertain tax positions		295,702	–
Foreign exchange differences on non-operating items		584,646	2,020,599
Other non-cash movements		25,911	55,221
		8,089,666	**9,417,902**
Movements in working capital			
Decrease/(increase) in accounts receivable and prepayments		4,627,154	(1,534,931)
Decrease/(increase) in inventories		3,441,838	(2,652,706)
Increase/(decrease) in trade and other payables		4,726,286	(305,709)
Cash generated from operations		**20,884,944**	**4,924,556**
Income tax refund/(paid)		498,581	(1,351,761)
Interest paid		(9,281,293)	(3,941,963)
Interest received		130,911	207,146
Net cash generated from/(used in) operating activities		**12,233,143**	**(162,022)**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(11,366,631)	(12,389,843)
Proceeds from sale of property, plant and equipment		78,506	206,385
Purchase of promissory notes and loans given		(9,428,270)	(20,703,770)
Proceeds from sale of promissory notes and loans repaid		3,115,082	12,752,660
Net cash inflow on acquisition of Rimera	7	–	120,179
Net cash outflow on acquisition of Invest Finance Group	7	–	(1,544,581)
Net cash outflow on acquisition of RNGG	7	–	(198,022)
Net cash outflow on acquisition of INM	7	–	(153,228)
Net cash inflow on acquisition of VtorCherMet	7	–	5,448
Net cash outflow on acquisition of Arkley UK	7	–	(62,672)
Net cash outflow on acquisition of Meta	7	(172,438)	–
Net cash inflow on disposal of BENZ	7	98,552	–
Net cash inflow on disposal of Meta	7	2,142	–
Net cash outflow on disposal of other subsidiaries		–	(24,845)
Net cash used in investing activities		**(17,673,057)**	**(21,992,289)**
Financing activities			
Proceeds from borrowings and promissory notes		117,686,133	118,982,801
Repayment of borrowings and promissory notes		(109,660,688)	(85,743,207)
Lease payments		(201,945)	(236,795)
Cash paid to acquire treasury shares		–	(2,358,820)
Cash received on disposal of treasury shares		–	3,621
Acquisition of non-controlling interest in PNTZ, Alnas, Basa MTS, AIZ		(281,975)	(7,632,636)
Net cash generated from financing activities		**7,541,525**	**23,014,964**
Net increase in cash and cash equivalents		**2,101,611**	**860,653**
Cash and cash equivalents at the beginning of the period		1,542,552	681,899
Cash and cash equivalents at the end of the period		**3,644,163**	**1,542,552**

OPEN JOINT STOCK COMPANY CHELYABINSK TUBE-ROLLING PLANT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009
(thousands of Russian Roubles)

		Attributable to shareholders of the parent company							
	Notes	Share capital	Legal reserve	Retained earnings/ (accumulated deficit)	Treasury shares	Cumulative currency translation reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2008		**2,498,261**	**70,857**	**13,238,671**	**(8,207)**	**–**	**15,799,582**	**4,647,100**	**20,446,682**
(Loss)/profit for the year		–	–	(9,233,715)	–	–	(9,233,715)	67,674	(9,166,041)
Currency translation differences		–	–	–	–	(2,999)	(2,999)	–	(2,999)
Total comprehensive (loss)/income for the year		**–**	**–**	**(9,233,715)**	**–**	**(2,999)**	**(9,236,714)**	**67,674**	**(9,169,040)**
Treasury shares									
Acquisitions		–	–	–	(2,867,036)	–	(2,867,036)	–	(2,867,036)
Disposals		–	–	(244,994)	2,370,868	–	2,125,874	–	2,125,874
Business combinations	12	–	–	–	–	–	–	(3,500,346)	(3,500,346)
Balance at 31 December 2008		**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)
Currency translation differences		–	–	–	–	992	992	–	992
Total comprehensive (loss)/income for the year		**–**	**–**	**(4,195,531)**	**–**	**992**	**(4,194,539)**	**(250,994)**	**(4,445,533)**
Treasury share disposals		–	–	(97,680)	184,060	–	86,380	–	86,380
Business combinations	12	–	–	–	–	–	–	(39,947)	(39,947)
Purchase of non-controlling interests	12	–	–	97,558	–	–	97,558	(552,875)	(455,317)
Balance at 31 December 2009		**2,498,261**	**70,857**	**(435,691)**	**(320,315)**	**(2,007)**	**1,811,105**	**370,612**	**2,181,717**

1. GENERAL INFORMATION

Open Joint Stock Company Chelyabinsk Tube-Rolling Plant (the "Company" or "Chelpipe") was incorporated on 21 October 1992 and is domiciled in the Russian Federation. The Company was set up in accordance with Russian regulations. Hereinafter, the Company together with its consolidated financial statements, is referred to as the Group.

At 31 December 2009 and 2008, the immediate parent company of the Company is Mountrise Limited which owns 75.7% of its issued share capital. Mr. A.I. Komarov is the ultimate controlling party of the Group.

The Group's principal activities include the production and distribution of pipes and pipe products for oil and gas pipelines, housing and utilities infrastructure and industrial applications. The Group is one of the largest pipe producers in Russia holding significant domestic market shares in welded large diameter pipe, oilfield tubulars and stainless seamless pipes.

The Group has two other operating units as follows:

- Oilfield services unit offering services in exploration and well development for new and existing fields as well as artificial lift design and manufacturing and follow-up services; and
- Metal scrap collection and processing.

The Group's principal manufacturing facilities are based in the Ural and West Siberia regions. 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, which is incorporated under the laws of the United Kingdom. At 31 December 2009, the Group employed approximately 24,834 employees (31 December 2008: 31,603).

The Company's registered address is Russia, 454129, Chelyabinsk, Mashinostroiteley str., 21.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements of the Group and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board.

Going concern and basis of preparation

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 global credit market crisis, which commenced in 2008, has continued to have a negative effect on the industry in which the Group operates. In 2008, the increased turmoil in the credit markets, sudden and rapid decline in construction industry and consequentially the temporary suspension of a number of pipeline construction projects, the volatility in the price of oil, the recession in Russia and the slowdown of economic growth in the rest of the world created a substantially more difficult business environment. The liquidity position of the Group, as well as its operating performance, were negatively affected by these economic and industry conditions and by other financial and business factors, many of which were and continue to be beyond the control of the Group.

As a result, in 2008 and 2009 the Group incurred a net loss from operations and in 2009 breached certain debt covenants as described in Note 19. Accordingly these loans have been classified as current in the accompanying consolidated statement of financial position.

In 2009, management of the Group developed a program to overcome the liquidity shortage faced by the Group. The program included the following measures:

- A cost-cutting program aimed at improving the operating performance of the Group. This program was implemented in the first quarter of 2009, and was aimed at reducing production and selling, general and administrative expenses. Cost cutting activities have been targeted to reduce staff costs, repairs, IT, transportation cost, legal services, advertising, cleaning, security services and optimisation of consumption of metal, auxiliary materials, energy resources; and
- Optimisation of working capital (reducing balances of accounts receivable and inventory, obtaining extended grace periods of payments to main suppliers) resulting in positive operating cash flow.

In 2009, the Group also signed loan agreements with Gazprombank and Sberbank in the amount of RUB 30 billion for the refinancing of its existing debt, and received two state guarantees for a total amount of RUB 10 billion guaranteeing the Group's credit commitments.

Additionally, subsequent to 31 December 2009, the Group has signed several new loan agreements with Chelindbank, Sberbank, Ural Bank for Reconstruction and Development, Vneshtorgbank, Gasprombank, Russian Regional Development Bank and Nomos-Bank in total amount RUB 8,141 million with interest rates of 9.2%-17% and maturity in 2010-2013. These loans are intended to finance the Group's operating activities and capital investments of the Group.

The Group is in the process of obtaining waivers from the banks on the agreements where it has breached financial covenants.

As a consequence of the aforementioned factors, there is a material uncertainty which casts significant doubt on the Group's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Based on cost cutting measures taken and new loans obtained, management believes that it continues to be appropriate for the Group to prepare its consolidated financial statements on a going concern basis. As of the issuance of these statements, the Group has available and unused credit facilities of RUB 13.3 billion.

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

The individual financial statements of each Group entity are presented in its functional currency. The Russian Rouble is the reporting currency of the Group.

Consolidated financial statements

Subsidiaries are those companies and other entities in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs the acquirer incurs in connection with the business combination are recognised as expenses. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the Group's share of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions effective 1 January 2009. 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 the owners of the parent.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost transferred is not recoverable. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Indirect holdings in subsidiaries are consolidated using direct method, whereby the gross amount of goodwill and non-controlling interest which arises on the level of direct subsidiary are recognised in the consolidated financial statements on the level of the parent company.

Non-controlling interest

Non-controlling interest is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised. Non-controlling interest forms a separate component of the Group's equity and may have a deficit balance.

Step acquisitions

A step acquisition refers to obtaining a controlling interest through two or more separate transactions. Goodwill is identified and net assets remeasured to fair value only in respect of the transaction that achieved control, and not in respect of any earlier or subsequent acquisitions of equity interests. In measuring goodwill, any previously-held interests in the acquiree are first remeasured to fair value, with any gain recognised in profit or loss (including the reclassification to profit or loss of any gains previously recognised in other comprehensive income if this would be required on disposal). Similarly, on disposal of a controlling interest, any residual interest is remeasured to fair value and reflected in any profit or loss on disposal.

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.

Associates are accounted for by the equity method of accounting and are initially recognised at cost. The carrying amount of investments in associates includes goodwill identified on acquisition less accumulated impairment losses, if any. 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 its share of post-acquisition movements in reserves is recognised in reserves. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and 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.

Property, plant and equipment

Before transition to IFRS, property, plant and equipment was measured based on Russian Federation accounting principles. Upon transition to IFRS effective 1 January 2003, the Company used an independent appraiser to perform a valuation of property, plant and equipment. Values determined by the appraiser were treated as deemed cost for purposes of the IFRS consolidated financial statements. Subsequent additions to property, plant and equipment are recorded at purchase or construction cost.

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 retired.

Borrowing costs incurred to finance construction of property, plant and equipment are capitalised effective 1 January 2009. This applies to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

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. 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.

Gains and losses on disposals determined by comparing proceeds with carrying amount 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 their estimated residual values 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 represents 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.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share in the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated statement of financial position. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

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 annually.

Other intangible assets (excluding development costs)

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

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 five years.

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

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

Other mainly presented by licensies for production of tubes and engeneering.

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and, when impaired, the asset is written down to the higher of value in use and fair value less costs to sell.

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 consolidated statement of financial position items.

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.

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.

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.

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.

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. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of comprehensive income.

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.

Available-for-sale investments

Available-for-sale investments are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income when the Group’s right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

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

Income taxes

Income taxes have been provided for 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 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. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the 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, interest and taxes other than on income 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 selling expenses.

Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the consolidated statement of comprehensive income.

The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- Any portion of the receivable is overdue for more than 60 days and the late payment cannot be attributed to a delay caused by the settlement systems;
- 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 provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income 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.

Loans receivable

Loans receivable are measured at amortised cost using the effective interest rate method. Interest income is recognised by applying the effective interest rate. A provision 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 provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the consolidated statement of comprehensive income.

Loans receivable and related interest receivable are tested for impairment at each reporting date.

Advances

Advances are carried at cost less provision 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, 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 profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

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. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Treasury shares

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders 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 equity holders. Any difference between the price of treasury share sold and the price at which it was purchased is recognized 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 lisbility 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 date of statement of financial position is recorded as value added tax recoverable in the consolidated financial statements.

VAT and other taxes recoverable is reviewing for impairment at each reporting date.

Borrowings

Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense on a time proportion basis using the effective interest method.

Trade and other payables

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

Finance lease receivables

Where the Group is a lessor in a lease which transfers substantially all the risks and rewards incidental to ownership to the lessee, the assets leased out are presented as a finance lease receivable and carried at the present value of the future lease payments. Finance lease receivables are initially recognised at the date from which the lessee is entitled to exercise its right to use the leased asset, using a discount rate determined at inception (the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease).The difference between the gross receivable and the present value represents unearned finance income. This income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Incremental costs directly attributable to negotiating and arranging the lease are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term. Finance income from leases is recorded within interest income in the consolidated statement of comprehensive income. Impairment of finance lease receivables is recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of finance lease receivables. Impairment losses are recognised through an allowance account to write down the receivables' net carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the interest rates implicit in the finance leases. The estimated future cash flows reflect the cash flows that may result from obtaining and selling the assets subject to the lease.

Finance lease liabilities

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 over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life or the shorter of the lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Provisions for liabilities and charges

Provisions for liabilities and charges 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. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

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 because 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 the 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 2009, the principal rate of exchange used for translating foreign currency balances was US Dollar ("USD") 1 = RUB 30.2442 (31 December 2008: USD 1 = RUB 29.3804). The official Euro to RUB exchange rate at 31 December 2009, as determined by the Central Bank of Russian Federation, was Euro 1 = RUB 43.3883 (31 December 2008: Euro 1 = RUB 41.4411).

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 recognized as revenue. Revenue recognised in this manner is based on an assessment of the fair value of the services provided at the reporting date as a proportion of the value of the engagement. Revenue is only recognized where the Group has a contractual right to receive consideration for work undertaken.

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

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 principally represent an implicit cost of employing production workers and, accordingly, have been charged to the consolidated statement of comprehensive income as cost of sales.

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 the 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 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. 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 the consolidated statement of comprehensive income 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 “Employee benefits”. The Group did not have significant pension plan assets at reporting date.

(thousands of Russian Roubles)

Operating leases

Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership to the Group, the total lease payments, including those of expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Earnings per share

Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

Changes in presentation

Where necessary, corresponding figures of 2008 have been adjusted to conform with changes in the presentation in 2009.

The effects of changes in the consolidated statement of comprehensive income for 2008 were as follows:

	As originally presented	Re-presentation	As adjusted
Cost of sales	59,545,852	1,372,224	60,918,076
Distribution costs	2,289,675	1,902,684	4,192,359
General and administrative expenses	5,926,682	(1,713,512)	3,988,237
Impairment of assets	10,819,172	(1,561,396)	9,257,776

The adjustments are due to the following:

- In 2009, the Group revised its approach to allocating costs to functions and enhanced information on the nature of distribution expenses. The expenses related to CJSC “Uraltrubostal” Trade House – distribution division of the Group were previously recorded in various line items in the consolidated statement of comprehensive loss, however as this entity now only performs distribution activities, costs incurred by this entity are now reflected in distribution expenses. The preceding period has been represented to enhance comparability between periods reported.
- During 2008, the Group classified inventory provisions within impairment of assets. As these expenses are related to products, they have been adjusted to reflect the inventory provisions as part of cost of sales, and reclassification of the reversal of bad debt provision from general and administrative expenses to offset the amount recorded in impairment of assets within the consolidated statement of comprehensive loss.
- In 2008, the Group classified the reversal of bad debt provision within general and administrative expenses. However, in 2009, as bad debt provision is classified in impairment of assets, the reversal of such provision has been reclassified to the impairment of assets line. Prior years have been adjusted to for comparability purposes.

The effects of reclassifications on the consolidated statement of cash flows for the year ended 31 December 2008 were as follows:

	As originally presented	Early adoption of revised IAS 7	As adjusted
Net cash used in investing activities	(29,624,925)	7,632,636	(21,992,289)
Net cash generated from financing activities	30,647,600	(7,632,636)	23,014,964

In 2009, the Group early adopted revised IAS 27 which amended and added paragraphs IAS 7 specifying that cash flows arising from changes in ownership interests in a subsidiary that do not result in a loss of control shall be classified as cash flows from financing activities. The amendments were applied retrospectively.

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 judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the 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 at Note 7, the Group has made certain business combinations. According to IFRS 3 (Revised), the Group should 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 the appropriate rates. The use of valuation assumptions includes discounted cash flows estimates or discount rates and may result in estimated values that are different from the assets acquired and liabilities assumed.

The Group does not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions used to complete the purchase price allocation and estimate the fair value of acquired assets and liabilities. However, if actual results are not consistent with estimates and assumptions considered, the Group may be exposed to losses that could be material.

Revenue recognition

The Group recognizes oilfield service revenue that has not been billed as of the reporting date is recognized based on an assessment of the fair value of the services provided as of that reporting date compared to its proportion of the value of the engagement. Management evaluates the fair value of the services provided at the reporting date based on the costs incurred as of the reporting date compared to the expected overall costs on the engagement. The Group's estimates of revenue at the end of a reporting date may vary from actual if the Group incurs more or less costs on an engagement, the pricing on the engagement changes, or if the scope of work on the engagement is subsequently increased or decreased.

Impairment of goodwill and other intangible assets

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units ("CGU") have been determined based on value-in-use calculations. When the residual carrying value of the asset exceeds its recoverable amount, the Group recognizes a reduction in this asset's book balance. Except for the impairment of goodwill, a reversal of previously recorded impairment losses is allowed. Reversal in these circumstances is limited up to the amount of depreciated balance of the asset at the date of the reversal, determined considering as if the impairment had not been recorded.

The value-in-use calculated are based on projections for expected discounted cash flows and that take 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 CGU: Uraltrubostal ("UTS"), Meta, Pervouralsk New Pipe Plant ("PNTZ") and Rimera. All CGUs were tested for impairment at 31 December 2009. The tests carried out did not identify any new impairment to the Group's goodwill as well as other assets with indefinite useful life.

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 an impairment in future periods.

Deferred taxes

In accounting for uncertainty in income taxes, management is required to develop estimates as to whether a tax benefit should be recognized in the consolidated financial statements, based on whether it is probable that the technical merits of the position will be sustained based on audit by the tax authorities. In estimating levels of future profitability, the Group has considered historical results of operations in recent years and consider the availability of prudent and feasible tax planning strategies. If actual events differ from management's estimates, or to the extent that these estimates are adjusted in the future, a change in the amount of deferred tax assets would be recorded during that period. In 2009, the Group recorded deferred tax assets previously not recognized due to to a change in management's estimate of future profits in certain jurisdictions.

Related party transactions

In the normal course of business the Group enters into transactions with related parties. Judgement is applied in determining if transactions are priced at market or non-market prices, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses.

Accounts receivable

When receivables are recognized 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 carries no interest are measured at the original invoice amount if the effect of discounting is immaterial less provision 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 2009, the allowance for doubtful debts amounted to RUB 3,197,458 thousand (31 December 2008: RUB 1,043,304 thousand) as further specified in Note 16. 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 recognized 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 as a reduction of income. Subsequently promissory notes receivable are measured at amortised cost using the effective interest method.

The Group creates a provision against promissory notes receivable to account for estimated losses resulting from the inability of customers to make the required payments. At 31 December 2009, the provision amounted to RUB 271,514 thousand (31 December 2008: RUB 256,514 thousand) as further specified in Note15. When evaluating the adequacy of the provision, 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 provision recorded in consolidated financial statements.

Inventory obsolescence

The provision for obsolete inventory is based on the Group's ability to identify obsolete inventory and assess its future prospects for utilisation. Net realisable value is estimated based on arm's length transactions performed immediately before or after the reporting date. In 2009, the Group reversed obsolescence provision of RUB 583,868 thousand (2008: recognised obsolescence provision of RUB 1,336,463 thousand) as further specified in Note 27.

Useful life of property, plant and equipment

Depreciation of property, plant and equipment is charged based on the useful life as describe in Note 2. Useful lives are reconsidered and revised as appropriate. At each reporting date, the Group carries out a review of the carrying amount of these assets to determine whether carrying amount differs materially from fair value. The Group carries out such review by preparing a discounting cash flow analysis including assumption such as projected revenues and a discount rate. Additionally, the Group considers economic stability and availability of transactions with similar assets in the market when determining whether to perform a fair value analysis in any given period.

In 2009, the Group reviewed estimated useful lives of property, plant and equipment and decreased it for some items. This resulted in growth of depreciation charge in 2009 by RUB 88,402 thousand.

Employee benefits/pensions

The Group uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. 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 deep 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).

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new standards, amendments to standards or interpretations are adopted by the Group and effective for the financial year commencing 1 January 2009:

- IFRS 3 (Revised) “Business combinations”;
- IFRS 7 “Financial instruments: disclosures” – amendment;
- IFRS 8 “Operating segments”;
- IAS 1 “Presentation of financial statements” – amendment;
- IAS 16 “Property, plant and equipment” – amendment;
- IAS 19 “Employee benefits” – amendment;
- IAS 23 “Borrowing costs” – amendment;
- IAS 27 “Consolidated and separate financial statements” – amendment;
- IAS 28 “Investments in associates” – amendment;
- IAS 32 “Financial Instruments: presentation” – amendment;
- IAS 34 “Interim financial reporting” – amendment;
- IAS 36 “Impairment of assets” – amendment;
- IAS 38 “Intangible assets” – amendment;
- IAS 39 “Financial instruments: recognition and measurement” – amendment.

IAS 1 (Revised 2007) “Presentation of Financial Statements” has introduced a number of terminology changes (including revised titles for the condensed financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised Standard has had no impact on the reported results or financial position of the Group.

IFRS 3 (Revised) and IAS 27 (Amended), which are effective for annual periods beginning on or after 1 July 2009, have been early adopted by the Group. Its adoption has affected the accounting for business combinations in 2009.

In accordance with the relevant transitional provisions, IFRS 3 (Revised) has and IAS 27 (Amended) have been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2009. The impact of the adoption of IFRS 3 (Revised) has and IAS 27 (Amended) have been:

- The definition of a business was broadened so that it contains also activities and assets that are not managed as a business as long as the seller is capable of operating them as a business;
- To allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as ‘minority’ interests) either at fair value or at the non-controlling interests’ share of the fair value of the identifiable net assets of the acquiree;
- To change the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognised against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the ‘measurement period’ (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognised in profit or loss;
- Subsequent measurement of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date will be against profit or loss and not as adjustment to goodwill;

(thousands of Russian Roubles)

- A transaction with the non-controlling interests, whether a sale or an acquisition, will be accounted for as an equity transaction and will therefore not be recognized in the statement of income or have any effect on the amount of goodwill, respectively;
- Where the business combination in effect settles a pre-existing relationship between the Group and the acquiree, to require the recognition of a settlement gain or loss; and
- To require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

IFRS 3 (Revised) and IAS 27 (Amended) have also required additional disclosures in respect of the business combinations in the period (Note 7). The revised IAS 27 specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. In 2009, the Group recognised RUB 97,558 thousand directly in retained earnings as a result of changes in parent's ownership interest.

The adoption of the other standards above did not have impact on the Group's consolidated financial statements.

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 current year:

	Effective for annual periods beginning on or after
IAS 1 "Presentation of financial statements" – amendment	1 January 2010
IAS 7 "Statement of cash flows" – amendment	1 January 2010
IAS 17 "Leases" – amendment	1 January 2010
IAS 24 "Related party disclosure" – revision	1 January 2011
IAS 32 "Financial instruments: presentation" – amendment	1 February 2010
IAS 36 "Impairment of assets" – amendment	1 January 2010
IAS 39 "Financial Instruments: recognition and measurement" – amendment	1 January 2010
IFRS 2 "Share-based payment" – amendment	1 January 2010
IFRS 5 "Non-current assets held for sale and discontinued operations" – amendment	1 January 2010
IFRS 8 "Operating segments" – amendment	1 January 2010
IFRS 9 " Financial instruments"	1 January 2013
IFRIC 14 "IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction"	1 January 2011
IFRIC 16 "Hedges of a net investment in a foreign operation"	1 July 2009
IFRIC 17 "Distributions of non-cash assets to owners"	1 July 2009
IFRIC 19 "Extinguishing financial liabilities with equity"	1 July 2010

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 Group 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 principal subsidiaries consolidated within the Group and the degree of control exercised by the Company are as follows:

Subsidiary	Country of incorporation	Activities	Effective ownership, % 31 December 2009	Effective ownership, % 31 December 2008
OJSC "Pervouralsk New Pipe Plant" ("PNTZ")	Russia	Tube manufacturing	100.00%	100.00%
CJSC "Uraltrubostal" Trade House ("UTS")	Russia	Tube distribution	99.00%	99.00%
CJSC SKS "MeTriS"	Russia	Tube distribution	100.00%	100.00%
OJSC "BAZA MTS"	Russia	Tube distribution	98.19%	98.19%
CJSC "Baza MP"	Russia	Tube distribution	100.00%	70.00%
CJSC "Logistic Krasnoyarsk"	Russia	Tube distribution	100.00%	100.00%
CJSC "Logistic Severo-Zapad"	Russia	Tube distribution	100.00%	100.00%
CJSC "Zhilevskaya Metallobaza"	Russia	Tube distribution	100.00%	100.00%
ARKLEY (UK) LIMITED	United Kingdom	Tube distribution	100.00%	100.00%
CJSC "ChTPZ-Meta"	Russia	Metal scrap procurement	99.90%	–
OJSC "Samaravtormet"	Russia	Metal scrap procurement	97.95%	–
OJSC "UNP "Vtorchermet"	Russia	Metal scrap procurement	100.00%	100.00%
LLC "Meta-Invest"	Russia	Rent of property	100.00%	100.00%
CJSC "RIMERA"	Russia	Oilfield service	100.00%	99.90%
InvestFinansGrupp Ltd.*	Russia	Oilfield service	100.00%	100.00%
OJSC "ALNAS"*	Russia	Oilfield service	100.00%	75.05%
OJSC "BENZ"*	Russia	Oilfield service	–	56.51%
LLC "Alnas-N"*	Russia	Oilfield service	100.00%	100.00%
OJSC "Izhneftemash"*	Russia	Oilfield service	50.42%	50.20%
CJSC "Taymyrnefterazvedka"*	Russia	Oilfield service	100.00%	100.00%
Tomskneftegazgeofizika Ltd.*	Russia	Oilfield service	100.00%	100.00%
Uganskneftegazgeofizika Ltd.*	Russia	Oilfield service	99.00%	99.00%

Rimera is the parent company of a group of 33 legal entities, none of which are individually material except for the entities marked by *.

7. BUSINESS COMBINATIONS AND DISPOSALS

2008 acquisitions

Vtorchermet

On 10 January 2008, the Group acquired 100% of OJSC UNP Vtorchermet ("Vtorchermet"), a company engaged in procuring ferrous and non-ferrous metal scrap, for a cash consideration of RUB 223,257 thousand. The amount was prepaid in December 2007. The acquired subsidiary contributed revenue of RUB 821 million and a loss of RUB 37 million. If the acquisition had occurred on 1 January 2008, consolidated revenue and net profit of the Group would not have changed significantly.

The goodwill which arose on acquisition of OJSC UNP Vtorchermet was allocated to CGU Meta Invest (CGU Meta at present). The goodwill which arose on acquisition includes labour resources and potential synergy effect.

(thousands of Russian Roubles)

	Notes	Acquiree's carrying amount	Attributed fair value*
Accounts receivable		99,999	99,999
Inventories		32,723	29,642
Cash and cash equivalents		5,448	5,448
Property, plant and equipment	10	32,715	148,753
Other assets		5,750	4,364
Borrowings		(44,796)	(44,796)
Trade and other payables		(81,459)	(83,390)
Deferred tax liabilities	29	—	(25,179)
Fair value of net assets of subsidiary			**134,841**
Fair value of acquired interest in net assets of subsidiary			**134,841**
Goodwill arising from the acquisition	12		88,416
Total purchase consideration			**223,257**
Less cash and cash equivalents of subsidiary acquired			(5,448)
Less amount prepaid in 2007			(223,257)
Net inflow of cash and cash equivalents on acquisition			**5,448**

* The valuation of identifiable assets, liabilities and contingent liabilities was performed with the involvement of an independent professional appraiser.

Arkley UK

On 13 March 2008, the Group acquired 100% of Arkley UK for a cash consideration of RUB 131,820 thousand, which was paid in 2008. Since Arkley UK had already acted as a distributor of the Group's products abroad, its acquisition did not contribute any material amount of revenue and profit to the Group. If the acquisition had occurred on 1 January 2008, consolidated profit of the Group would not have changed significantly.

The goodwill which arose on acquisition 100% of Arkley UK was allocated to CGU UTS. As a result of this transaction goodwill allocated on CGU UTS increased by RUB 114,620 thousand. At the reporting date it was fully impaired.

	Notes	Acquiree's carrying amount	Attributed fair value*
Accounts receivable		196,957	196,957
Cash and cash equivalents		69,148	69,148
Property, plant and equipment	10	12	12
Trade and other payables		(248,917)	(248,917)
Fair value of net assets of subsidiary			**17,200**
Fair value of acquired interest in net assets of subsidiary			**17,200**
Goodwill arising from the acquisition	12		114,620
Total purchase consideration			**131,820**
Less cash and cash equivalents of subsidiary acquired			(69,148)
Net outflow of cash and cash equivalents on acquisition			**(62,672)**

* The valuation of identifiable assets, liabilities and contingent liabilities was performed using company's own resources.

(thousands of Russian Roubles)

Rimera

On 8 May 2008, the Group acquired 68% of CJSC Rimera and its subsidiaries, which are engaged in oilfield services and equipment manufacturing, for a cash consideration of RUB 1,360 thousand, which was fully paid in 2008. The acquired subsidiary contributed revenue of RUB 6,614 million and a loss of RUB 4,166 million in 2008. If the acquisition had occurred on 1 January 2008, consolidated revenue of the Group for the year ended 31 December 2008 would have increased by RUB 3,730 million and consolidated loss increased by RUB 98 million.

As a result of this transaction goodwill in the amount of RUB 3,474,925 thousand arose. Management considers this acquisition of this group to give rise to a new CGU. The goodwill which arose on acquisition relates to potential synergy effect from widening of range of rendered services and manufactured oilfield equipments for oil-producing industry.

In December 2008, the Group increased Rimera's charter capital by RUB 4,700 million. As a result of this transaction the Group's share increased to 99.9 %. Goodwill and non-controlling interest did not change.

	Notes	Acquiree's carrying amount	Attributed fair value*
Accounts receivable		3,438,318	3,438,318
Cash and cash equivalents		121,539	121,539
Property, plant and equipment	10	2,975,254	3,062,406
Intangible assets	11	39,512	207,689
Inventories		1,107,924	1,107,924
Treasury shares		508,216	508,216
Loans receivable		2,816,100	2,816,100
Other assets		17,401	4,696
Deferred tax assets	29	181,574	97,307
Borrowings		(8,604,905)	(8,604,905)
Trade and other payables		(5,237,989)	(5,237,989)
Fair value of net assets of subsidiary			**(2,478,699)**
Non-controlling interest	12		(994,866)
Fair value of acquired interest in net assets of subsidiary			**(3,473,565)**
Goodwill arising from the acquisition	12		3,474,925
Total purchase consideration			**1,360**
Less cash and cash equivalents of subsidiary acquired			(121,539)
Net inflow of cash and cash equivalents on acquisition			**120,179**

* The valuation of identifiable assets, liabilities and contingent liabilities was performed with the involvement of an independent professional appraiser.

Acquired intangible assets are mainly presented by development cost capitalized and customer lists.

At the acquisition date Rimera held a number of investments in subsidiaries which were acquired before acquisition date using loans received from Group companies. The amount of these loans comprised RUB 4,640 million.

(thousands of Russian Roubles)

Invest Finance Group

On 22 May 2008, the Group acquired 100% of LLC Invest Finance Group and its subsidiaries, which are engaged in oilfield services, for a cash consideration of RUB 1,557,938 thousand, which was fully paid in 2008. The acquired subsidiary contributed revenue of RUB 1,130 million and a profit of RUB 93 million in 2008. If the acquisition had occurred on 1 January 2008, consolidated revenue of the Group for 2008 would have increased by RUB 416 million and consolidated loss decreased by RUB 68 million.

As a result of this transaction goodwill in the amount of RUB 1,028,152 thousand arose. Management considers it as a part of CGU Rimera. The goodwill which arose on acquisition relates to potential synergy effect from widening of range of rendered services and manufactured oilfield equipment for oil-producing industry.

	Notes	Acquiree's carrying amount	Attributed fair value*
Accounts receivable		376,211	375,744
Inventories		67,126	67,126
Cash and cash equivalents		13,356	13,356
Property, plant and equipment	10	232,006	288,616
Intangible assets	11	873	230,686
Investments		10,007	10,564
Deferred tax asset/(liability)	29	17,366	(53,491)
Borrowings		(58,206)	(58,206)
Trade and other payables		(309,702)	(309,702)
Fair value of net assets of subsidiary			**564,693**
Non-controlling interest	12		(34,907)
Fair value of acquired interest in net assets of subsidiary			**529,786**
Goodwill arising from the acquisition	12		1,028,152
Total purchase consideration			**1,557,938**
Less cash and cash equivalents of subsidiary acquired			(13,357)
Net outflow of cash and cash equivalents on acquisition			**(1,544,581)**

* The valuation of identifiable assets, liabilities and contingent liabilities was performed with the involvement of an independent professional appraiser.

Acquired intangible assets are mainly presented by patents and software.

Regionalnoye Obedinenie Stroiteley Neftyanih i Gazovih Skvazhin

On 11 June 2008, Group acquired 100% of OJSC Regionalnoye Obedinenie Stroiteley Neftyanih i Gazovih Skvazhin ("RNGG") and its subsidiaries, which are engaged in oilfield services, for consideration of RUB 210,313 thousand which was fully paid in 2008. The acquired subsidiary contributed revenue of RUB 251 million and a loss of RUB 115 million in 2008. If the acquisition had occurred on 1 January 2008, consolidated revenue of the Group for of the year ended 31 December 2008 would have increased by RUB 429 million and consolidated loss decreased by RUB 2 million.

As a result of this transaction goodwill in the amount of RUB 23,867 thousand arose and was allocated to CGU Rimera. The goodwill which arose on acquisition relates to potential synergy effect from widening of range of rendered services and manufactured oilfield equipments for oil-producing industry.

(thousands of Russian Roubles)

	Notes	Acquiree's carrying amount	Attributed fair value*
Accounts receivable		230,457	230,457
Inventories		99,225	99,225
Cash and cash equivalents		12,291	12,291
Property, plant and equipment	10	59,195	356,535
Investments		2,776	2,776
Deferred tax asset/(liability)	29	10,352	(61,009)
Borrowings		(103,067)	(103,067)
Trade and other payables		(337,295)	(337,295)
Fair value of net assets of subsidiary			**199,913**
Non-controlling interest	12		(13,467)
Fair value of acquired interest in net assets of subsidiary			**186,446**
Goodwill arising from the acquisition	12		23,867
Total purchase consideration			**210,313**
Less cash and cash equivalents of subsidiary acquired			(12,291)
Net outflow of cash and cash equivalents on acquisition			**(198,022)**

* The valuation of identifiable assets, liabilities and contingent liabilities was performed with the involvement of an independent professional appraiser.

Acquired intangible assets are mainly presented by customer lists.

Izhneftemash

On 2 October 2008, Group acquired 50.2% of OJSC Izhneftemash. Consideration of RUB 160,222 thousand was fully paid in 2008. The acquired subsidiary contributed revenue of RUB 378 million and a profit of RUB 223 million in 2008. If the acquisition had occurred on 1 January 2008, consolidated revenue of the Group for of the year ended 31 December 2008 would have increased by RUB 895 million and consolidated loss decreased by RUB 54 million. Management considers this entity as a part of CGU Rimera.

As a result of this transaction negative goodwill in the amount of RUB 105,522 thousand was recognised in general and administrative expenses of the consolidated statement of comprehensive income.

	Notes	Acquiree's carrying amount	Attributed fair value*
Accounts receivable		412,732	412,732
Cash and cash equivalents		6,994	6,994
Property, plant and equipment	10	171,025	631,893
Intangible assets	11	10,087	74,584
Inventories		448,071	448,071
Investments in associates		133,852	775,603
Preferred shares		(166,198)	(166,198)
Deferred tax asset/(liability)	29	20,921	(261,544)
Borrowings		(299,752)	(299,752)
Trade and other payables		(566,115)	(563,180)
Fair value of net assets of subsidiary			**1,059,203**
Non-controlling interest			(519,747)
Fair value of acquired interest in net assets of subsidiary			**539,456**
Goodwill arising from the acquisition			(105,522)
Income from associates			(273,712)
Total purchase consideration			**160,222**
Less cash and cash equivalents of subsidiary acquired			(6,994)
Net outflow of cash and cash equivalents on acquisition			**(153,228)**

* The valuation of identifiable assets, liabilities and contingent liabilities was performed with the involvement of an independent professional appraiser.

(thousands of Russian Roubles)

2009 acquisitions

Meta

On 2 April 2009, the Group acquired 99.9% of CJSC ChTPZ-Meta and its subsidiaries, which are engaged in scrap procurement activity, for a cash consideration of RUB 176,937 thousand which was fully paid in 2009. The acquired subsidiary contributed revenue of RUB 1,351 million and a loss of RUB 496 million in 2008. 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 388 million and consolidated loss increased by RUB 152 million.

As a result of this transaction goodwill in the amount of RUB 472,478 thousand arose and was allocated to new combined CGU Meta.

	Notes	Acquiree's carrying amount	Attributed fair value*
Accounts receivable		1,343,800	1,343,800
Cash and cash equivalents		4,499	4,499
Property, plant and equipment	10	299,344	447,597
Intangible assets	11	2,239	4,745
Inventories		169,426	169,426
Loans receivable		77,959	77,959
Deferred tax asset	29	10,955	10,955
Borrowings		(1,345,167)	(1,345,167)
Trade and other payables		(1,008,150)	(1,008,150)
Fair value of net assets of subsidiary			**(294,336)**
Non-controlling interest	12		(1,205)
Fair value of acquired interest in net assets of subsidiary			**(295,541)**
Goodwill arising from the acquisition	12		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 with the involvement of an independent professional appraiser.

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

	14 September 2009
Property, plant and equipment	58,811
Intangible assets	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	43,324
Borrowings	(1,144)
Trade and other payables	(741,597)
Net assets disposed of	**(321,464)**
Consideration received in cash	16,834
Net assets	**(338,298)**

(thousands of Russian Roubles)

2008 disposal

Tirus Snab

Tirus Snab (“Tirus”) was a subsidiary of the Group engaged in the distribution of the Group’s products to its final customers. Tirus was the parent company of a number of subsidiaries each individually immaterial. Due to optimisation of the Group’s distribution network all Tirus companies, except for three warehouses, were disposed to third parties in 2008. The purchase consideration comprised RUB 1 million.

Net assets of Tirus Snab at disposal date were negative and totalled RUB 37,981 thousand. Details of the assets and liabilities disposed were as follows:

	1 January 2008
Property, plant and equipment	258
Inventory	401
Accounts receivable	116,970
Cash and cash equivalents	8,802
Borrowings	(43,266)
Trade and other payables	(121,146)
Net assets	**(37,981)**

In 2008, the Group also disposed of two other subsidiaries, none of them individually material: TH Pervouralsktrubostal (“PTS”) and Tirus Stainless. At 1 January 2008, Tirus Stainless was a subsidiary of the Group engaged in the distribution of the Group’s products to its final customers. Net assets of Tirus Stainless at disposal date were negative and totalled RUB 28,189 thousand. At 1 January 2008, PTS was a subsidiary controlled through representation in the board of directors with all net assets attributed to non-controlling interest. Control ceased in 2008. The effect of net assets disposed resulted in corresponding decrease in non-controlling interest.

2009 disposal

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.

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

8. SEGMENT REPORTING

Business segments

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

- Tube production – representing tubes and other related products;
- Oilfield services – representing integrated services and equipment manufacturing for oil and gas industrial sector such as oil-line pumps manufacturing, drilling, work over and technology services, formation evaluation services and other related products, works and services; and
- Scrap metal procurement – representing activities of picking, processing and procurement scrap metal for supplying tube production segment with raw materials.

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 property, plant and equipment, intangible assets, inventories, receivables, operating cash and other current and non-current asset. 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 ("EBITDA"). Segment EDITDA is determined as segment's operating profit adjusted to exclude depreciation and amortisation expense. Since this term is not defined in IFRS the Group's definition of 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.

Segment information for the main reportable business segments of the Group for 2009 and 2008 is set out below.

(thousands of Russian Roubles)

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

	Tube production	Oilfield services	Scrap procurement	Total (as reviewed by CODM)	Adjustments	Total (as per IFRS consolidated financial statements)
Revenue from external customers	41,678,332	10,382,951	2,390,571	54,451,854	1,627,534	56,079,388
Inter-segment revenue	194,886	—	60,300	255,186	(255,186)	—
Total revenue	**41,873,218**	**10,382,951**	**2,450,871**	**54,707,040**	**1,372,348**	**56,079,388**
Distribution costs	(1,776,188)	(480,445)	(269,072)	(2,525,705)	(1,297,447)	(3,823,152)
General and administrative expenses*	(3,062,325)	(1,394,276)	(272,662)	(4,729,263)	(928,335)	(5,657,598)
Other operating expenses	(214,743)	(149,240)	—	(363,983)	(52,982)	(416,965)
Impairment of assets	—	(244,906)	1,203	(243,703)	(2,373,569)	(2,617,272)
Foreign exchange (loss)/gains, net	(370,515)	(28,426)	(2)	(398,943)	(538,313)	(937,256)
EBITDA	**7,618,144**	**207,480**	**75,043**	**7,900,667**	**(2,808,355)**	**5,092,312**
Depreciation and amortisation	(972,506)	(727,937)	(148,511)	(1,848,954)	(495,637)	(2,344,591)
Interest expense, net	(5,843,985)	(1,299,485)	(19,429)	(7,162,899)	(19,114)	(7,182,013)
Income tax (expense)/benefit	(409,939)	(55,643)	23,713	(441,869)	680,630	238,761
Income/(loss) for the year	**391,714**	**(1,875,585)**	**(69,184)**	**(1,553,055)**	**(2,893,470)**	**(4,446,525)**

*Including relevant portion of depreciation and amortisation expense.

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

	Revenue	Distribution costs	General and administrative expenses
As reviewed by CODM	**54,707,040**	**(2,525,705)**	**(4,729,263)**
Intercompany elimination	(68,109)	(387,026)	294,491
Reclassifications	203,906	224,477	(720,172)
Railroad tariff	1,130,175	(1,137,467)	—
Provisions for uncertain tax positions	—	—	(295,671)
Other	106,376	2,569	(206,983)
As per IFRS consolidated financial statements	**56,079,388**	**(3,823,152)**	**(5,657,598)**

(thousands of Russian Roubles)

The reconciling items between the information reviewed by the CODM and the information in the consolidated financial statements represent IFRS adjustments.

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

	Tube production	Oilfield services	Scrap procurement	Total (as reviewed by CODM)	Adjustments	Total (as per IFRS consolidated financial statements)
Current assets	46,939,358	5,505,183	1,806,273	54,250,814	(17,169,598)	37,081,216
Other assets	47,592,901	9,947,421	1,519,414	59,059,736	(6,735,211)	52,324,525
Total assets	**94,532,259**	**15,452,604**	**3,325,687**	**113,310,550**	**(23,904,809)**	**89,405,741**
Current liabilities	29,769,494	12,647,673	1,363,470	43,780,637	22,647,763	66,428,400
Other liabilities	51,636,446	365,398	157	52,002,001	(31,206,377)	20,795,624
Total liabilities	**81,405,940**	**13,013,071**	**1,363,627**	**95,782,638**	**(8,558,614)**	**87,224,024**

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

	Current assets	Other assets	Current liabilities	Other liabilities
As reviewed by CODM	**54,250,814**	**59,059,736**	**43,780,637**	**52,002,001**
Elimination of intercompany investments	(325,265)	(6,382,051)	—	—
Goodwill impairment	—	(4,805,961)	—	—
Reclassifications	(1,725,635)	715,478	22,010,156	(23,020,749)
Impairment of assets	(4,669,137)	18,386	—	—
Fair value adjustments	—	891,048	(195,802)	(284,249)
Scope of consolidation	(10,835,889)	2,803,473	(11,097,978)	3,206,298
Difference in closing period accruals made in management accounts	414,769	37,718	11,354,075	(11,637,220)
Provisions	—	—	591,573	337,878
Treasury shares	—	(334,907)	—	187,193
Deferred tax	43,930	129,522	(87,636)	(34,149)
Other	(72,371)	192,083	73,375	38,621
As per IFRS consolidated financial statements	**37,081,216**	**52,324,525**	**66,428,400**	**20,795,624**

(thousands of Russian Roubles)

Segment information related to the Group's consolidated statement of comprehensive income for 2008:

	Tube production	Oilfield services	Scrap procurement	Total (as reviewed by CODM)	Adjustments	Total (as per IFRS consolidated financial statements)
Revenue from external customers	61,090,563	5,991,046	3,434,648	70,516,257	5,105,074	75,621,331
Inter-segment revenue	14,512	13,049	36	27,597	(27,597)	–
Total revenue	**61,105,075**	**6,004,095**	**3,434,684**	**70,543,854**	**5,077,477**	**75,621,331**
Distribution costs	(2,598,456)	(120,140)	(312,362)	(3,030,958)	(1,161,401)	(4,192,359)
General and administrative expenses*	(3,548,640)	(1,025,909)	(311,300)	(4,885,849)	672,679	(4,213,170)
Other operating expenses	(419,602)	–	–	(419,602)	(238,603)	(658,205)
Impairment of assets	(4,161,546)	(5,288,323)	(32,840)	(9,482,709)	224,933	(9,257,776)
Foreign exchange (loss)/gains, net	(1,759,620)	–	1,928	(1,757,692)	209,502	(1,548,190)
EBITDA	**5,982,972**	**444,958**	**92,995**	**6,520,925**	**(9,569,846)**	**(3,048,921)**
Depreciation and amortisation	(879,564)	(296,814)	(103,939)	(1,280,317)	(738,442)	(2,018,759)
Interest expense, net	(2,483,830)	(768,639)	(18,428)	(3,270,897)	(367,933)	(3,638,830)
Income tax (expense)/benefit	(803,346)	(115,505)	(8,773)	(927,624)	468,093	(459,531)
Income/(loss) for the year	**1,816,232**	**(736,000)**	**(38,145)**	**1,042,087**	**(10,208,128)**	**(9,166,041)**

*Including relevant portion of depreciation and amortisation expense.

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

	Revenue	Distribution costs	General and administrative expenses
As reviewed by CODM	**70,543,854**	**(3,030,958)**	**(4,885,849)**
Intercompany elimination	1,743,721	(13,240)	(53,736)
Access of acquired share in net assets over consideration	–	–	(109,017)
Reclassifications	1,279,740	146,877	1,109,597
Railroad tariff	1,317,502	(1,317,502)	–
Other	736,514	22,464	(274,165)
As per IFRS consolidated financial statements	**75,621,331**	**(4,192,359)**	**(4,213,170)**

The differences in amortisation and depreciation between the amounts reviewed by the CODM and IFRS financial information arose because the CODM reviews information based on statutory accounting, before adjustments arising from transformation to IFRS and fair value adjustments of assets acquired in business combinations.

(thousands of Russian Roubles)

The differences in scope of consolidation arose due to different entities included in management information reviewed by the CODM and IFRS consolidated financial statements. The difference in railroad tariff arose due to different classification of a re-invoiced railroad tariff in the management accounting and in the IFRS consolidated financial statements.

Segment information related to the Group's consolidated financial position at 31 December 2008:

	Tube production	Oilfield services	Scrap procurement	Total (as reviewed by CODM)	Adjustments	Total (as per IFRS consolidated financial statements)
Current assets	39,710,743	6,523,000	2,528,889	48,762,632	(13,636,471)	35,126,161
Other assets	49,533,278	14,403,000	1,173,620	65,109,898	(22,381,154)	42,728,744
Total assets	**89,244,021**	**20,926,000**	**3,702,509**	**113,872,530**	**(36,017,625)**	**77,854,905**
Current liabilities	38,578,706	16,433,000	1,755,979	56,767,685	10,629,785	67,397,470
Other liabilities	23,563,854	484,000	858	24,048,712	(20,627,411)	3,421,301
Total liabilities	**62,142,560**	**16,917,000**	**1,756,837**	**80,816,397**	**(9,997,626)**	**70,818,771**

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

	Current assets	Other assets	Current liabilities	Other liabilities
As reviewed by CODM	**48,762,632**	**65,109,898**	**56,767,685**	**24,048,712**
Elimination of intercompany investments	–	(28,375,893)	(4,700,000)	–
Reclassifications	(6,081,645)	4,326,099	18,067,630	(19,823,176)
Impairment of assets	(3,483,847)	(728,596)	–	–
Revaluation of assets	–	3,331,572	–	–
Scope of consolidation	(3,670,094)	468,223	(2,864,442)	(525,649)
Difference in closing period accruals made in management accounts	(168,778)	(428,770)	463,771	(1,002,295)
Treasury shares	–	(504,375)	–	–
Provisions	–	–	390,443	236,399
Deferred tax	–	(251,371)	(474,882)	293,308
Other	(232,107)	(218,043)	(252,735)	194,002
As per IFRS consolidated financial statements	**35,126,161**	**42,728,744**	**67,397,470**	**3,421,301**

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. All of the Group's assets and capital expenditures are located in Russia.

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

	Russian Federation	Common-wealth of Independent States	Other	Total
Revenue for 2009	51,179,125	2,568,551	2,331,712	56,079,388
Revenue for 2008	65,274,658	5,762,036	4,584,637	75,621,331

(thousands of Russian Roubles)

Major customers

The Group's sales to major customers for 2009 and 2008 are set out in the table below:

	2009	2008
Customer 1	6,825,882	4,195,281
Customer 2	2,988,480	2,198,921
Customer 3	2,232,648	1,926,627
Total revenue (all attributable to tube production)	**12,047,010**	**8,320,829**

The Group's major customers are oil and gas companies or pipeline construction companies for which the Group has a long history of relationships. Therefore, management of the Group has reliance on its major customers.

Analysis of revenue by groups of similar products is presented in Note 23.

9. 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 are predominantly comprised of 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 2009 are detailed below:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Trade and other receivables	163,366	1,335,703	169,022
Originated loans and promissory notes receivable:			
- RUB denominated, bearing interest of 9.1-15% p.a.	—	100,812	—
- USD denominated, 11-16%	—	7,065	606,246
Trade and other payables	(151,929)	(390,836)	(606,950)
Loans payable:			
- RUB denominated, bearing interest of 9.1-16% p.a.	—	—	(535,150)
- RUB denominated, bearing interest of 0.1%-3% p.a.	(45,045)	(499,029)	(518,386)

In 2009, the Group transferred debts of third parties to related parties are carried at fair value of RUB 126,826 thousand under the cession agreement (2008: RUB 35,502 thousand).

(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)
Distribution costs, general and administrative expenses	(938)	(792,561)	(34,957)
Finance income/(cost), net	2,244	(49,015)	332,276

Transactions 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
Sales of tubes	–	474	176,823
Sales of scrap metal	–	1,567,653	–
Sales of oilfield service and equipment	820,793	9,129	29,915
Other sales	203	200,483	109,009
Total revenues	**820,996**	**1,777,739**	**315,747**
Purchases of zinc	–	–	(41,500)
Purchases of scrap metal	–	(340,317)	(338)
Other purchases	(7,788)	(197,660)	(1,802)
Total purchases	**(7,788)**	**(537,977)**	**(43,640)**
Management services	–	(650,967)	(46,288)
Operating lease profit	–	153,403	11,676
Operating lease expenses	(938)	(1,177)	(345)
Information and consulting services	–	(293,820)	–
Total distribution costs, general and administrative expenses	**(938)**	**(792,561)**	**(34,957)**

Management services are provided by an entity controlled by the Group's controlling shareholder which has the authority and responsibility for planning, directing and controlling the activities of the Group.

At 31 December 2009, no guarantees were issued/received by the Group on behalf of related parties.

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	(1,449)

(thousands of Russian Roubles)

At 31 December 2008, outstanding balances with related parties were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Trade and other receivables	190,105	630,859	362
Originated loans and promissory notes receivable:			
- RUB denominated, bearing interest of 9.1-13% p.a.	—	153,716	—
- RUB denominated, bearing interest of 1% p.a.	—	676,831	—
- USD denominated, 13-16%	—	280,570	—
Short-term lease receivable (Note 15)	—	14,108	—
Long-term lease receivable (Note 15)	—	58,450	—
Trade and other payables	(216,745)	(1,133,210)	(87,564)
Loans payable:			
- RUB denominated, bearing interest of 9.1-16% p.a.	—	(2,526,269)	—
- RUB denominated, bearing interest of 0.1% p.a.	(49,000)	—	—
Unamortised balance of fair value of originated financial guarantees	—	(1,603)	—

Income and expense items with related parties in 2008 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	366,846	3,337,395	21,074
Purchases	(10,323)	(4,270,529)	(125,741)
Distribution costs, general and administrative expenses	(269)	(740,621)	—
Finance income/(cost), net	(51)	225,465	66

Transactions with related parties in 2008 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Sales of tubes	—	886,364	7,492
Sales of scrap metal	—	1,335,976	12,726
Sales of oilfield service and equipment	365,967	231,746	—
Other sales	879	883,309	856
Total revenues	**366,846**	**3,337,395**	**21,074**
Purchases of zinc	—	—	(121,239)
Purchases of scrap metal	—	(1,045,423)	—
Purchases of oilfield equipment	(1,915)	(2,017,086)	—
Other purchases	(8,408)	(1,208,020)	(4,502)
Total purchases	**(10,323)**	**(4,270,529)**	**(125,741)**
Management services	—	(808,576)	—
Operating lease profit	—	223,962	—
Operating lease expenses	(269)	(265)	—
Information and consulting services	—	(210,803)	—
Other services	—	(6,437)	—
Amortisation of fair value of originated	—	61,498	—
Total distribution costs, general and administrative expenses	**(269)**	**(740,621)**	**—**

(thousands of Russian Roubles)

Transactional cash flows with related parties in 2008 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	38,919	(2,810,684)	(124,904)
Financing activities	(59)	2,147,787	196,960
Investing activities	757	(1,384,109)	(90,925)

At 31 December 2008, other rights and obligations with related parties are stated below. The amounts are guarantees issued/received by the Group on behalf of related parties and represent the maximum exposure for the guarantor:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Guarantees issued by the Group	–	1,079,969	–
Assets pledged by the Group	49,000	–	–

Transactions with Directors

At 31 December 2009, the Board of Directors comprised 6 directors (31 December 2008: 6 directors). Compensation of the Board for 2009 amounted to RUB 62.08 million and was included in general and administrative expenses. At 31 December 2009, this compensation was paid in full.

No Board compensation was awarded or paid for 2008.

Bonuses to directors are discretionary and can be accrued based on annual results, but the Group does not have any legal or constructive obligation to do so. No short-term benefits were payable to executives of the Group at 31 December 2009 (31 December 2008: nil).

Non-controlling interest

At 31 December 2009, RUB 193,246 thousand of a non-controlling interest of 26.4% of the net assets of Izhneftemash was attributable to related parties (31 December 2008: RUB 444,961).

(thousands of Russian Roubles)

10. 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
Carrying amount at 31 December 2007								
Cost or valuation at 31 December 2007		233,525	10,107,592	1,844,387	19,274,182	1,183,924	3,110,347	35,753,957
Accumulated depreciation at 31 December 2007		–	(6,445,277)	(1,219,050)	(11,946,831)	(610,671)	–	(20,221,829)
Accumulated impairment at 31 December 2007		–	(75,745)	(42,465)	(210,880)	(3,495)	(348,180)	(680,765)
Carrying amount at 31 December 2007		**233,525**	**3,586,570**	**582,872**	**7,116,471**	**569,758**	**2,762,167**	**14,851,363**
Additions and transfers		50,048	869,993	68,583	1,609,110	587,753	16,285,149	19,470,636
Acquired in a business combination	7	94,860	1,816,013	27,949	1,750,034	441,818	357,541	4,488,215
Disposals (cost)		(34)	(83,040)	(31,202)	(317,791)	(112,434)	(35,646)	(580,147)
Disposals (accumulated depreciation)		–	44,220	15,192	92,520	55,616	–	207,548
Depreciation charge		–	(204,137)	(98,317)	(1,350,597)	(212,756)	–	(1,865,807)
Impairment recognized	27	–	(6,930)	–	(45,428)	(1,162)	(95,447)	(148,967)
Impairment reversed	27	–	17,178	1,528	82,430	–	–	101,136
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	24, 25, 26	–	(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**

The Group uses 14.62 million square meters of land (2008: 15.2 million square meters). 63% of land plots are owned by the Group, 27% are rented from state authorities and 10% are occupied based on existing land usage rights (2008: 58%, 31%, 11% respectively). 0.23 million square meters of land were acquired in a business combination with CGU Meta.

At 31 December 2009, assets under construction are shown net of an impairment provision for capitalised reconstruction of workshop No. 1, which was suspended in 1998, and a number of other capital works that in management's opinion will not be continued in the foreseeable future. At 31 December 2009, the amount of the provision comprises RUB 378 million (31 December 2008: RUB 443.6 million).

At 31 December 2009, Bank borrowings were secured on property, plant and equipment with carrying value of RUB 12,721,698 thousand (31 December 2008: RUB 9,507,629 thousand) (Notes 20 and 31).

(thousands of Russian Roubles)

11. INTANGIBLE ASSETS

Movements in the carrying amount of intangible assets were as follows:

	Notes	Software	Lease rights	Customer lists	Development cost capitalised	Other	Total
Cost at 31 December 2007		372,607	121,283	–	–	46,552	540,442
Accumulated amortisation and impairment at 31 December 2007		(215,491)	(2,358)	–	–	(16,910)	(234,759)
Carrying amount at 31 December 2007		**157,116**	**118,925**	–	–	**29,642**	**305,683**
Additions		126,836	–	–	73,038	16,079	215,953
Disposals (cost)		(127,870)	–	–	–	(2,725)	(130,595)
Disposals (accumulated amortisation and impairment)		93,123	–	–	–	1,243	94,366
Amortisation charge		(124,949)	(2,600)	(34,245)	–	(12,603)	(174,397)
Impairment recognised	27	(18,800)	(78,485)	–	–	–	(97,285)
Acquired in a business combination	7	21,809	–	267,577	154,473	69,100	512,959
Cost at 31 December 2008		393,382	121,283	267,577	227,511	129,006	1,138,759
Accumulated amortisation 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	24, 25, 26	(68,466)	(2,754)	(51,058)	–	(33,310)	(155,588)
Acquired in business combination	7	4,285	–	–	–	460	4,745
Disposals in business combination (cost)	7	–	–	–	–	(788)	(788)
Disposals in business combination (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**

(thousands of Russian Roubles)

12. GOODWILL AND NON-CONTROLLING INTEREST

Movements of goodwill allocated by cash generating units and non-controlling interest in 2009 and 2008 are presented in the table below:

	2009		2008	
	Goodwill	**Non-controlling interests**	**Goodwill**	**Non-controlling interests**
At 1 January	**632,817**	**(1,214,428)**	**1,654,208**	**(4,647,100)**
Cost	10,756,520	(1,214,428)	3,343,070	(4,647,100)
Accumulated impairment	(10,123,703)	–	(1,688,862)	–
Profit for the period	–	**250,994**	–	**(67,674)**
Increase in participation interest				
Alnas (CGU Rimera)	–	478,201	739,164	238,758
WSGC* (CGU Rimera)	–	61,851	–	–
Other (CGU Rimera)	–	12,823	(3,083)	3,504
PNTZ (CGU PNTZ)	–	–	1,943,896	4,710,818
Acquired in business combination				
Vtorchermet (CGU Meta)	–	–	88,416	–
Meta (CGU Meta)	472,478	(1,205)	–	–
Arkley UK (CGU UTS)	–	–	114,620	–
Rimera (CGU Rimera)	–	–	3,474,925	(994,866)
IFG (CGU Rimera)	–	–	1,028,152	(34,907)
INM (CGU Rimera)	–	–	(105,522)	(519,747)
RNGG (CGU Rimera)	–	–	23,867	(13,467)
Decrease due to disposal				
BENZ (CGU Rimera)	–	41,152	–	–
Tirus (CGU UTS)	–	–	–	682
PTS (CGU UTS)	–	–	–	109,571
Excess in share of net assets acquired in a subsidiary over purchase consideration	–	–	**109,017**	–
Impairment of goodwill by CGU				
PNTZ	–	–	(2,825,530)	–
UTS	–	–	(715,531)	–
Rimera	–	–	(4,893,782)	–
At 31 December	**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)	–

*WSGC – West Siberian Geophysical Company

Goodwill is allocated to the Group’s cash-generating units, which are PNTZ, UTS, Meta and Rimera.

Management considers the newly acquired ChPTZ-Meta’s companies along with Meta-Invest and Vtorchermet, formerly composing CGU – Meta-Invest, as new CGU Meta. As a result of this acquisition the Group formed a regional scrap procurement network. The goodwill which arose on acquisition relates to the potential synergy of ensuring a supply of scrap for the new steelmaking shop. Meta represents the scrap procurement segment (Note 8).

As a result of this acquisition CGU Meta-Invest’s goodwill reallocation to CGU-Meta had no impact on the consolidated statements of financial position, comprehensive income, changes in equity or statement of cash flows.

(thousands of Russian Roubles)

The UTS CGU encompasses the Group's distribution network and includes both Arkley UK Limited which acts as the Group's distribution unit abroad (Note 7) and earlier identified UTS, Basa MTS, Tirus and Metris.

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

	31 December 2009	31 December 2008
Meta	732,557	260,079
Rimera	372,738	372,738
Total carrying value of goodwill	**1,105,295**	**632,817**

In 2009, Group acquired from related parties 11.25% of Alnas for a consideration of RUB 183 million and from third parties 13.7% from third parties under a proposal of a mandatory redemption for a consideration of RUB 203 million increasing its participation to 100%. As a result of this transaction non-controlling interest decreased by RUB 478 million.

In 2009, ZSGC acquired treasury shares that comprise 45% of the share capital for a consideration of RUB 57 million. As a result of this transaction non-controlling interest decreased by RUB 62 million.

In 2008, the Group acquired 38.47 % of PNTZ for a consideration of RUB 6,655 million increasing its participation to 100%. As a result of this transaction goodwill increased by RUB 1,943,896 thousand and non-controlling interest decreased by RUB 4,710,818 thousand.

In 2008, the Group acquired from related parties 9.7% of Alnas for a consideration of RUB 930 million increasing its participation to 75.05%. As a result of this transaction goodwill increased by RUB 708 million and non-controlling interest decreased by RUB 222 million.

In 2008, Alnas acquired treasury shares that comprise 0.91% of share capital for a consideration of RUB 48 million. As a result of this transaction goodwill increased by RUB 31 million and non-controlling interest decreased by RUB 17 million.

The Group completed acquisition price allocation for all acquisitions which took place in 2008 and 2009.

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 2009, the Group tested goodwill for impairment using following key assumptions for value-in-use calculations:

	Meta	Rimera
Excess of recoverable amounts over carrying values of CGU	2,313,496	10,396,221
Used key assumptions		
Operating profit margin	1%-10%	—
EBITDA margin	—	2.53%-33.92%
Pre tax discount rate	19.89%	12.29%-12.96%
Terminal growth rate	3%	2%

(thousands of Russian Roubles)

The recoverable amount of the Meta CGU would be equal to its carrying value if the operating profit margin decreased by 3.11 percentage points or if the Group used a discount rate that was higher by 7.97 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of Rimera CGU would be equal to its carrying value if the EBITDA margin decrease by 7.98 percentage point or used discount rate would be higher by 2.65 percentage point. Any reasonably possible changes in the terminal growth would not lead to goodwill impairment.

At 31 December 2008, the Group tested goodwill for impairment using following key assumptions for value-in-use calculations:

	PNTZ	UTS	Meta	Rimera
Excess of carrying values over recoverable amounts of CGU	2,856,064	812,816	—	4,970,502
Excess of recoverable amounts over carrying values of CGU	—	—	1,888,011	—
Used key assumptions				
Operating profit margin	10%-21%	1%	5%-10%	—
EBITDA margin	—	—	—	6.2%-26.91%
Pre tax discount rate	21.95%	25.30%	25.28%	20.81%-25.53%
Terminal growth rate	3%	3%	3%	5%

Goodwill was impaired in 2008 for the PNTZ, UTS, Rimera CGUs as a result of the impact of the global economic slowdown on the operations of these CGUs, which has resulted in lower sales prices and demands for products offered at these CGUs.

The recoverable amount of PNTZ CGU would be equal to its carrying value if the operating profit margin increased by 1.03 percentage points or if the Group used a discount rate lower by 1.31 percentage points or if the terminal growth rate was higher by 1.92 percentage points.

The recoverable amount of UTS CGU would be equal to its carrying value if the operating profit margin increased by 0.10 percentage points or if the Group used a discount rate that was lower by 2.74 percentage points or if the terminal growth rate was higher by 3.71 percentage points.

The recoverable amount of Meta CGU would be equal to its carrying value if the operating profit margin decreased by 2.85 percentage points or if the Group used a discount rate that was higher by 9.12 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of Rimera CGU would be equal to its carrying value if the EBITDA margin increase by 0.21 percentage points or used discount rate would be lower by 0.23 percentage points or terminal growth rate would be higher by 0.31 percentage points.

13. INVESTMENTS IN ASSOCIATES

	2009	2008
Carrying amount at 1 January	**795,967**	**—**
Fair value of net assets of associates acquired	—	797,934
Share of after tax results of associates	12,968	(1,967)
Carrying amount at 31 December	**808,935**	**795,967**

The excess in share of net assets acquired in 2008 in associates over purchase consideration in amount of RUB 273,712 thousand was recognised as income from associate in the consolidated statement of comprehensive income for 2008.

(thousands of Russian Roubles)

At 31 December 2009, the Group's interests in its associates and their summarized financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

	Total assets	Total liabilities	Revenue	Profit/ (loss)	Effective interest held	Country of incorpo-ration
Servis podzemnogo oborudovaniya	108,969	38,573	135,412	24,758	50%	Russia
TD Izhneftemash	260,394	249,554	861,723	901	32%	Russia
Companiya Izhneftemash	461,685	65,010	16	269	28%	Russia
Izhneftemash-Energosnab	1,513,029	391,717	7,942	835	28%	Russia
Region-Metall	3,549	5,704	–	(26)	32%	Russia
Total	**2,347,626**	**750,558**	**1,005,093**	**26,737**		

14. INVENTORY

	31 December 2009	31 December 2008
Raw materials	6,024,735	8,272,681
Finished goods	3,221,640	4,145,046
Work in progress	2,050,699	2,201,007
Allowance for obsolete and slow-moving inventory	(1,176,639)	(1,806,340)
Total inventory	**10,120,435**	**12,812,394**

Inventories with a carrying value of RUB 2,563,117 thousand were pledged as security for borrowings at 31 December 2009 (31 December 2008: RUB 5,124,461 thousand). Pledged inventory includes primarily raw materials and finished goods (Notes 19 and 30).

15. PROMISSORY NOTES AND LOANS RECEIVABLE

	31 December 2009	31 December 2008
Present value of lease payments receivable	–	58,450
Non-current promissory notes and loans receivable	–	**58,450**
Group's shareholders at interest rates as follows (Note 10)		
- 10% to 13% p.a.	400,273	792,867
- 6.5% to 11% p.a.	313,849	37,680
- Interest free	152,909	–
- 1% p.a.	650	280,570
Promissory notes and loans receivable from third parties at interest rates as follows		
- 19.76% p.a.	6,503,184	–
- 7.5% to 23% p.a.	690,644	1,515,965
- Interest free, at gross	272,069	277,850
Provisions for impairment of interest-free promissory notes	(271,514)	(256,514)
Present value of lease payments receivable	–	14,108
Current promissory notes and loans receivable	**8,062,064**	**2,662,526**
Total promissory notes and loans receivable	**8,062,064**	**2,720,976**

At 31 December 2009, promissory notes from third parties at gross value of RUB 271,514 thousand were impaired in full (31 December 2008: RUB 256,514 thousand). The fair value of the remaining promissory notes does not differ significantly from their carrying value. The Group's receivables denominated in currencies are disclosed in Note 32.

(thousands of Russian Roubles)

In 2009, the Group issued an unsecured loan to third party amounted to RUB 6,503,184 thousand and bearing interest at 19.76% per annum due on 29 October 2010.

Finance lease payments receivable (gross investment in the leases) and their present values are as follows:

	Finance lease payments receivable		Present value of lease payments	
	31 December 2009	**31 December 2008**	**31 December 2009**	**31 December 2008**
Due in 1 year	–	17,055	–	14,108
Due between 1 and 5 years	–	58,517	–	53,013
Due after 5 years	–	5,536	–	5,437
Total	**–**	**81,108**	**–**	**72,558**

The finance lease receivables are effectively collateralised by the leased assets as the right to the asset reverts to the Group in case of counterparty's default. Such collateral can be analysed as follows:

	31 December 2009	**31 December 2008**
Finance lease receivables collateralised by:		
- Vehicles	–	962
- Equipment	–	71,596
Total finance lease liabilities	**–**	**72,558**

All lease receivables were related to CJSC ChTPZ-Meta and its subsidiaries. After acquisition of CJSC ChTPZ-Meta and its subsidiaries in April 2009 (Note 7) all transactions and balances under the lease agreements were eliminated as intergroup operations.

16. TRADE AND OTHER RECEIVABLES

	31 December 2009	**31 December 2008**
Trade receivables	9,024,431	11,046,544
Interest receivable	1,625,067	295,841
Other receivables	526,035	250,271
Receivables for treasury shares	2,390,239	2,685,160
Provision for impairment of trade and other receivables	(2,843,511)	(835,212)
Total financial assets	**10,722,261**	**13,442,604**
VAT and other taxes recoverable	3,035,712	2,752,460
Advances and prepayments	1,551,415	990,834
Provision for impairment of advances and prepayments	(353,947)	(208,092)
Total non-financial assets	**4,233,180**	**3,535,202**
Total trade and other receivables	**14,955,441**	**16,977,806**

Management believes that the fair value of accounts receivable does not differ significantly from their carrying amounts. No accounts receivable were renegotiated at 31 December 2009 (31 December 2008: nil). The Group's receivables denominated in currencies are disclosed in Note 32.

(thousands of Russian Roubles)

At 31 December 2009, trade receivables of RUB 3,051,118 thousand (31 December 2008: RUB 1,146,999 thousand) were individually impaired. The amount of the provision was RUB 2,843,511 thousand at 31 December 2009 (31 December 2008: RUB 835,212 thousand). The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations or to balances with long periods of settlement. The ageing of these receivables is as follows:

	31 December 2009	31 December 2008
Less than 3 months	–	1,995
3-6 months	415,215	623,575
More than 6 months	2,635,903	521,429
Total gross amount of impaired trade and other receivables	**3,051,118**	**1,146,999**

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

	31 December 2009	31 December 2008
Less than 3 months	5,145,203	5,096,258
3-6 months	1,729,003	2,027,186
More than 6 months	3,640,448	6,007,373
Trade receivables not impaired	**10,514,654**	**13,130,817**

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

	Trade and other receivable		Advances and prepayments	
	2009	2008	2009	2008
At 1 January	**(835,212)**	**(111,452)**	**(208,092)**	**(120,830)**
Acquired in a business combination	(80,333)	–	(94,628)	–
Provision accrued	(2,531,237)	(824,212)	(283,995)	(192,272)
Provision reversed	455,448	30,084	129,059	103,400
Receivables written-off during the year as uncollectible	68,514	27,947	3,618	1,610
Disposed in a subsidiary	79,309	42,421	100,091	–
At 31 December	**(2,843,511)**	**(835,212)**	**(353,947)**	**(208,092)**

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

(thousands of Russian Roubles)

17. CASH AND CASH EQUIVALENTS

	31 December 2009	31 December 2008
Term deposits in RUB (interest rate: 5.0% p.a.)	2,599,100	112,000
Term deposits in Euro (interest rate: 0.07% p.a.)	652,062	10,796
Cash on hand and balances with banks, RUB	292,648	1,352,292
Cash balances with banks, USD	50,445	28,291
Cash balances with bank, Euro, CHF, GBP	28,698	5,629
Term promissory note	21,210	33,544
Total cash and cash equivalents	**3,644,163**	**1,542,552**

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

18. SHARE CAPITAL

The nominal registered amount of the Company's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2009 is RUB 472,383 thousand (31 December 2008: RUB 472,383 thousand).

The total authorized and issued number of ordinary shares is 472,382,880 shares (2008: 472,382,880 shares) with a par value of RUB 1 per share (2008: RUB 1 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

At 31 December 2007, the Company held 80,457 treasury shares for a total amount of RUB 8,207 thousand that comprised 0.02% of the total authorised share capital. At the date of Rimera acquisition the Group acquired 5,133,500 Company's shares representing 1.1% of the total authorised share capital with fair value of RUB 508,216 thousand (Note 7). In 2008, the Group purchased 24,298,694 Company's shares representing 5.1% of the total authorised share capital for a cash consideration of RUB 2,358,820 thousand. In 2008, the Group sold 24,252,568 of the Company's shares for 87.65 roubles per share on a deferred payment basis. The fair value of consideration receivable for these shares is RUB 2,050,305 thousand net of deferred tax of RUB 75,569 thousand. Maturity date for the payment is 20 February 2010.

At 31 December 2008, the Company held 5,260,083 treasury shares for a total of RUB 504,375 thousand which account for 1.11% of the total authorised share capital. In 2009, the Group sold 1,919,543 of the Company's shares representing 0.41% of the total authorised share capital for a cash consideration of RUB 86,380 thousand. At 31 December 2009, the Company held 3,340,540 treasury shares for a total amount of RUB 320,315 thousand which account for 0.71% of the total authorised share capital.

Share premium represents the excess of contributions received over the nominal value of shares issued. In 2009, the Group earned negative share premium of RUB 97,680 thousand (2008: RUB 244,994 thousand), which was reclassified to accumulated deficit in 2009.

According to the Company's charter, the Company is to establish legal reserve through the allocation of 5 percent of the 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 2009, the legal reserve is RUB 70,857 thousand (31 December 2008: RUB 70,857 thousand).

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the net statutory profit as the basis for distribution. During the year ended 31 December 2009, the net statutory profit for the Company for the period as reported in the statutory financial statements was RUB 863,441 thousand (year ended 31 December 2008: RUB 839,706 thousand).

In 2009 and 2008, the Company did not declare or pay dividends.

(thousands of Russian Roubles)

19. BORROWINGS

	31 December 2009	31 December 2008
Non-current		
Term loans with fixed rates	13,959,479	13,723
Bonds payable	3,717,486	2,257,482
Term loans with floating rates	2,014,044	–
Finance lease liabilities	47,993	68,967
Promissory notes issued	3,463	3,145
Total non-current borrowings	**19,742,465**	**2,343,317**
Current		
Term loans with floating rates	20,993,218	20,346,192
Term loans with fixed rates	19,672,413	23,072,583
Bonds payable	2,287,369	6,607,779
Term loans due to related parties	1,597,610	2,575,269
Finance lease liabilities	95,313	173,308
Promissory notes issued	49,460	49,459
Total current borrowings	**44,695,383**	**52,824,590**
Total borrowings	**64,437,848**	**55,167,907**

In June 2005, the Company issued 3 million bonds at par value of RUB 1 thousand each ("Bond 01"). The bonds are repayable beginning June 2010, i.e. the 1,820-th day following the date of placement. The interest yield is determined for each coupon and amounts to 9.5% p.a. In 2009, the Company did not repurchase bonds (2008: 733,064 bonds for RUB 733,064 thousand). The carrying value of Bond 01 at 31 December 2009 was RUB 2,282,951 thousand (31 December 2008: RUB 2,257,482 thousand).

In April 2008, the Company issued 8 million bonds at par value of RUB 1 thousand each ("Bond 03"). The bonds are short-term and contain a buy-back option by the holder or the Company beginning on 27 October 2009. The bonds are repayable beginning April 2015, i.e. the 2,548-th day following the date of placement. The interest yield is determined for each coupon and amounts to 10.0% 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. The carrying value of Bond 03 at 31 December 2009 was RUB 4,418 thousand (31 December 2008: RUB 6,607,779 thousand).

In December 2009, the Company issued 5 million BO 01 at par value of RUB 1 thousand each. The bonds are long-term and contain a buy-back option commencing 8 December 2011. The bonds are repayable beginning December 2012, i.e. the 1,092-th day (December 2012) following the date of placement. The interest yield is determined for each coupon and amounts to 16.5% p.a. In 2009, the Company repurchased 1,257,634 bonds for RUB 1,257,634 thousand. The carrying value of the 2009 bonds at 31 December 2009 was RUB 3,717,486 thousand (31 December 2008: nil).

The nominal interest rates at 31 December 2009 were as follows:

	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 3.2% to 6.75%	EURIBOR + from 0.29% to 3.1%
Bonds payable	9.5%-16.5%	–	–
Term loans due to related parties	–	3%	–

(thousands of Russian Roubles)

At 31 December 2008:

	RUB	USD	Euro
Term loans with fixed rates	4.00%-25.25%	6.74%-11.24%	–
Term loans with floating rates	MOSPRIME + from 2.2% to 5.5%, CBR RF +1.5%	LIBOR + from 2.9% to 9.0%	EURIBOR + from 0.225% to 3.100%
Bonds payable	9.5%-10.0%	–	–
Term loans due to related parties	0.1%-16%	–	–

At 31 December 2009, the difference between the effective interest rates and the nominal interest rates comprise 0.12% – 1.83% (31 December 2008: 0.21% – 1.39%).

The non-current borrowings maturity schedule except present value of finance lease liabilities is as follows:

	31 December 2009	31 December 2008
1 to 2 years	4,181,170	2,271,205
2 to 3 years	9,361,118	–
3 to 4 years	3,612,120	–
4 to 5 years	2,536,600	–
Beyond 5 years	3,464	3,145
Total non-current borrowings	**19,694,472**	**2,274,350**

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilized, covenants with respect to disposal of assets, incurrence of additional liabilities, issuance of loans or guarantees, obligations in respect of any future reorganisations procedures or bankruptcy of borrowers, and also require that borrowers maintain pledged assets to their current value and conditions. In addition, these agreements contain covenants with respect to compliance with certain financial ratios, clauses regarding the possibility of acceleration of repayment in case of unfavourable economic conditions and also clauses in relation to performance of the borrowers, including cross default provisions, as well as legal claims in excess of certain amount, where reasonable expectations of a negative outcome exist, and covenants triggered by any failure of the borrower to fulfil contractual obligations.

At 31 December 2009, the Group did not comply with certain debt covenants such as financial ratios, bank accounts turnover and purchasing of subsidiaries. Such breaches took place in respect of current borrowings in the amount of RUB 423,419 thousand and non-current borrowings in the amount of RUB 13,838,177 thousand. Consequently non-current borrowings of RUB 10,882,146 thousand have been reclassified to short-term borrowings. On the date of authorisation of the consolidated financial statements for issue, the breaches were not remedied and the terms of the loans payable were not renegotiated.

The original maturity of non-current loans with debt covenant in breach was as follows:

	31 December 2009	31 December 2008
Payable within one year	2,956,031	2,947,123
1 to 2 years	3,177,545	4,313,680
2 to 3 years	2,437,192	3,225,415
3 to 4 years	1,455,099	2,520,179
4 to 5 years	1,010,446	1,033,031
More than 5 years	2,801,864	1,370,926
Total non-current borrowings	**13,838,177**	**15,410,354**

(thousands of Russian Roubles)

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

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2009	**31 December 2008**	**31 December 2009**	**31 December 2008**
Due in 1 year	127,449	190,738	95,313	173,308
Due between 1 and 5 years	57,114	74,507	47,993	68,967
Due after 5 years	—	—	—	—
Total	**184,563**	**265,245**	**143,306**	**242,275**

All finance lease liabilities are effectively collateralised by leased assets as the right to the asset reverts to the lessor in case of Group's default. Leased assets only consist of equipment.

Management believes that fair values of borrowings do not differ significantly from their carrying amounts. The Group's borrowings, denominated in currencies are disclosed in Note 32.

20. EMPLOYEE BENEFITS

Employee benefits are comprised of the following:

	2009	**2008**
Present value of unfunded obligations	359,274	231,643
Unrecognised past service cost	(122,875)	—
Employee benefits at 1 January	**236,399**	**231,643**
Current service cost	14,772	14,243
Interest cost (Note 27)	31,904	21,366
Past service cost	15,360	(122,875)
Actuarial losses/(gains)	53,633	(66,587)
Liabilities acquired in a business combination	—	168,238
Disposal of subsidiary (Note 7)	(9,847)	—
Settlements	(4,343)	(9,629)
Present value of unfunded obligations	445,393	359,274
Unrecognised past service cost	(107,515)	(122,875)
Employee benefits at 31 December	**337,878**	**236,399**

Net benefit expense/(income) recognised in the consolidated statement of comprehensive income:

	2009	**2008**
Current service cost	14,772	14,243
Interest cost (Note 27)	31,904	21,366
Past service cost	15,360	(122,875)
Actuarial losses/(gains)	53,633	(66,587)
Total net benefit expense/(income)	**115,669**	**(153,853)**

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

	31 December 2009	**31 December 2008**
Discount rate	9.0%	9.0%-9.2%
Initial rate	6.50%-10.25%	6.6%-7.0%
Future salary increases	8.00%-10.25%	6.6%-8.0%
Future pension increases	6.50%-10.25%	6.6%-7.0%
Withdrawal rate	4.5%-5.8%	12.5%-16.3%

(thousands of Russian Roubles)

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

Sensitivity analysis for pension plan liabilities

	31 December 2009	Discount rate		Salary rate		Withdrawal rate	
		0.75%	**-0.75%**	**0.75%**	**-0.75%**	**1.50%**	**-1.50%**
Chelpipe	107,739	103,232	113,698	113,790	103,221	58,600	119,247
PNTZ	230,039	222,490	238,142	238,278	222,474	217,702	245,542
ALNAS	107,615	97,305	119,733	119,989	96,980	102,122	114,102
Total	**445,393**	**423,027**	**471,573**	**472,057**	**422,675**	**378,424**	**478,891**

21. TAXES PAYABLE

Current taxes payable are comprised of the following:

	31 December 2009	31 December 2008
Value added tax	1,218,123	161,675
Unified social tax	161,974	146,306
Income tax	77,003	58,536
Personal income tax	68,376	56,090
Property tax	68,126	68,050
Other taxes	71,579	50,490
Provisions for VAT and other taxes (other than income tax) fines and penalties	340,850	45,148
Total taxes payable	**2,006,031**	**586,295**

22. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December 2009	31 December 2008
Trade payables	11,130,188	11,332,450
Interest payable	407,905	457,727
Accrued liabilities and other creditors	301,258	381,200
Total financial liabilities	**11,839,351**	**12,171,377**
Wages and salaries payable*	672,883	783,536
Total accounts payable and accrued expenses	**12,512,234**	**12,954,913**

*Non-financial liabilities.

The Group's payables, denominated in currencies are disclosed in Note 32.

23. REVENUE

	2009	2008
Domestic sales of tubes	38,448,999	53,931,413
Domestic sales of oilfield services	9,991,772	7,861,787
Export of tubes	4,611,084	9,852,483
Domestic sales of scrap	2,080,805	1,632,002
Domestic sales of other goods	657,549	1,849,456
Export of oilfield services	289,179	494,190
Total revenue	**56,079,388**	**75,621,331**

The sales of tubes are not subject to seasonal or cyclical fluctuations.

(thousands of Russian Roubles)

24. COST OF SALES

	2009	2008
Raw materials	25,319,662	43,683,951
Salaries and salary taxes	5,132,033	5,610,879
Cost of goods for resale	4,086,918	5,447,861
Energy and utilities	2,108,502	2,183,475
Production overheads and repairs	1,727,269	2,405,123
Deprecation and amortisation	1,671,212	1,461,726
Changes in balances of work in progress and finished goods	542,575	(1,211,402)
Changes in inventory provision	(583,868)	1,336,463
Total cost of sales	**40,004,303**	**60,918,076**

Accrual and reversal of impairment of inventories were caused by metal price fluctuations. Gradual increasing of demand for metal and its price in 2009 resulted in reversal of early accrued impairment provision.

25. DISTRIBUTION COSTS

	2009	2008
Transportation and customs expenses	2,097,539	1,808,808
Salaries and salary taxes	835,006	1,054,405
Commission	239,175	323,302
Packaging, storage and handling	162,689	200,662
Operating lease expense	124,203	242,023
Office expenditure	111,344	144,575
Depreciation and amortisation	94,812	108,922
Advertising and marketing expenses	91,103	205,400
Other	67,281	104,262
Total distribution costs	**3,823,152**	**4,192,359**

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
Salaries and salary taxes	1,606,124	1,352,681
Non-production overheads and repairs	985,861	772,539
Management services	697,255	356,694
Depreciation and amortisation	578,567	448,111
Taxes other than income tax	573,882	529,939
Provision for VAT and other taxes (other than income tax) fines and penalties	295,702	45,148
Auxiliary materials	270,642	35,748
Insurance	245,353	217,233
Consultancy, audit and legal services	226,823	598,011
Operating lease income	(158,086)	(329,694)
Gain on disposal of subsidiary	(104,321)	(67,365)
Amortization of fair value of originated guarantees	(28,628)	(69,213)
Excess in share of net assets acquired in a subsidiary over purchase consideration	–	(109,017)
Other	468,424	432,355
Total general and administrative expenses	**5,657,598**	**4,213,170**

In 2009, total depreciation, amortisation and staff cost in cost of sales, distribution costs and general and administrative expenses amounted to RUB 2,344,591 thousand (2008: RUB 2,018,759 thousand) and RUB 7,573,163 thousand (2008: RUB 8,017,965 thousand) respectively.

(thousands of Russian Roubles)

In 2009, other operating expenses of RUB 416,965 thousand (2008 RUB 658,205 thousand) disclosed in the consolidated statement of comprehensive 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. IMPAIRMENT OF ASSETS

	2009	2008
Trade and other receivables	2,230,725	883,000
VAT recoverable allowance	271,731	–
Property, plant and equipment	76,482	47,831
Promissory notes receivables	38,334	19,750
Goodwill	–	8,434,843
Reversal of bad debt provision of a subsidiary acquired	–	(224,933)
Intangible assets	–	97,285
Total impairment of assets	**2,617,272**	**9,257,776**

28. INTEREST INCOME AND EXPENSE

	2009	2008
Interest income on loans receivable	1,604,158	665,853
Unwinding of discount on accounts receivables	349,231	266,730
Finance income under finance lease	–	1,759
Total interest income	**1,953,389**	**934,342**
Interest cost on borrowings	9,068,703	4,520,037
Finance charges under finance lease	34,795	31,769
Interest on employee benefits liabilities	31,904	21,366
Total interest expense	**9,135,402**	**4,573,172**

29. INCOME TAX

Income taxes comprise the following:

	2009	2008
Current tax	368,938	830,161
Deferred tax	(607,699)	(253,613)
Impact of change in Russian tax rate	–	(117,017)
Income tax (benefit)/expense	**(238,761)**	**459,531**

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

(thousands of Russian Roubles)

	2009	2008
Loss before income tax	4,685,286	8,706,510
Theoretical tax benefit at statutory rate (2009: 20%, 2008: 24%)	(937,057)	(2,089,562)
Remeasurement of deferred tax – change in Russian tax rate	–	(117,017)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Unrecognised deferred tax assets	404,232	271,918
- Interest expense	101,381	–
- Provision for VAT and other taxes (other than income tax) fines and penalties	68,170	–
- Social costs	43,730	118,053
- Loss/(gain) on disposal of investments and property, plant and equipment	41,277	(17,436)
- Foreign exchange loss on advances	32,062	–
- Non-deductible employee benefits	25,885	29,090
- Taxes, fines and penalties	5,389	58,823
- Other non-deductible expenses	112,310	147,780
- Change in measurement of inventory balances	(69,531)	51,403
- Gain on disposal of subsidiary	(66,609)	(15,067)
- Goodwill impairment	–	2,047,710
- Excess of share in net assets acquired in a subsidiary over purchase consideration	–	(26,164)
Income tax (benefit)/expense	**(238,761)**	**459,531**

Differences between IFRS and Russian tax accounting 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%:

(thousands of Russian Roubles)

	31 December 2007	(Charged)/ credited to profit or loss	Acquired in a business combination (Note 7)	(Charged)/ credited to equity	Impact of change in Russian tax rate	31 December 2008	(Charged)/ credited to profit or loss	Acquired in a business combination (Note 7)	Disposal of subsidiaries	31 December 2009
Deductible temporary differences:										
Originated financial guarantees	12,484	(5,614)	–	–	(1,144)	5,726	(5,726)	–	–	–
Accounts receivable	119,302	38,625	58,402	–	(36,055)	180,274	539,401	25,883	(32,753)	712,805
Accounts payable and accruals	52,309	(48,932)	205,027	–	(34,734)	173,670	(29,337)	–	(3,686)	140,647
Receivables for treasury shares	–	–	–	75,569	–	75,569	(68,711)	–	–	6,858
Other deductible temporary differences	33,830	(17,676)	28,097	–	(7,375)	36,876	19,774	15,474	(13,214)	58,910
Inventories	36,018	17,653	94,591	–	(24,711)	123,551	(118,743)	–	(9,117)	(4,309)
Losses carried forward	–	(1,146)	1,591	–	(74)	371	72,760	–	–	73,131
Total deductible temporary differences	**253,943**	**(17,090)**	**387,708**	**75,569**	**(104,093)**	**596,037**	**409,418**	**41,357**	**(58,770)**	**988,042**
Deferred tax assets	**–**					**165,857**				**614,800**
Taxable temporary differences:										
Investment in associates	–	–	(154,020)	–	25,670	(128,350)	371	–	–	(127,979)
Property, plant and equipment and intangible asset	(880,091)	274,279	(463,473)	–	178,215	(891,070)	232,602	(30,109)	36,065	(652,512)
Borrowings and loans	(25,665)	(58,416)	–	–	14,013	(70,068)	(25,943)	–	–	(96,011)
Other taxable temporary differences	–	54,840	(74,131)	–	3,212	(16,079)	(8,749)	(293)	293	(24,828)
Total taxable temporary differences	**(905,756)**	**270,703**	**(691,624)**	–	**221,110**	**(1,105,567)**	**198,281**	**(30,402)**	**36,358**	**(901,330)**
Total deferred tax liability	**(651,813)**					**(675,387)**				**(528,088)**

(thousands of Russian Roubles)

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2009	2008
Deferred tax assets	614,800	165,857
Deferred tax liabilities	528,088	675,387

At the reporting date, the Group has unused tax losses amounted to RUB 371 thousand and RUB 72,760 thousand available for offset against future profits. These unused tax losses expire in 2018 and 2019 respectively.

Valuation allowance

The Group has established allowance for some of its deferred tax assets that it believes it is more likely than not those assets will not be realised. A valuation allowance has been established for the deferred tax assets relating to the operating entities of the Group, which have experienced continued operating losses, while a valuation allowance has not been established for entities which expect future taxable profits. At 31 December 2009, the valuation allowance totaled RUB 718,909 thousand (31 December 2008: RUB 314,677 thousand).

30. LOSS PER SHARE

In 2009, basic loss per share is calculated by dividing the loss attributable to equity holders of the parent in the amount of RUB 4,195,531 thousand (2008: loss RUB 9,233,715 thousand) by the weighted average number of ordinary shares outstanding in 2009, excluding treasury shares, which comprised 467,599,522 shares (in 2008: 465,636,531 shares).

The Company has no potentially dilutive ordinary shares; accordingly diluted loss per share is the same as the basic loss per share.

31. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings

In 2009, the Group was 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 and which have not been accrued or disclosed in these consolidated financial statements.

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 review. Under certain circumstances reviews may cover longer periods.

At 31 December 2009, 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.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

Tax liabilities arising from intercompany transactions are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and changes in the approach of the Russian tax authorities, that such transfer prices could potentially be challenged in the future. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant.

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

In addition to the above transfer pricing matters, management estimates that the Group has other 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 346,990 thousand at 31 December 2009 (31 December 2008: RUB 970,500 thousand) which relate primarily to VAT and corporate profit tax.

Capital expenditure commitments

At 31 December 2009, the Group had contractual capital expenditure commitments to acquire equipment and works of capital nature totalling RUB 7,059 million (31 December 2008: RUB 11,037 million).

Assets pledged and restricted

At 31 December 2009 and 2008, the Group has the following assets pledged as collateral:

(thousands of Russian Roubles)

		31 December 2009		31 December 2008	
	Notes	Asset pledged, carrying value	Related liability	Asset pledged, carrying value	Related liability
Raiffeisen bank	19	756,967	6,381,004	532,659	2,072,612
HVB	19	2,942,790	3,590,822	3,037,180	2,031,159
EBRD	19	2,254,527	3,525,299	3,272,428	6,108,055
SBERBANK	19	3,583,853	4,230,587	2,574,050	1,912,038
Bank of Moscow	19	790,271	8,443,100	91,312	2,100,000
Unicreditbank (MMB)	19	421,453	669,230	–	–
Gazprombank	19	1,231,127	4,588,895	–	–
VTB	19	740,710	500,000	–	–
Property, plant and equipment	10	**12,721,698**	**31,928,937**	**9,507,629**	**14,223,864**
SBERBANK	19	2,139,388	4,076,146	3,035,981	2,533,254
Unicreditbank (MMB)	19	423,729	555,770	350,000	1,616,311
Svedbank	19	–	–	1,738,480	1,030,659
Inventory	14	**2,563,117**	**4,631,916**	**5,124,461**	**5,180,224**
Metalinvestbank	19	9,000	9,000	–	–
Gazprombank	19	–	–	5,672	5,537
Promissory notes	15	**9,000**	**9,000**	**5,672**	**5,537**
Total		**15,293,815**	**36,569,853**	**14,637,762**	**19,409,625**

At 31 December 2009, the total loan indebtedness due to Raiffeisen bank, Unicreditbank and Bank of Moscow in amount of RUB 11,099 million is secured by a pledge of the future revenue proceeds of UTS (31 December 2008: RUB 273 million). At 31 December 2009, the total loan indebtedness due to Sberbank in amount of RUB 70 million is secured by pledge of the future revenue proceeds of Alnas N (31 December 2008: nil)

The Group's shareholders pledged 50% + 1 share of the Company to EBRD in 2007, 17.17% of shares to HVB in 2008 and 9.2% to Bank of Moscow in 2009. In 2009, the Group pledged treasury shares which comprise 0.7% of share capital to Bank of Moscow and 2.83% to Sberbank.

The Group pledged 50% + 1 share of PNTZ to HVB in 2009, 28.8% of shares to EBRD in 2007, 20.0% to Raiffeisen bank in 2009, 100% of Metris to Bank of Moscow in 2009, 100% of UTS to Bank of Moscow in 2009 and 100% of ChTPZ-Meta to Bank of Moscow in 2009.

In 2008, the Group pledged 95% + 1 share of Alnas to Raiffeisen bank. In 2009, the Group pledged 75% + 1 share of Rimera to Gazprombank and 50.3% of shares of Izhneftemash to Orgresbank.

Certain of the share pledges referred to above were released subsequent to the year end (Note 33).

Insurance policies

Under 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 2009 for a maximum of RUB 25,515 million (deductible of RUB 81 million) (2008: for a maximum of RUB 19,647 million (deductible of RUB 10 million). 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.

Environmental matters

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

Operating environment of the Group

The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation. The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

32. FINANCIAL RISKS MANAGEMENT

32.1 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 formalized risk management programs, its overall risk management procedures focus on the unpredictability of financial and commodity markets and seek to minimize 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 Chelpipe. Treasury departments of the companies of the Group identify, evaluate and take measures to minimize financial risks in close co-operation with the Chelpipe's treasury department.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the 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. The Group companies do not have a formal policy to manage their foreign exchange risk against their functional currency. Management of the Group aims at holding low cash balances with banks to minimize foreign exchange risk exposure on its cash balances.

Following the increase in volatility of fluctuations of RUB exchange rate against Euro and USD during 2008 and beginning of 2009, the Group revised its estimate of reasonably possible changes to 20% for USD and 20% for the Euro for the performance of sensitivity analyses.

At 31 December 2009, if the Russian Rouble had weakened/strengthened by 20% (31 December 2008: 33%) against the USD with all other variables held constant, the Group's post-tax loss for the year would have been RUB 293,235 thousand higher/(lower) (31 December 2008: post-tax profit would have been RUB 379,467 thousand (lower)/higher), mainly as a result of foreign exchange losses/gains on translation of USD denominated receivables and borrowings denominated in USD.

(thousands of Russian Roubles)

At 31 December 2009, if the Russian Rouble had weakened/strengthened by 20% (31 December 2008: 27%) against the Euro with all other variables held constant, the Group's post-tax loss for the year would have been RUB 1,796,886 thousand higher/(lower) (31 December 2008: post-tax profit would have been RUB 1,610,165 thousand (lower)/higher), mainly as a result of foreign exchange losses/gains on translation of Euro-denominated borrowings and accounts payable.

During 2009 and 2008, profit was more sensitive to movements in the RUB exchange rates against the Euro, whereby the financial impact of the Euro exchange risk increased significantly. The main reason for this was the increase in Euro denominated borrowings. Since the Group does not hold any financial instruments revalued through equity, the effect of changes in exchange rate on equity would be the same as on post-tax profit.

Analysis by currency is as follows:

	31 December 2009			31 December 2008		
	RUB	**USD**	**Euro**	**RUB**	**USD**	**Euro**
Monetary financial assets	**20,497,934**	**1,841,094**	**89,460**	**11,254,319**	**6,361,743**	**56,526**
Trade accounts receivables	6,203,102	47,765	60,207	7,830,696	2,376,725	40,101
Other accounts receivables	2,341,965	444,155	–	214,081	2,685,160	–
Finance lease payments receivable	–	–	–	72,558	–	–
Promissory notes and loans receivable	7,448,198	613,310	556	1,376,851	1,271,567	–
Interests receivable	1,591,710	33,357	–	295,841	–	–
Cash	2,912,959	702,507	28,697	1,464,292	28,291	16,425
Monetary financial liabilities	**(55,912,787)**	**(6,719,692)**	**(13,644,720)**	**(51,618,856)**	**(7,817,095)**	**(7,903,333)**
Borrowings	(45,576,234)	(5,651,447)	(11,337,077)	(37,855,655)	(7,770,768)	(6,598,936)
Promissory notes and loans payable	(712,369)	(1,017,415)	–	(2,700,273)	–	–
Trade accounts payable	(8,848,625)	(40,023)	(2,241,540)	(9,982,666)	(45,387)	(1,304,397)
Other accounts payable	(296,240)	(4,969)	(49)	(380,260)	(940)	–
Finance lease payments	(143,306)	–	–	(242,275)	–	–
Interests payable	(336,013)	(5,838)	(66,054)	(457,727)	–	–
Total, net	**(35,414,853)**	**(4,878,598)**	**(13,555,260)**	**(40,364,537)**	**(1,455,352)**	**(7,846,807)**

(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 minimizes 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 the exposure to the interest rate risk. In 2009 and 2008, the Group's borrowings at variable rate were denominated in RUB, USD and Euro.

(thousands of Russian Roubles)

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. In 2009, based on the simulations performed, the impact on post-tax loss of a 100 basis points shift in interest rate would be an increase/(decrease) of RUB 527,636 thousand (2008: the impact on post-tax profit would have been (decrease)/increase RUB 279,900 thousand).

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 22.4 billion (31 December 2008: RUB 25.3 billion) 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. At 31 December 2008, the maximum exposure to credit risk also included guarantees issued by the Group totalling RUB 7.6 billion. At 31 December 2009, there is no guarantees issued (Note 31).

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 balances of the major counterparties at the reporting date.

	Agency	Rating	31 December 2009	31 December 2008
Cash and cash equivalents				
Sberbank	Fitch Ratings	BBB	2,557,425	–
UniCreditBank	Fitch Ratings	BBB+	738,185	255,202
Raiffeisen bank	Fitch Ratings	BBB+	127,089	–
BSGV	Moody's investors service	BAA2	–	370,083
Orgresbank	Fitch Ratings	BBB+	–	455,425
Total risk concentrations within cash and cash equivalent			**3,422,699**	**1,080,710**

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 2009	31 December 2008
Trade receivables		
Counteragent 1	2,338,724	1,612,378
Counteragent 2	1,070,175	635,967
Counteragent 3	355,646	387,307
Total risk concentrations within trade receivables	**3,764,545**	**2,635,652**
Promissory notes and loans receivable		
Counteragent 1	6,503,184	694,336
Counteragent 2	422,437	388,841
Counteragent 3	400,273	422,437
Total risk concentrations within promissory notes and loans receivable	**7,325,894**	**1,505,614**

(thousands of Russian Roubles)

At 31 December 2009, cash and cash equivalents comprise RUB 3,644,163 thousand (31 December 2008: RUB 1,542,552 million). Out of this amount cash on hand and balances with banks are RUB 371,791 thousand (31 December 2008: RUB 1,386,212 thousand) and term deposits and bank promissory notes account for RUB 3,272,372 thousand (31 December 2008: RUB 156,340 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 2009, trade receivables and other receivables (refer to Note 16) comprise RUB 6,706,955 thousand (31 December 2008: RUB 10,461,603 thousand). Balances due from third parties account for RUB 5,038,864 thousand and from related parties account for RUB 1,668,091 thousand of this amount (31 December 2008: RUB 9,640,277 thousand and RUB 821,326 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 2009, balances due from overseas buyers comprise RUB 358 million (31 December 2008: RUB 2,003 million). The buyers are mainly represented by state-owned companies and/or large oil and gas companies and/or large companies engaged in construction of pipelines with whom Group has a long history of doing business with.

At 31 December 2009, balances due from buyers of treasury shares comprise RUB 2,390,239 thousand (31 December 2008: RUB 2,685,160 thousand). In February 2010, share purchase contracts were annulled and the buyer transferred all treasury shares back to the Group.

At 31 December 2009, balances of promissory notes, loans and interest receivable comprise RUB 9,687,131 thousand (31 December 2008: RUB 3,016,817 thousand) and include balances due from related parties of RUB 714,123 thousand (31 December 2008: RUB 1,111,117 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, modifies 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. 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 2009				
Borrowings	46,502,326	13,114,050	16,307,601	4,814,718
Trade and other payables	12,104,328	–	–	–
Finance lease liabilities	127,449	51,044	6,070	–
Promissory notes payable	49,460	–	–	31,495
At 31 December 2008				
Borrowings	56,522,995	3,281,001	–	–
Trade and other payables	12,497,186	10,813	–	–
Finance lease liabilities	190,738	74,507	–	–
Promissory notes payable	52,605	–	–	28,350

(thousands of Russian Roubles)

At 31 December 2009, current liabilities of the Group exceeds its current assets, primarily due to the reclassification to current liabilities of certain long-term borrowings where financial covenants have been breached. Management of the Group believes that its temporary liquidity gap can be covered by unused credit line facilities, collection of loans originated and re-financing of bank borrowings (Note 2).

32.2 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 others 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 20) 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 limited by restrictions imposed by debt covenants of EBRD loans.

Measures of net debt to total equity and debt at 31 December 2009 and 2008 were as follows:

	31 December 2009	31 December 2008
Total debt	64,625,041	55,334,105
Less: cash and cash equivalents	(3,644,163)	(1,542,552)
Net debt	60,980,878	53,791,553
Total equity	2,181,717	7,036,134
Total equity and net debt	63,162,595	60,827,687
Net debt to total equity and debt	**97%**	**88%**

33. EVENTS AFTER THE REPORTING PERIOD

In 2010, the Group signed loan agreements to finance operating activities with Chelindbank, Sberbank, Ural Bank for Reconstruction and Development, Vneshtorgbank, Gasprombank, Russian Regional Development Bank and Nomos-Bank in the total amount of RUB 6,841 million with interest rate of 9.2-16.5% and maturity in 2010-2013.

In 2010, the Group signed loan agreements to finance capital investments of OJSC "Izhneftemash" and LLC "Ugansk-ALNAS-Servis" with Nomos-Bank in the total amount of RUB 1,300 million with interest rate of 15.5-17% and maturity in 2011-2013.

In June 2010, the Group acquired 100% of CJSC "Soedinitelnie otvodi truboprovodov" and OJSC "Magnitogorskiy zavod mechanomontazhnikh zagotovok – Vostokmetallurgmontazh" for RUB 5,544,460 thousand and RUB 618,999 thousand respectively. These companies engaged in production of trunk pipeline bends and other pipeline components. Management has not yet completed the purchase price allocation.

In 2010, 50% + 1 of shares of the Company pledged as security for borrowings from EBRD were released and thereafter re-pledged as security for borrowings received from Gazprombank under a new facility to finance the Large Diameter Pipe capital project (Note 31).

In 2010,17.7% and 50% + 1 of shares of the Company and PNTZ, a subsidiary, respectively pledged as security for borrowings from HVB were released and thereafter re-pledged as security for borrowings received from Sberbank under a new facility to finance Electron-Arc Furnace capital project (Note 31).