OAO TMK
Consolidated Financial Statements
for the year ended December 31, 2009

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Independent Auditors' Report

The Shareholders and Board of Directors
OAO TMK

We have audited the accompanying consolidated financial statements of OAO TMK and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material 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 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 financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 16, 2010

OAO TMK

Consolidated Financial Statements

for the year ended December 31, 2009

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OAO TMK

Consolidated Income Statement

for the year ended December 31, 2009

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2009	2008
Revenue:	1	3,460,997	5,690,002
Sales of goods		*3,393,303*	*5,603,411*
Rendering of services		*67,694*	*86,591*
Cost of sales	2	(2,904,597)	(4,252,452)
Gross profit		**556,400**	**1,437,550**
Selling and distribution expenses	3	(312,551)	(344,061)
Advertising and promotion expenses	4	(4,579)	(10,122)
General and administrative expenses	5	(203,748)	(267,897)
Research and development expenses	6	(10,214)	(15,164)
Other operating expenses	7	(33,157)	(52,043)
Other operating income	9	16,006	7,120
Impairment of goodwill	20	(10,053)	(3,512)
Impairment of property, plant and equipment	19	(39,730)	(59,846)
Reversal of impairment of property, plant and equipment	19	2,454	-
Impairment of financial assets	17	-	(23,675)
Foreign exchange (loss)/gain, net		14,233	(99,817)
Finance costs		(446,875)	(272,175)
Finance income	10	43,264	8,720
Share of profit in associate	8	1,416	3,006
Gain on disposal of associate	8	379	-
(Loss)/profit before tax		**(426,755)**	**308,084**
Income tax benefit/(expense)	12	103,010	(109,612)
(Loss)/profit for the year		**(323,745)**	**198,472**
Attributable to:			
Equity holders of the parent entity		(315,726)	199,408
Minority interests		(8,019)	(936)
		(323,745)	**198,472**
(Loss)/earnings per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)	13	**(0.36)**	**0.23**

The accompanying notes are an integral part of these consolidated financial statements.

OAO TMK

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2009

(All amounts in thousands of US dollars)

	NOTES	2009	2008
(Loss)/profit for the year		**(323,745)**	**198,472**
Exchange differences on translation to presentation currency[a]		60,200	39,608
Foreign currency (loss)/gain on hedged net investment in foreign operation[b]	29 (x)	(124,077)	(381,917)
Income tax[b]	12, 29 (x)	7,698	53,577
		(116,379)	(328,340)
Net unrealised gain/(loss) on available-for-sale investments		312	(10,683)
Income tax		(62)	-
		250	(10,683)
Reclassification of the net gains on available-for-sale investments to the income statement		(312)	-
Income tax		62	-
		(250)	-
Impairment of available for sale investments		-	13,043
Other comprehensive (loss)/income for the year, net of tax		**(56,179)**	**(286,372)**
Total comprehensive (loss)/income for the year, net of tax		**(379,924)**	**(87,900)**
Attributable to:			
Equity holders of the parent entity		(368,319)	(66,641)
Minority interests		(11,605)	(21,259)
		(379,924)	**(87,900)**

(a) The amount of exchange differences on translation to presentation currency represents other comprehensive income of 63,786 (2008: 60,104) attributable to equity holders of the parent entity and other comprehensive loss of 3,586 (2008: 20,496) attributable to minority interests.

(b) The amount of foreign currency loss on hedged net investment in foreign operation net of income tax is attributable to equity holders of the parent entity.

OAO TMK

Consolidated Statement of Financial Position

as at December 31, 2009

(All amounts in thousands of US dollars)

	NOTES	2009		2008	
ASSETS					
Current assets					
Cash and cash equivalents	14, 27	243,756		143,393	
Financial investments		4,075		3,885	
Trade and other receivables	15	578,956		751,691	
Accounts receivable from related parties	27	1,240		6,009	
Inventories	18	926,394		1,175,936	
Prepayments and input VAT	16	176,489		186,744	
Prepaid income taxes		46,104	**1,977,014**	26,290	**2,293,948**
Non-current assets					
Investments in an associate		-		2,726	
Available-for-sale investments	17	-		6,520	
Intangible assets	20	558,359		665,545	
Accounts receivable from related parties	27	68		68	
Property, plant and equipment	19	3,402,680		3,322,160	
Goodwill	20	555,462		568,424	
Deferred tax asset	12	135,652		138,707	
Other non-current assets	17	51,874	**4,704,095**	69,609	**4,773,759**
TOTAL ASSETS			**6,681,109**		**7,067,707**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	21	573,518		709,934	
Advances from customers		325,549		96,430	
Accounts payable to related parties	27	21,772		1,459	
Accrued liabilities	22	145,247		665,452	
Provisions	23	9,455		10,476	
Interest-bearing loans and borrowings	24	1,537,382		2,216,459	
Dividends payable		469		361	
Income tax payable		8,596	**2,621,988**	39,823	**3,740,394**
Non-current liabilities					
Interest-bearing loans and borrowings	24	2,214,168		994,225	
Deferred tax liability	12	271,664		370,561	
Provisions	23	21,851		19,702	
Employee benefit liability	25	18,441		17,187	
Other liabilities		13,701	**2,539,825**	15,216	**1,416,891**
Total liabilities			**5,161,813**		**5,157,285**
Equity	29				
Parent shareholders' equity					
Issued capital		305,407		305,407	
Treasury shares		(37,378)		(37,827)	
Additional paid-in capital		104,003		97,915	
Reserve capital		15,387		15,387	
Retained earnings		1,019,322		1,343,255	
Foreign currency translation reserve		36,681	1,443,422	89,274	1,813,411
Minority interests			75,874		97,011
Total equity			**1,519,296**		**1,910,422**
TOTAL EQUITY AND LIABILITIES			**6,681,109**		**7,067,707**

The accompanying notes are an integral part of these consolidated financial statements.

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2009

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent								
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Total**	**Minority interests**	**TOTAL**
At January 1, 2009	**305,407**	**(37,827)**	**97,915**	**15,387**	**1,343,255**	**89,274**	**1,813,411**	**97,011**	**1,910,422**
Loss for the period	-	-	-	-	(315,726)	-	**(315,726)**	(8,019)	**(323,745)**
Other comprehensive income/ (loss)	-	-	-	-	-	(52,593)	**(52,593)**	(3,586)	**(56,179)**
Total comprehensive income/ (loss)	-	-	-	-	**(315,726)**	**(52,593)**	**(368,319)**	**(11,605)**	**(379,924)**
Purchase of the Company's shares for the purpose of realisation of the Share Options Programme (Note 29 viii)	-	(89)	-	-	-	-	**(89)**	-	**(89)**
Purchase of treasury shares	-	(221)	-	-	-	-	**(221)**	-	**(221)**
Sale of treasury shares	-	759	-	-	-	-	**759**	-	**759**
Expiration of warrants (Note 29 ix)	-	-	5,590	-	(5,590)	-	**-**	-	**-**
Dividends by subsidiaries of the Group to the minority interest owners in subsidiaries (Note 29 v)	-	-	-	-	-	-	**-**	(2,302)	**(2,302)**
Acquisition of minority interests (Note 29 iv)	-	-	498	-	(2,617)	-	**(2,119)**	(7,230)	**(9,349)**
At December 31, 2009	**305,407**	**(37,378)**	**104,003**	**15,387**	**1,019,322**	**36,681**	**1,443,422**	**75,874**	**1,519,296**

The accompanying notes are an integral part of these consolidated financial statements.

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2009 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Net unrealised loss	Total	Minority interests	TOTAL
At January 1, 2008	**305,407**	**(10,752)**	**97,338**	**15,387**	**1,239,993**	**357,510**	**(2,187)**	**2,002,696**	**103,913**	**2,106,609**
Profit/(loss) for the period	-	-	-	-	199,408	-	-	**199,408**	(936)	**198,472**
Other comprehensive income/ (loss)	-	-	-	-	-	(268,236)	2,187	**(266,049)**	(20,323)	**(286,372)**
Total comprehensive income/ (loss)	**-**	**-**	**-**	**-**	**199,408**	**(268,236)**	**2,187**	**(66,641)**	**(21,259)**	**(87,900)**
Purchase of the Company's shares for the purpose of realisation of the Share Options Programme (Note 29 viii)	-	(27,110)	-	-	-	-	-	**(27,110)**	-	**(27,110)**
Sale of treasury shares (Note 29 viii)	-	35	-	-	-	-	-	**35**	-	**35**
Share-based payments (Note 29 vii)	-	-	5,989	-	-	-	-	**5,989**	-	**5,989**
Purchase of warrants (Note 29 ix)	-	-	(5,590)	-	-	-	-	**(5,590)**	-	**(5,590)**
Dividends by subsidiaries of the Group to the minority interest owners in subsidiaries (Note 29 v)	-	-	-	-	-	-	-	-	(4,752)	**(4,752)**
Acquisition of minority interests (Note 29 iv)	-	-	178	-	(191)	-	-	(13)	(2,534)	**(2,547)**
Derecognition of liability under expired minority interest put-option (Note 29 vi)	-	-	-	-	(1,366)	-	-	**(1,366)**	21,643	**20,277**
Dividends (Note 29 iii)	-	-	-	-	(94,589)	-	-	**(94,589)**	-	**(94,589)**
At December 31, 2008	**305,407**	**(37,827)**	**97,915**	**15,387**	**1,343,255**	**89,274**	**-**	**1,813,411**	**97,011**	**1,910,422**

The accompanying notes are an integral part of these consolidated financial statements.

OAO TMK
Consolidated Statement of Cash Flows
for the year ended December 31, 2009
(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2009	2008
Operating activities			
(Loss)/profit before tax		(426,755)	308,084
Adjustment to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment	19	205,288	188,941
Amortisation of intangible assets	20	107,798	58,831
Loss on disposal of property, plant and equipment	7	3,959	1,555
Impairment of goodwill	20	10,053	3,512
Impairment of property, plant and equipment	19	39,730	59,846
Reversal of impairment of property, plant and equipment	19	(2,454)	-
Impairment of financial assets	17	-	23,675
Foreign exchange (gain)/loss, net		(14,233)	99,817
Finance costs		446,875	272,175
Finance income	10	(41,276)	(8,720)
Gain on disposal of available-for-sale investments	17	(1,988)	-
Share-based payments	29 vii	-	5,989
Share of profit in associate	8	(1,416)	(3,006)
Gain on disposal of associate	8	(379)	-
Allowance for net realisable value of inventory	18	(4,559)	24,669
Allowance for doubtful debts	30	4,219	7,212
Movement in other provisions		3,232	4,656
Operating cash flow before working capital changes		**328,094**	**1,047,236**
Working capital adjustments:			
Decrease/(increase) in inventories		226,912	(178,665)
Decrease/(increase) in trade and other receivables		183,001	(156,557)
Decrease in prepayments		5,152	6,381
(Decrease)/increase in trade and other payables		(98,325)	401,560
(Decrease)/increase in accrued liabilities		21,112	(144,927)
(Decrease)/increase in advances from customers		219,747	(8,945)
Cash generated from operations		885,693	966,083
Income taxes paid		(33,387)	(226,573)
Net cash flows from operating activities		**852,306**	**739,510**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(395,318)	(839,994)
Proceeds from sale of property, plant and equipment		1,323	2,436
Sale of available-for-sale investments		8,177	-
Disposal of associate		785	-
Acquisition of subsidiaries, net of cash acquired	11	(509,714)	(1,184,839)
Acquisition of minority interest		(8,961)	(5,149)
Issuance of loans		(1,833)	(1,083)
Proceeds from repayment of loans issued		991	151
Interest received		2,013	2,968
Dividends received from associate		2,676	1,232
Net cash flows used in investing activities		**(899,861)**	**(2,024,278)**

The accompanying notes are an integral part of these consolidated financial statements.

(All amounts in thousands of US dollars)

	NOTES	2009	2008
Financing activities			
Purchase of treasury shares		(310)	(27,110)
Purchase of warrants	29 ix	-	(5,590)
Proceeds from exercise of options		759	-
Proceeds from borrowings		4,190,093	4,541,071
Repayment of borrowings		(3,608,268)	(2,760,583)
Interest paid		(444,111)	(184,254)
Reimbursement of interest paid		10,498	1,678
Payment of finance lease liabilities		(2,809)	(227)
Capital contribution by minority interest owners to a subsidiary		46	-
Dividends paid to equity holders of the parent		-	(223,568)
Dividends paid to minority interest shareholders		(2,069)	(4,533)
Net cash flows from financing activities		**143,829**	**1,336,884**
Net increase in cash and cash equivalents		96,274	52,116
Net foreign exchange difference		4,089	2,232
Cash and cash equivalents at January 1		143,393	89,045
Cash and cash equivalents at December 31		**243,756**	**143,393**

Corporate Information

These consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the year ended December 31, 2009 were authorised for issue in accordance with a resolution of the General Director on April 16, 2010.

OAO TMK (the "Company"), the parent company of the Group, is registered in the Russian Federation. The list of subsidiaries is disclosed in Note 26.

As at December 31, 2009, the Company's controlling shareholder was TMK Steel Limited.

The Company was incorporated as a closed joint stock company (ZAO) on April 17, 2001. The Company was re-registered as an open joint stock company (OAO) on June 16, 2005. Both registered and principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

The principal activities of the Group are the production and distribution of seamless and welded pipes for the oil and gas industry and for general use.

Deficit in Working Capital

These consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. The Group's activities in all its operating segments have been adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis. The Group reported net loss of 323,745 for the year ended December 31, 2009. As at December 31, 2009, the Group's current liabilities were 2,621,988 (including loans and borrowings of 1,537,382 with maturities within 12 months after the reporting date) and exceeded current assets by 644,974.

In the period from December 31, 2009 to the date of authorisation for issue of these consolidated financial statements, the Group has extended the maturities, repaid or refinanced substantially all of its borrowings classified as short-term. The Group received 764,607 of new borrowings (including long-term borrowings of 722,848) and repaid 733,442 of current loans and borrowings (Note 31). In February-March 2010, the Group extended the maturities of certain borrowing facilities of 450,000 to 2012 and of certain debt instruments totaling to 165,321 to 2011, both of which were classified as short-term debt at December 31, 2009 (Note 31). The remaining loans with current maturities are expected to be covered by free operating cash flows and additional refinancings.

Prior to December 31, 2009, the Group obtained waivers from its lenders of certain financial covenants as at December 31, 2009. In March 2010, the Group negotiated with its lenders the reset of financial covenants for 2010 (Note 24).

Taking into consideration the current economic environment, management believes that the Group has adequate resources to continue in operational existence for the foreseeable future and anticipates that the Group will comply with all debt covenants during 2010.

Basis of Preparation of the Financial Statements

Statement of Compliance

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

Basis of Accounting

Group companies maintain their accounting records in their local currency and prepare their statutory financial statements in accordance with the regulations on accounting and reporting of the country in which the particular subsidiary is resident. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in compliance with IFRS. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation of unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) use of fair values, (6) business combinations and (7) translation to the presentation currency.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, property, plant and equipment are accounted for at deemed cost at the date of transition to IFRS.

Functional and Presentation Currency

The presentation currency for the purpose of these consolidated financial statements of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the Group's financial statements.

The functional currency of the Company and its subsidiaries located in the Russian Federation, Kazakhstan, Switzerland and Cyprus is the Russian rouble. The functional currencies of other foreign operations of the Group are the Euro, the United States dollar and the Romanian lei, which are the currencies of countries in which the Group's entities are incorporated.

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the end of reporting period. All resulting differences are taken to profit and loss with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. These are taken directly to a separate component of equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in separate component of equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Significant Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. This requires an estimation of the value in use of the cash-generating units to which the item is allocated. The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the fair value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the recoverable value and ultimately the amount of any property, plant and equipment impairment. In 2009, the Group recognised impairment losses of 39,730 in respect of property, plant and equipment of Romanian Subsidiaries and Orsk Plant (2008: 59,846). In 2009, the Group reversed 2,454 of impairment losses recognised in six-month period ended June 30, 2009 in respect of property, plant and equipment of Orsk Plant (Note 19).

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". There were not any changes in accounting estimates of remaining useful lives of items of property, plant and equipment in 2009.

Fair Value of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions (Note 11).

Significant Estimates and Assumptions (continued)

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill and intangible assets with indefinite useful lives are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2009 was 555,462 (2008: 568,424). In 2009 the Group recognised impairment losses of 10,053 in respect of goodwill (Note 20) (2008: 3,512).

Post-Employment Benefits

The Group uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of 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). In the event that further changes in the key assumptions are required, the future amounts of the post-employment benefit costs may be affected materially (Note 25).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts, such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at December 31, 2009 and 2008, allowances for doubtful accounts have been made in the amount of 15,172 and 13,132, respectively (Notes 15, 17, 30).

The Group makes allowances for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods, work in process and raw materials of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of reporting period to the extent that such events confirm conditions existing at the end of the period. As at December 31, 2009 and 2008, allowances for net realisable value of inventory were 22,133 and 28,587, respectively (Note 18).

Significant Estimates and Assumptions (continued)

Litigation

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may differ from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of external consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results of the Group.

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management.

As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. As at December 31, 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 (Note 12).

Deferred Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilisation of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss.

Share-Based Payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for grant of equity instruments which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models are disclosed in Note 29 vii.

Significant Judgments

In the process of applying the Group's accounting policies, management has made the following judgment, apart from those judgments involving estimates, which has a significant effect on the amounts recognised in the consolidated financial statements:

Consolidation of a Special Purpose Entity

The Group determined that the substance of the relationship between the Group and TMK Capital S.A., a special purpose entity, indicates that the Group controls TMK Capital S.A. In September 2006 and in July 2008, TMK Capital S.A. issued notes due September 2009 and July 2011 respectively to provide financing to the Group's companies (Note 24).

Changes in Accounting Policies

Application of new and amended IFRS and IFRIC

The Group has adopted the following new and amended IFRS and IFRIC in the consolidated financial statements for the annual period beginning on January 1, 2009:

- IFRS 2 *"Share-based payment" (amended);*
- IFRS 7 *"Financial Instruments: Disclosures" (amended);*
- IFRS 8 *"Operating Segments";*
- IAS 1 *"Presentation of Financial Statements" (revised);*
- IAS 23 *"Borrowing costs" (revised);*
- IAS 32 *"Financial instruments: Presentation"* and IAS 1 *"Puttable Financial Insruments and Obligations Arising on Liquidation";*
- IFRIC 9 *"Remeasurement of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement"*;
- IFRIC 13 "*Customer Loyalty Programmes";*
- IFRIC 15 "*Agreements for the Construction of Real Estate";*
- IFRIC 16 *"Hedges of a Net Investment in a Foreign Operation";*
- IFRIC 18 *"Transfer of Assets to Customer";*
- Improvements to IFRSs (May 2008)

The principal effect of these changes in policies is discussed below.

<u>IFRS 2 "Share-based payment" – Vesting Conditions and Cancellations (amended)</u>

The amendments specify the accounting treatment of all cancellations of grant of equity instruments to the employees. It also imposes that vesting conditions are only service and performance conditions required in return for the equity instruments issued. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

Changes in Accounting Policies (continued)

Application of new and amended IFRS and IFRIC (continued)

IFRS 7 "Financial Instruments: Disclosures" (amended)

The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. These amendments do not have impact on the financial position or performance of the Group. The liquidity risk disclosures are presented in Note 30.

IFRS 8 "Operating Segments"

This standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The new disclosures are included in the financial statements, including revised comparative information (Note 1).

IAS 1 "Presentation of Financial Statements" (revised)

The revision separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the revision introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23 "Borrowing costs" (revised)

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after January 1, 2009. During the year ended December 31, 2009 borrowing costs in the amount of 1,702 have been capitalised (Note 19).

IAS 32 "Financial instruments: Presentation" and IAS 1 "Presentation of Financial Statements" – Puttable Financial Instruments and Obligations Arising on Liquidation

The amendments require some puttable financial instruments and some financial instruments that impose on the equity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

IFRIC 9 "Reassessment of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement"

These amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

Changes in Accounting Policies (continued)

Application of new and amended IFRS and IFRIC (continued)

IFRIC 13 "Customer Loyalty Programmes"

This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.

IFRIC 15 "Agreements for the Construction of Real Estate"

The interpretation standardizes accounting practice for the recognition of revenue among real estate developers for sales of units, such as apartments of houses before construction is complete. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"

The Group has applied early adoption of IFRIC 16 in the 2008 year consolidated financial statements. The interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation. In particular to assess the effectiveness of hedging instrument the change in value of hedging instrument should be calculated in terms of the functional currency of the parent entity that is hedging the risk (for the purposes of consolidated financial statements). The Group uses a loan as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries (Note 29).

IFRIC 18 "Transfer of Assets to Customer"

The interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies circumstances, in which the definition of an asset is met, recognition of asset and its measurement on initial recognition, identification of separately identifiable services, recognition of revenue and accounting for transfer of cash from customers.

Improvements to IFRSs (May 2008)

These amendments clarify wording and remove inconsistencies in the standards. There are separate transitional provisions for each standard.

Reclassifications

Certain corresponding information, presented in the consolidated financial statements for the year ended December 31, 2008 has been reclassified in order to achieve comparability with the presentation used in these consolidated financial statements.

Changes in Accounting Policies (continued)

New accounting pronouncements

The following new or amended (revised) IFRS and IFRIC have been issued but are not yet effective and not applied by the Group. The Group expects that the adoption of the pronouncements listed below will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

<u>IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated Financial Statements" – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (amended) (effective for financial years beginning on or after July 1, 2009)</u>

The amendments to IFRS 1 allows an entity to determine the cost of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the statement of operations in the separate financial statements. The new requirements affect only separate financial statements and do not have any impact on the consolidated financial statements.

<u>IFRS 2 "Share-based payment" – Group Cash-settled Share-based Payment (effective for financial years beginning on or after January 1, 2010)</u>

The amendment clarified the scope and the accounting for group cash-settled share-based payment transactions.

<u>IFRS 3 "Business combination" (revised) (effective for financial years beginning on or after July 1, 2009)</u>

The revision introduced significant changes in the accounting for business combinations. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period of acquisition occurs and future reported results.

<u>IAS 24 "Related Party Disclosures" (revised) (effective for financial years beginning on or after January 1, 2011)</u>

The revision clarifies and simplifies the definition of a related party, provides some relief for government-related entities to disclose details of all transactions with other government-related entities (as well as with the government itself).

<u>IAS 27 "Consolidated and Separate Financial Statements" (revised) (effective for financial years beginning on or after July 1, 2009)</u>

The revision requires, among other things, that acquisitions or disposals of non-controlling interests in a subsidiary that do not result in the loss of control, shall be accounted for as equity transactions. The disposal of any interests that parent retains in a former subsidiary may result in a loss of control. In this case, at the date when control is lost the remaining investment retained is increased/decreased to fair value with gains or losses arising from the difference between the fair value and the carrying amount of the held investment recognised in the profit or loss account.

Changes in Accounting Policies (continued)

New accounting pronouncements (continued)

IAS 32 "Financial Instruments: Presentation" (amended) – Classification of Rights Issues (effective for financial years beginning on or after February 1, 2010)

The amendment introduces changes for rights issues in a currency other than their functional currency. Such rights issues may now be classified as equity instruments in some cases. Application of the change is retrospective and will result in the reversal of profits or losses previously recognised.

IAS 39 "Financial Instruments: Recognition and Measurement" (amended) (effective for financial years beginning on or after July 1, 2009)

Amended standard clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.

IFRS 9 "Financial Instruments: Recognition and Measurement" (effective for financial years beginning on or after January 1, 2013)

The standard will ultimately replace IAS 39 in three main phases. As part of the first phase the International Accounting Standards Board issued the chapters of IFRS 9 relating to the classification and measurement of financial assets in November 2009. The requirements of the standard apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories.

IFRIC 17 "Distribution of Non-cash Assets to Owners" (effective for financial years beginning on or after July 1, 2009)

This interpretation provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" (effective for financial years beginning on or after July 1, 2010)

The new interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

Changes in Accounting Policies (continued)

New accounting pronouncements (continued)

Amendments to IFRIC 14/IAS 19 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" – Prepayments of a Minimum Funding Requirement (effective for financial years beginning on or after January 1, 2011)

The amendment removes an unintended consequence that meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment allows these entities to recognise a prepayment of pension contributions as an asset rather than an expense.

Improvements to IFRSs (effective for financial years beginning on or after January 1, 2010 or later)

In April 2009 the International Accounting Standards Board issued "Improvements to International Financial Reporting Standards", primarily with a view to removing inconsistencies and clarifying wording. These are separate transitional provisions for each standard. The document sets out amendments to different International Financial Reporting Standards, which are mainly related to accounting changes for presentation, recognition or management purposes terminology or editorial changes. But in general those amendments shall be applied prospectively for annual periods beginning on January 1, 2010 or later.

Significant Accounting Policies

- **Index to Accounting Policies**

Significant Accounting Policies

A) Principles of Consolidation

Subsidiaries

A subsidiary is an entity in which the Group has an interest of more than one-half of the voting rights or otherwise has power to exercise control over its operations.

Subsidiaries are consolidated from the date when control over their activities is transferred to the Company and are no longer consolidated from the date that control ceases.

All intragroup balances, transactions and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Where necessary, accounting policies in subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

For the identifiable assets, liabilities and contingent liabilities initially accounted for at provisional values, the carrying amount of identifiable asset, liability or contingent liability that is recognised or adjusted as a result of completing the initial accounting is calculated as if its fair value or adjusted fair value at the acquisition date had been recognised from that date. Goodwill or any gain recognised when the acquired interest in net fair values of the identifiable assets, liabilities and contingent liabilities exceeds the cost of their acquisition is adjusted from the acquisition date by an amount equal to adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognised or adjusted.

Comparative information presented for the periods before the completion of initial accounting for the acquisition is presented as if the initial accounting had been completed from the acquisition date.

Significant Accounting Policies (continued)

A) Principles of Consolidation (continued)

Minority Interest

Minority interest is that portion of the profit or loss and net assets of subsidiaries attributable to equity interests not owned, directly or indirectly through subsidiaries, by the parent. Minority interests at the end of reporting period represent the minority interest shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minority interests' portion of movements in equity since the date of the combination. Minority interest is presented within equity, separately from the parent's shareholders' equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary. Any additional losses are allocated to the Group unless there is a binding obligation of the minority interests to fund the losses.

Increases in Ownership Interests in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative.

Entering into put options held by minority interest shareholders in respect of shares of the Group's subsidiaries are accounted for as increases in ownership interests in subsidiaries. Financial liabilities in respect of put options are recorded at fair value at the time of entering into the options, and are subsequently re-measured to fair value with the change in fair value recognised in the income statement.

Acquisition of Subsidiaries from Entities under Common Control

Purchases of subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the "Predecessor"). Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity. These financial statements, including corresponding figures, are presented as if the Company had acquired the subsidiary on the date it was initially acquired by the Predecessor.

Significant Accounting Policies (continued)

B) Cash and Cash Equivalents

Cash is comprised of cash in hand and cash at banks.

Cash equivalents are comprised of short-term, liquid investments (with original maturity date of less than 90 days) that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are carried at fair value.

C) Investments and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments, as appropriate. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its investments on initial recognition and, where allowed and appropriate, reevaluates this designation at each financial year end. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement. During the period, the Group did not hold any investments in this category.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted in an active market. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being recognised as other comprehensive income in the available-for-sale reserve until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss is included in the income statement. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Significant Accounting Policies (continued)

C) Investments and Other Financial Assets (continued)

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the end of reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indicators that the debtors or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been occurred, the amount of the loss is measured as a difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the assets is reduced directly without the use of an allowance account and the amount of loss is recognised in the income statement.

Hedges of Net Investment in Foreign Operations

The Group hedges its net investment in operations located in the Unites States against foreign currency risks using US dollar denominated liabilities. Hedges of net investment in foreign operation are accounted for in a following way. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised as separate component of equity is transferred to the income statement. The Group uses a new borrowing facility and loan participation notes as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries (Note 29 x).

D) Trade Receivables

Trade receivables, which generally have a short term, are carried at original invoice amount less an allowance for doubtful debts. An allowance for doubtful debts is established in case of objective evidence that the Group will not be able to collect amounts due according to the original terms of contract. The Group periodically analyses the aging of trade receivables and makes adjustments to the amount of the allowance. The amount of the allowance is the difference between the carrying and recoverable amount. The amount of the doubtful debts expense is recognised in the income statement.

Significant Accounting Policies (continued)

E) Borrowings

Borrowings are initially recognised at fair value less directly attributable transaction costs. In subsequent periods, borrowings are measured at amortised cost using the effective interest rate method. Any difference between the initial fair value less transaction costs and the redemption amount is recognised within interest expense over the period of the borrowings. Borrowing costs are expensed as incurred.

Finance cost of the loans, including the issue costs and any discount on issue, is dealt with as a profit and loss charge over the term of the debt using the effective interest rate method. Carrying amount of the loan is decreased by unamortised balance of debt issue costs.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of cost of respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after January 1, 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to January 1, 2009.

F) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale. The cost of inventories is determined on the weighted average basis.

The costs of inventories are comprised of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. The value of work in progress and finished goods includes costs of raw materials, direct labor, direct production costs and indirect production overheads including depreciation. Financing costs are not included in stock valuation.

The Group periodically analyses inventories to determine whether they are damaged, obsolete or slow-moving or if their net realisable value has declined, and makes allowance for such inventories.

In preparing consolidated financial statements, unrealised profits resulting from intragroup transactions are eliminated in full.

Significant Accounting Policies (continued)

G) Property, Plant and Equipment

Property, plant and equipment, except for the items acquired prior to January 1, 2003, are stated at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when the cost is incurred if the recognition criteria are met.

The items of property, plant and equipment acquired prior to January 1, 2003, the date of transition to IFRS, were accounted for at deemed cost being their fair value at January 1, 2003.

Depreciation is calculated on a straight-line basis. Average depreciation periods, which represent estimated useful economic lives of respective assets, are as follows:

Land	Not depreciated
Buildings	8 - 100 years
Machinery and equipment	5 - 30 years
Transport and motor vehicles	4 - 15 years
Furniture and fixtures	2 - 10 years

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

When material repairs are performed, the Group recognises cost of repair as a separate component within the relevant item of property, plant and equipment if the recognition criteria are met.

The Group has the title to certain non-production and social assets, primarily buildings and social infrastructure facilities. The items of social infrastructure do not meet the definition of an asset according to IFRS. Construction and maintenance costs of social infrastructure facilities are expensed as incurred.

H) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense in the income statement.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Significant Accounting Policies (continued)

H) Leases (continued)

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

I) Goodwill

Goodwill is recognised as a non-current asset from the acquisition date. Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of net assets of acquired subsidiary at the date of acquisition.

Goodwill is not amortised but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying amount may be impaired. As at the acquisition date, any goodwill is allocated to each of the cash-generating units (groups of cash-generating units), expected to benefit from the synergies of the combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit (groups of cash-generating units), to which the goodwill relates. Where recoverable amount of cash-generating unit (groups of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining gain or loss on disposal of the operation.

If the Group’s interest in net fair value of identifiable assets, liabilities and contingent liabilities of acquired subsidiary or associate exceeds cost of business combination, identifiable assets, liabilities and contingent liabilities are re-assessed and re-measured. Any excess remaining after reassessment is immediately recognised as profit.

J) Other Intangible Assets

Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that intangible asset may be impaired. Amortisation period and amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates.

Significant Accounting Policies (continued)

J) Other Intangible Assets (continued)

The amortisation periods which represent estimated useful economic lives of respective assets are as follows:

Customer relationships	8 - 10 years
Proprietary technology	8 years
Backlog	1.5 year
Other	2 - 18 years

Amortisation expense of intangible assets is recognised in the income statement in the expense category consistent with the function of intangible asset.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash generating unit level.

Research and Development

Costs incurred on development (relating to design and testing of new or improved products) are recognised as intangible assets only when the Group can demonstrate technical feasibility of completing intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, availability of resources to complete and ability to measure reliably the expenditure during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from commencement of commercial production of the product on a straight-line basis over the period of its expected benefit. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

K) Impairment of Non-Financial Assets (Other than Goodwill)

An assessment is made at each reporting date to determine whether there is objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the recoverable amount is assessed and, when impaired, the asset is written down immediately to its recoverable amount, which is the higher of the net selling price and value in use.

Net selling price is the amount obtainable from sale of an asset in an arm’s length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Significant Accounting Policies (continued)

K) Impairment of Non-Financial Assets (Other than Goodwill) (continued)

Impairment loss is recognised for the difference between estimated recoverable amount and carrying value. Carrying amount of asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of loss is included in the net profit and loss for the period.

Impairment loss is reversed if subsequent increase in recoverable amount can be related objectively to event occurring after the impairment loss was recognised. Impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Intangible assets not yet available for use are tested for impairment annually.

L) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that outflow of resources will be required to settle obligation, and a reliable estimate of the amount can be made. 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.

If the effect of time value of money is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of time value of money and where appropriate, risks specific to the liability. Where discounting is used, increase in provision due to the passage of time is recognised as a finance cost.

M) Employee Benefits

Social and Pension Contributions

In the normal course of business, the Group contributes to state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. These contributions are made in compliance with statutory requirements of those countries where the Group's subsidiaries are located. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Post-Employment Benefits

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements.

Significant Accounting Policies (continued)

M) Employee Benefits (continued)

Liability recognised in the statement of financial position in respect of post-employment benefits is the present value of defined benefit obligation at the end of reporting period less fair value of the plan assets. Defined benefit obligation is calculated annually using the projected unit credit method. Present value of the benefits is determined by discounting estimated future cash outflows using interest rates of high-quality government bonds that are denominated in currency in which benefits would be paid, and that have terms to maturity approximating to the terms of the related obligations.

Actuarial gains and losses are recognised in the income statement in the period in which they occurred. Past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested.

N) Value Added Tax

The Russian tax legislation partially permits settlement of value added tax (“VAT”) on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the end of the reporting period, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

O) Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where deferred income tax arises from initial recognition of goodwill or of an asset or liability in transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where timing of reversal of temporary differences can be controlled and it is probable that temporary differences will not bereversed in the near future.

Significant Accounting Policies (continued)

P) Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from proceeds in equity.

Treasury Shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of treasury shares.

Dividends

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

Q) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenues from sales of inventory are recognised when significant risks and rewards of ownership of goods have passed to the buyer. Revenues arise from rendering of services recognised in the same period when the services are provided.

Revenues are measured at fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, revenue is measured at the fair value of goods or services provided.

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(All amounts are in thousands of US dollars, unless specified otherwise)

1) Segment Information

For management purposes, the Group is organised into business divisions based on geographical location, and has three reportable segments:

- Russia segment represents the results of operations and financial position of plants located in Russian Federation, a finishing facility in Kazakhstan, Oilfield service companies and traders located in Russia, Kazakhstan, the United Arab Emirates, Switzerland that are selling their production (seamless and welded pipes).
- Europe segment represents the results of operations and financial position of plants located in Europe and traders located in Europe (excluding Switzerland) selling their production (seamless pipes and steel billets).
- Americas segment represents the results of operations and financial position of plants located in the United States of America and trader located in the United States of America (primarily welded pipes).

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on adjusted EBITDA. Adjusted EBITDA represents net profit before depreciation and amortisation, finance costs and finance income, exchange rate fluctuations, impairment of non-current assets, income tax expenses and other non-cash items which comprise share of profit in associate, loss (gain) on disposal of property, plant and equipment, share-based payments, inventory and doubtful debts allowances and movement in other provisions, determined based on IFRS Financial Statements. Group financing (including finance costs and finance income) is managed on a group basis and are not allocated to operating segments.

The following tables present revenue and profit information regarding the Group's reportable segments for the year ended December 31, 2009 and 2008, respectively.

Year ended December 31, 2009	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	2,639,292	655,151	166,554	**3,460,997**
Cost of sales	(2,100,970)	(667,868)	(135,759)	**(2,904,597)**
GROSS PROFIT	**538,322**	**(12,717)**	**30,795**	**556,400**
Selling, general and administrative expenses	(336,272)	(160,670)	(34,150)	**(531,092)**
Other operating income/(expenses), net	(14,819)	16	(2,348)	**(17,151)**
OPERATING PROFIT/(LOSS)	**187,231**	**(173,371)**	**(5,703)**	**8,157**
ADD BACK:				
Depreciation and amortisation	141,115	162,615	9,356	**313,086**
Loss on disposal of property, plant and equipment	2,698	227	1,034	**3,959**
Allowance for net realisable value of inventory	(9,646)	4,471	616	**(4,559)**
Allowance for doubtful debts	1,190	1,125	1,904	**4,219**
Movement in other provisions	3,585	184	(537)	**3,232**
	138,942	**168,622**	**12,373**	**319,937**
ADJUSTED EBITDA	**326,173**	**(4,749)**	**6,670**	**328,094**

(All amounts are in thousands of US dollars, unless specified otherwise)

1) Segment Information (continued)

Year ended December 31, 2009	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
ADJUSTED EBITDA	**326,173**	**(4,749)**	**6,670**	**328,094**
Reversal of adjustments operating profit to EBITDA	(138,942)	(168,622)	(12,373)	**(319,937)**
OPERATING PROFIT/(LOSS)	**187,231**	**(173,371)**	**(5,703)**	**8,157**
Impairment of goodwill	(10,053)	-	-	**(10,053)**
Impairment of property, plant and equipment	(2,713)	-	(37,017)	**(39,730)**
Reversal of impairment of property, plant and equipment	2,454	-	-	**2,454**
Foreign exchange gain/(loss), net	29,640	8	(15,415)	**14,233**
OPERATING PROFIT/(LOSS) AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSSES)	**206,559**	**(173,363)**	**(58,135)**	**(24,939)**
Finance costs				**(446,875)**
Finance income				**43,264**
Share of profit in associate				**1,416**
Gain on disposal of associate				**379**
PROFIT/(LOSS) BEFORE TAX				**(426,755)**

Year ended December 31, 2008	Russia	Americas	Europe	TOTAL
Revenue	4,194,858	1,203,292	291,852	**5,690,002**
Cost of sales	(3,163,274)	(857,455)	(231,723)	**(4,252,452)**
GROSS PROFIT	**1,031,584**	**345,837**	**60,129**	1,437,550
Selling, general and administrative expenses	(504,801)	(84,503)	(47,940)	(637,244)
Other operating income/(expenses), net	(41,719)	21	(3,225)	**(44,923)**
OPERATING PROFIT/(LOSS)	**485,064**	**261,355**	**8,964**	755,383
ADD BACK:				
Depreciation and amortisation	150,337	84,983	12,452	**247,772**
Loss on disposal of property, plant and equipment	2,602	21	(1,068)	**1,555**
Share-based payments	5,989	-	-	**5,989**
Allowance for net realisable value of inventory	23,941	546	182	**24,669**
Allowance for doubtful debts	7,228	(109)	93	**7,212**
Movement in other provisions	1,980	2,401	275	**4,656**
	192,077	**87,842**	**11,934**	**291,853**
ADJUSTED EBITDA	**677,141**	**349,197**	**20,898**	**1,047,236**

Year ended December 31, 2008	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
ADJUSTED EBITDA	**677,141**	**349,197**	**20,898**	**1,047,236**
Reversal of adjustments from operating profit to EBITDA	(192,077)	(87,842)	(11,934)	(291,853)
OPERATING PROFIT/(LOSS)	**485,064**	**261,355**	**8,964**	**755,383**
Impairment of goodwill	(3,512)	-	-	**(3,512)**
Impairment of property, plant and equipment	(4,166)	-	(55,680)	**(59,846)**
Impairment of financial assets	(23,675)	-	-	**(23,675)**
Foreign exchange gain/(loss), net	(82,147)	37	(17,707)	**(99,817)**
OPERATING PROFIT/(LOSS) AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	**371,564**	**261,392**	**(64,423)**	**568,533**
Finance costs				**(272,175)**
Finance income				**8,720**
Share of profit in associate				**3,006**
PROFIT/(LOSS) BEFORE TAX				**308,084**

(All amounts are in thousands of US dollars, unless specified otherwise)

1) Segment Information (continued)

The following table presents additional information of the Group's reportable segments as at December 31, 2009 and 2008:

Year ended December 31, 2009	**Russia**	**Americas**	**Europe**	**TOTAL**
Segment assets	4,433,558	1,903,097	344,454	**6,681,109**
Property, plant and equipment expenditure	370,981	27,417	13,925	**412,323**

Year ended December 31, 2008	**Russia**	**Americas**	**Europe**	**TOTAL**
Segment assets	4,296,542	2,360,064	411,101	**7,067,707**
Investment in an associate	2,726	-	-	**2,726**
Property, plant and equipment expenditure	916,449	39,828	23,929	**980,206**
Property, plant and equipment acquired in business combinations	20,271	424,458	-	**444,729**

The following table presents the revenues from external customers for each group of similar products and services for the year ended December 31, 2009 and 2008, respectively.

	Welded pipes	**Seamless pipes**	**Other operations**	**TOTAL**
SALES TO EXTERNAL CUSTOMERS				
Year ended December 31, 2009	1,150,370	2,082,945	227,682	**3,460,997**
Year ended December 31, 2008	1,876,136	3,546,044	267,822	**5,690,002**

The following tables present the geographic information. The revenue information is disclosed based on the location of the customer. Non-current assets are disclosed based on the location of the Group's assets and include property, plant and equipment, intangible assets and goodwill.

Year ended December 31, 2009	**Russia**	**Americas**	**Cent.Asia & Caspian Region**	**Middle East & Gulf Region**	**Africa**	**Europe**	**Asia & Far East**	**TOTAL**
REVENUE	2,170,662	738,657	134,189	61,116	16,291	271,982	68,100	**3,460,997**
NON-CURRENT ASSETS	2,864,046	1,420,701	24,372	38	-	207,344	-	**4,516,501**

Year ended December 31, 2008	**Russia**	**Americas**	**Cent.Asia & Caspian Region**	**Middle East & Gulf Region**	**Africa**	**Europe**	**Asia & Far East**	**TOTAL**
REVENUE	3,399,176	1,340,249	183,801	152,306	18,519	524,526	71,425	**5,690,002**
NON-CURRENT ASSETS	2,714,352	1,556,570	28,470	61	-	256,676	-	**4,556,129**

(All amounts are in thousands of US dollars, unless specified otherwise)

2) Cost of Sales

	2009	2008
Raw materials and consumables	1,662,709	2,946,681
Contracted manufacture	17,720	176,495
Energy and utilities	216,907	284,429
Depreciation and amortisation	192,665	178,192
Repairs and maintenance	70,729	93,199
Freight	24,946	22,852
Rent	4,121	2,775
Insurance	646	1,104
Staff costs including social security	393,086	511,234
Professional fees and services	12,323	21,549
Travel	1,042	1,723
Communications	886	1,938
Taxes	32,225	26,607
Other	6,005	3,947
Less capitalised costs	(9,013)	(13,360)
TOTAL PRODUCTION COST	**2,626,997**	**4,259,365**
CHANGE IN OWN FINISHED GOODS AND WORK IN PROGRESS	244,396	(73,354)
COST OF EXTERNALLY PURCHASED GOODS	26,705	33,768
OBSOLETE STOCK AND WRITE-OFFS	6,499	32,673
COST OF SALES	**2,904,597**	**4,252,452**

3) Selling and Distribution Expenses

	2009	2008
Freight	117,550	164,338
Rent	6,386	7,169
Insurance	1,416	1,372
Depreciation and amortisation	100,006	50,519
Staff costs including social security	45,079	60,043
Professional fees and services	15,634	20,031
Travel	2,613	4,855
Communications	1,242	1,645
Utilities and maintenance	2,131	2,776
Taxes	1,703	2,557
Consumables	12,974	19,916
Bad debt expense	4,219	7,212
Other	1,598	1,628
TOTAL SELLING AND DISTRIBUTION EXPENSES	**312,551**	**344,061**

(All amounts are in thousands of US dollars, unless specified otherwise)

4) Advertising and Promotion Expenses

	2009	2008
Media	564	1,134
Exhibits and catalogues	1,410	3,116
Outdoor advertising	2,248	4,995
Other	357	877
TOTAL ADVERTISING AND PROMOTION EXPENSES	**4,579**	**10,122**

5) General and Administrative Expenses

	2009	2008
Staff costs including social security	100,838	138,868
Professional fees and services	44,753	54,071
Depreciation and amortisation	15,678	17,939
Travel	6,398	11,833
Transportation	4,700	6,839
Rent	6,029	6,908
Communications	4,160	1,805
Insurance	4,977	1,228
Utilities and maintenance	6,743	10,271
Taxes	5,113	5,382
Consumables	2,468	8,262
Other	1,891	4,491
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	**203,748**	**267,897**

6) Research and Development Expenses

	2009	2008
Staff costs including social security	7,990	9,192
Professional fees and services	563	3,421
Depreciation and amortisation	536	725
Travel	119	255
Transportation	131	171
Communications	48	63
Utilities and maintenance	336	536
Consumables	323	546
Other	168	255
TOTAL RESEARCH AND DEVELOPMENT EXPENSES	**10,214**	**15,164**

7) Other Operating Expenses

	2009	2008
Loss on disposal of property, plant and equipment	3,959	1,555
Social and social infrastructure maintenance expenses	10,266	20,991
Charitable donations	8,330	13,325
Other	10,602	16,172
TOTAL OTHER OPERATING EXPENSES	**33,157**	**52,043**

Other operating expenses include expenses and additional provisions related to tax issues, tax fines and other fines in the amount of 8,694 (7,983 in 2008).

(All amounts are in thousands of US dollars, unless specified otherwise)

8) Share of Profit in Associate and Disposal of Associate

Share of Profit in Associate

Share of profit in associate represents 20% share of profit of North-Europe Pipe Project (1,416 for the year ended December 31, 2009 until the date of disposal and 3,006 for the year ended December 31, 2008).

Disposal of Associate

In December 2009, the Group sold 12% participation in North-Europe Pipe Project to a third party for a total consideration of 24,100 thousand Russian roubles (797 at the exchange rate as at December 31, 2009). The group recognised gain on disposal of 379. The Group discontinued the use of equity method from the date when significant influence was lost. As at December 31, 2009, the investment in North-Europe Pipe Project was stated at cost as part of Other non-current assets.

9) Other Operating Income

	2009	2008
Gain from reversal of litigation provision	1,994	910
Gain from penalties and fines	5,560	1,742
Income from emission rights sale	3,290	-
Other	5,162	4,468
TOTAL OTHER OPERATING INCOME	**16,006**	**7,120**

10) Finance Income

	2009	2008
Gain on extinguishment of debts	38,928	-
Interest income - bank accounts and deposits	2,348	2,739
Gain on disposal of available-for-sale investments (Note 17)	1,988	-
Change in fair value of liabilities under put options held by minority interest shareholders in Taganrog Metallurgical plant	-	5,981
TOTAL FINANCE INCOME	**43,264**	**8,720**

Change in fair value of liabilities under put options held by minority interest shareholders in Taganrog Metallurgical Plant relates to liability under put-call option, which expired on August 1, 2008. On that date, the Group recognised minority interests in Taganrog Metallurgical Plant (Note 29 vi).

On January 22, 2009, the Group and Evraz amended the option agreement to reduce the option price from 510,625 to 507,542. In addition interest clause was removed from the option agreement. As a result, the Group recognised gain on extinguishment of debts of 32,251 as finance income for the year ended December 31, 2009 (Note 11).

In August 2009, the Group bought back loan participation notes with the nominal amount of 413,300 for cash consideration 406,623 including transaction costs in the amount of 34,713. As a result, the Group recognised a gain on extinguishment of debts in the amount of 6,677 as finance income for the year ended December 31, 2009.

(All amounts are in thousands of US dollars, unless specified otherwise)

11) Acquisition of Subsidiaries

TOO Kaztrubprom

On June 9, 2008, the Group purchased the 100% ownership interest in Kazakhstan–based TOO Kaztrubprom ("Kaztrubprom") for a cash consideration of 8,437. Kaztrubprom specializes in the threading and finishing of tubing and casing pipes.

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of Kaztrubprom at the date of acquisition:

	9 June 2008
Property, plant and equipment	20,271
Other non-current assets	123
Inventories	724
Accounts and notes receivable, net	-
Prepayments	1,197
Cash	9
Total assets	**22,324**
Non-current liabilities	28,197
Deferred income tax liabilities	707
Current liabilities	241
Total liabilities	**29,145**
NET LIABILITIES	**(6,821)**
Fair value of net liabilities attributable to 100% ownership interest	(6,821)
TOTAL CONSIDERATION	8,437
Goodwill arising on acquisition	**15,258**

Goodwill arising from the acquisition of Kaztrubprom relates to synergy from integration of the acquired subsidiary into the Group.

In 2008, the cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	9
Cash paid	(8,437)
Net cash outflow	(8,428)

In 2008, the Group paid 8,437 for the purchase of Kaztrubprom. As at December 31, 2008, the Group had no liability in respect of this purchase.

Kaztrubprom's net loss from June 9, 2008 to December 31, 2008 was 6,298.

11) Acquisition of Subsidiaries (continued)

NS Group Inc. and IPSCO Tubular Inc.

On March 14, 2008, the Group signed a back–to–back purchase agreement with Evraz Group S.A. ("Evraz") to acquire all of the outstanding shares in IPSCO Tubulars Inc. and 51% of outstanding shares in NS Group Inc., both registered and located in the United States, from Svenskt Stal AB ("SSAB"), a Swedish steel company.

As a part of the transaction, on June 11, 2008, the Group entered into a call/put option agreement with Evraz, under which the Group has the right to purchase from Evraz and Evraz has the right to sell to the Group 49% of the outstanding shares in NS Group, Inc. for 510,625. Thus, in substance the Group acquired 100% ownership interest in NS Group Inc., because the Group gained an access to the economic benefits associated with that interest. The Group's call option became exercisable on June 12, 2008. The put option could be exercised by Evraz on or after October 22, 2009. The liability under the call/put option bore interest of 10% per annum.

IPSCO Tubulars Inc. and NS Group Inc. consist of ten production sites including steel–making and pipe– rolling mills, heat–treatment, threading and joints operations.

On June 12, 2008 the Group acquired control over NS Group Inc. and IPSCO Tubulars Inc. As a result, cost of the acquisition of all of the shares in IPSCO Tubulars Inc. and NS Group Inc. for the Group amounted to 1,645,012, including cash consideration of 1,114,177 (net of adjustment for closing working capital of 133,704), a liability in respect of the put option of 510,625, transactions costs of 20,210.

The financial position and results of operations of IPSCO Tubulars Inc. and NS Group Inc. were included in the Group's consolidated financial statements for the year ended December 31, 2008 beginning June 12, 2008.

(All amounts are in thousands of US dollars, unless specified otherwise)

11) Acquisition of Subsidiaries (continued)

NS Group Inc. and IPSCO Tubular Inc. (continued)

As the Group acquired both entities in a single transaction, combined fair values of identifiable assets, liabilities and contingent liabilities of IPSCO Tubular Inc. and NS Group Inc. at the date of acquisition were as follows:

	12 June 2008
Property, plant and equipment	424,458
Intangible assets	705,165
Deferred Tax asset	38,779
Inventories	376,801
Accounts and notes receivable, net	139,705
Prepayments	892
Total assets	**1,685,800**
Non-current liabilities	19,922
Deferred income tax liabilities	219,736
Current liabilities	266,915
Overdraft	7,183
Total liabilities	**513,756**
NET ASSETS	**1,172,044**
Fair value of net assets attributable to 100% ownership interest	1,172,044
TOTAL CONSIDERATION	1,645,012
Goodwill arising on acquisition	**472,968**

In 2008 and 2009, the cash flow on acquisition was as follows:

	2009	2008
Overdrafts of the acquired subsidiaries	-	(7,183)
Cash paid	(508,204)	(1,133,725)
NET CASH OUTFLOW	**(508,204)**	**(1,140,908)**

As at December 31, 2008, the Group had a liability of 510,625 in respect of the call/put option agreement and 662 in respect of transaction costs.

The net profit of IPSCO Tubular Inc. and NS Group Inc. for the period from June 12, 2008 to December 31, 2008 amounted to 166,601.

On January 22, 2009, the Group and Evraz amended the option agreement to reduce the option price from 510,625 to 507,542. In addition, interest clause was removed from the option agreement. On January 30, 2009 TMK exercised its option for a 49% ownership interest in NS Group. As a result, the Group recognised gain on extinguishment of debts of 32,251 (Note 10).

As at December 31, 2009, the Group had no liability in respect of this purchase.

(All amounts are in thousands of US dollars, unless specified otherwise)

11) Acquisition of Subsidiaries (continued)

ZAO "Pipe Repair Department"

On December 20, 2007, the Group purchased 100% ownership interest in ZAO "Pipe Repair Department" for cash consideration of 73,327.

As at December 31, 2008, the Group had a liability of 1,510 in respect of this purchase. During 2009 year the Group paid a liability in full amount.

Disclosure of Other Information in Respect of Business Combinations

As the acquired subsidiaries did not prepare financial statements in accordance with IFRS before the business combinations, it is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

It is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

12) Income Tax

	Year ended December 31,	
	2009	**2008**
Current income tax	17,133	209,879
Current income tax benefit	(36,777)	-
Adjustments in respect of income tax of previous years	1,269	1,001
Deferred tax expenses arising from write-down of deferred tax asset	1,464	-
Deferred income tax benefit related to origination and reversal of temporary differences	(86,099)	(101,268)
TOTAL INCOME TAX (BENEFIT)/EXPENSE	**(103,010)**	**109,612**

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2009	**2008**
Income before taxation	(426,755)	308,084
Theoretical tax charge at statutory rate in Russia of 20% (24% in 2008)	(85,351)	73,940
Adjustment in respect of income tax of previous years	1,270	1,001
Effect of items which are not deductable or assessable for taxation purposes	23,887	30,487
Effect of different tax rates in countries other than Russia	(38,447)	35,627
Effect of changes in tax rate in Russia and Kazakhstan	(98)	(31,853)
Effect of change of US (state) effective tax rate	(5,163)	-
Effect of currency translation	892	410
TOTAL INCOME TAX (BENEFIT)/EXPENSE	**(103,010)**	**109,612**

(All amounts are in thousands of US dollars, unless specified otherwise)

12) Income Tax (continued)

In November 2008, a reduction of income tax rate from 24% to 20% was announced by the Russian government. The new rate became effective on January 1, 2009. Respective deferred tax assets and liabilities as at December 31, 2008 were measured using the announced tax rate.

In December 2008, a reduction of income tax rate was announced by the Kazakhstan government from 30% to 20% for 2009 and 17.5% for 2010 year. Respective deferred tax assets and liabilities were remeasured using the announced tax rates as at respective dates.

Deferred income tax assets and liabilities, their movements for the periods ended December 31, 2009 and December 31, 2008 were as follows:

	2009	Change recognised in income statement	Change recognised in other comprehensive income	Foreign currency translation reserve	2008	Change recognised in income statement	Change due to business combination	Change recognised in other comprehensive income	Foreign currency translation reserve	2007
Deferred income tax liability:										
Valuation and depreciation of property, plant and equipment	(256,215)	(28,567)	-	3,584	(231,232)	53,214	(63,470)	-	48,466	(269,442)
Valuation and amortisation of Intangible assets	(72,614)	32,012	-	141	(104,767)	(11,309)	(118,143)	-	24,685	-
Valuation of accounts receivable	(6,661)	851	-	264	(7,776)	(755)	-	-	1,522	(8,543)
Valuation of inventory	-	-	-	-	-	905	-	-	11	(916)
Other	955	3,700	-	82	(2,827)	(2,654)	-	-	525	(698)
	(334,535)	**7,996**	**-**	**4,071**	**(346,602)**	**39,401**	**(181,613)**	**-**	**75,209**	**(279,599)**
Deferred income tax asset:					-					
Tax losses available for offset	152,297	76,852	7,698	1,040	66,707	19,404	-	53,577	(10,689)	4,415
Accrued liabilities	6,616	(719)	-	(62)	7,397	1,776	4,880	-	(1,608)	2,349
Impairment of accounts receivable	2,849	(2,294)	-	(264)	5,407	1,695	1,185	-	(1,086)	3,613
Impairment of prepayments and other current assets	505	(686)	-	(124)	1,315	(500)	1,334	-	(312)	793
Valuation of inventory	18,194	(1,904)	-	(795)	20,893	31,792	(7,450)	-	(3,449)	-
Provisions	4,165	(1,340)	-	(229)	5,734	182	-	-	(1,128)	6,680
Finance lease obligations	7,075	5,780	-	253	1,042	1,232	-	-	(190)	-
Trade and other payable	6,822	950	-	(381)	6,253	6,286	-	-	(1,152)	1,119
	198,523	**76,639**	**7,698**	**(562)**	**114,748**	**61,867**	**(51)**	**53,577**	**(19,614)**	**18,969**
Net deferred income tax liability	**(271,664)**	**93,258**	**-**	**5,639**	**(370,561)**	**47,513**	**(220,443)**	**-**	**81,403**	**(279,034)**
Net deferred income tax asset	**135,652**	**(8,623)**	**7,698**	**(2,130)**	**138,707**	**53,755**	**38,779**	**53,577**	**(25,808)**	**18,404**

(All amounts are in thousands of US dollars, unless specified otherwise)

12) Income Tax (continued)

In the context of the Group's current structure, tax losses and current tax assets of the different companies are not offset against current tax liability and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one subsidiary of the Group is not offset against the deferred tax liability of another subsidiary.

As at December 31, 2009, the deferred tax asset for 3,661 (2008: 7,775) relating to tax deductible losses incurred in transactions with securities has not been recognised, as it is not probable that sufficient taxable profit on transactions with securities will be available to offset the deductible temporary differences to which the asset relates. Such tax losses offsets only against future taxable profits generated in transactions with securities over a period of 5 years.

The Group recognised the deferred tax assets for the companies with net loss. The Group believes that this tax loss will be recovered as future taxable profits will exceed recognised tax asset on tax loss.

As at December 31, 2009, the Group has not recognised deferred tax liability in respect of 1,335,353 (2008: 1,480,501) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

From January 1, 2008, the change to the Tax Code in relation to dividends withholding tax became in force (the change # 76-FL is dated 16.05.2007). The major share of dividends due from Russian subsidiaries became tax free from January 1, 2008.

13) Earnings per Share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of the parent entity by the weighted average number of ordinary shares in issue during the period.

	For the year ended December 31	
	2009	**2008**
Net profit attributable to the equity holders of the parent entity	(315,726)	199,408
Weighted average number of ordinary shares outstanding (excluding treasury shares)	865,857,940	870,182,985
Effect of dilution:		
Share options	-	-
Weighted average number of ordinary shares outstanding (excluding treasury shares) adjusted for the effect of dilution	865,857,940	870,182,985
Earnings per share attributable to equity holders of the parent entity (in US dollars):		
Earnings per share attributable to equity holders of the parent entity, basic and diluted in US dollars ((11.57) RUR for 2009 and 5.80 RUR for 2008):	(0.36)	0.23

Share options under the TMK share options programme (Note 29 viii) were not included in the calculation of diluted earnings per share because they were antidilutive in 2008 and 2009.

There have been no transactions involving ordinary shares or potential ordinary shares between December 31, 2009 and the date of completion of these financial statements that would have changed significantly the number of ordinary shares or potential ordinary shares as at December 31, 2009 if those transactions had occurred before that date.

(All amounts are in thousands of US dollars, unless specified otherwise)

14) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	2009	2008
Russian rouble	185,710	60,036
US dollar	43,363	75,727
Euro	13,810	6,286
Romanian lei	149	854
Other currencies	724	490
TOTAL CASH AND CASH EQUIVALENTS	**243,756**	**143,393**

The above cash and cash equivalents consist of the following:

	2009	2008
Cash and cash equivalents	210,082	131,502
Deposits	33,674	11,891
TOTAL CASH AND CASH EQUIVALENTS	**243,756**	**143,393**

A cash deposit in the amount of 130 has been pledged as security for borrowings at December 31, 2009 (December 31, 2008: 854).

15) Trade and Other Receivables

	2009	2008
Trade receivables	576,132	755,680
Officers and employees	1,471	2,312
Other accounts receivable	16,514	6,819
GROSS ACCOUNTS RECEIVABLE	594,117	764,811
Allowance for doubtful debts	(15,161)	(13,120)
NET ACCOUNTS RECEIVABLE	**578,956**	**751,691**

There are no accounts receivables to secure bank borrowings at December 31, 2009 (December 31, 2008: 114) (Note 24).

16) Prepayments and Input VAT

	2009	2008
Prepayment for services, inventories	37,171	36,666
Prepayment for rent	267	405
Deferred charges	3,365	3,129
Prepayment for VAT, Input VAT	123,351	136,851
Prepayment for property tax	184	168
Prepayment for other taxes	2,293	2,596
Prepayment for insurance	9,858	6,929
TOTAL PREPAYMENTS	**176,489**	**186,744**

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or via direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is recoverable within one year.

(All amounts are in thousands of US dollars, unless specified otherwise)

17) Available-for-Sale Investments and Other Non-Current Assets

Available-for-Sale Investments

The amount of Available-for-sale investments as at December 31, 2009 and 2008 was nil and 191,646 thousand Russian roubles (6,520 at the exchange rate as at December 31, 2008) respectively. Available-for-sale investments were represented by the quoted ordinary shares of VTB Bank, a Russian state-owned bank. The fair value of these shares was determined by reference to published price quotations in an active market. On June 30, 2008 due to the significant and prolonged decline in fair value of VTB shares, the impairment loss of 13,043 representing cumulative loss previously recognised in other comprehensive income was recorded in the income statement. In the second half of 2008, further decline in fair value of VTB shares amounting to 10,632 was recognised in the income statement.

On September 10, 2009 the Group disposed off VTB shares for 8,177.

As a result, the Group recognised gain on disposal of 1,988 as finance income for the year ended December 31, 2009.

Other Non-Current Assets

	2009	2008
Prepayment for acquisition of property, plant and equipment	37,996	52,179
Loans to employees	5,796	5,112
Prepaid debt issue costs	2,136	7,190
Restricted cash deposits for fulfillment of guaranties	2,237	3,739
Other	3,720	1,401
GROSS INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	**51,885**	**69,621**
Allowance for doubtful debts	(11)	(12)
NET INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	**51,874**	**69,609**

18) Inventories

	2009	2008
Raw materials	233,924	233,534
Work in process	244,998	307,287
Finished goods and finished goods in transit	282,795	477,389
Goods for resale	4,688	6,334
Supplies	182,122	179,979
GROSS INVENTORIES	948,527	1,204,523
Allowance for net realisable value of inventory	(22,133)	(28,587)
NET INVENTORIES	**926,394**	**1,175,936**

Inventories carried at net realisable value in the amount of 194,494 (December 31, 2008: 84,415) are included in inventories as at December 31, 2009.

As at December 31, 2009, certain items of inventory with a carrying amount of 166,182 (December 31, 2008: 64,002) were pledged as security for borrowings (Note 24).

(All amounts are in thousands of US dollars, unless specified otherwise)

18) Inventories (continued)

The following summarises the changes in the allowance for net realisable value of inventory:

	2009	2008
Balance at the beginning of the year	28,587	9,450
Additional increase in allowance	(4,559)	24,669
Currency translation adjustments	(1,895)	(5,532)
BALANCE AT THE END OF THE YEAR	**22,133**	**28,587**

19) Property, Plant and Equipment

The movement in property, plant and equipment for the year ended December 31, 2009 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
COST							
Balance at January 1, 2009	1,182,748	1,941,585	62,588	35,569	3,579	765,577	**3,991,646**
Additions	-	-	-	-	-	412,323	**412,323**
Assets put into operation	92,356	479,754	1,452	5,046	5,863	(584,471)	**-**
Disposals	(2,621)	(13,951)	(2,136)	(977)	-	(281)	**(19,966)**
Currency translation adjustments	(30,869)	(32,710)	(2,333)	(897)	(3)	(25,944)	**(92,756)**
BALANCE AT DECEMBER 31, 2009	**1,241,614**	**2,374,678**	**59,571**	**38,741**	**9,439**	**567,204**	**4,291,247**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2009	(123,709)	(508,098)	(20,562)	(16,682)	(435)	-	**(669,486)**
Depreciation charge	(30,055)	(165,613)	(4,016)	(5,043)	(1,147)	-	**(205,874)**
Impairment	-	(39,730)	-	-	-	-	**(39,730)**
Impairment reversal	-	2,454	-	-	-	-	**2,454**
Disposals	263	8,790	849	679	-	-	**10,581**
Currency translation adjustments	2,740	9,888	579	288	(7)	-	**13,488**
BALANCE AT DECEMBER 31, 2009	**(150,761)**	**(692,309)**	**(23,150)**	**(20,758)**	**(1,589)**	**-**	**(888,567)**
NET BOOK VALUE AT DECEMBER 31, 2009	**1,090,853**	**1,682,369**	**36,421**	**17,983**	**7,850**	**567,204**	**3,402,680**
NET BOOK VALUE AT JANUARY 1, 2009	**1,059,039**	**1,433,487**	**42,026**	**18,887**	**3,144**	**765,577**	**3,322,160**

(All amounts are in thousands of US dollars, unless specified otherwise)

19) Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended December 31, 2008 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
COST							
Balance at January 1, 2008	1,151,250	1,439,470	68,416	32,025	33	582,911	**3,274,105**
Additions	2,570	19,873	473	900	-	956,390	**980,206**
Assets put into operation	159,973	529,108	6,617	6,189	1,194	(703,081)	**-**
Disposals	(6,008)	(26,231)	(1,587)	(609)	-	(929)	**(35,364)**
Assets acquired in business combinations	85,207	289,287	60	2,640	2,541	64,994	**444,729**
Currency translation adjustments	(210,244)	(309,922)	(11,391)	(5,576)	(189)	(134,708)	**(672,030)**
BALANCE AT DECEMBER 31, 2008	**1,182,748**	**1,941,585**	**62,588**	**35,569**	**3,579**	**765,577**	**3,991,646**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2008	(114,043)	(413,876)	(19,560)	(14,283)	-	-	**(561,762)**
Depreciation charge	(33,076)	(144,317)	(5,427)	(5,688)	(436)	-	**(188,944)**
Impairment	-	(59,846)	-	-	-	-	**(59,846)**
Disposals	352	21,542	675	502	-	-	**23,071**
Currency translation adjustments	23,058	88,399	3,750	2,787	1	-	**117,995**
BALANCE AT DECEMBER 31, 2008	**(123,709)**	**(508,098)**	**(20,562)**	**(16,682)**	**(435)**	**-**	**(669,486)**
NET BOOK VALUE AT DECEMBER 31, 2008	**1,059,039**	**1,433,487**	**42,026**	**18,887**	**3,144**	**765,577**	**3,322,160**
NET BOOK VALUE AT JANUARY 1, 2008	**1,037,207**	**1,025,594**	**48,856**	**17,742**	**33**	**582,911**	**2,712,343**

Bank borrowings are secured by properties and equipment with the carrying value of 817,520 (December 31, 2008: 133,624) (Note 24).

At December 31, 2009, the Group conducted an impairment test of property, plant and equipment and determined that carrying value of property, plant and equipment of its Romanian subsidiaries exceeds their recoverable amount. The recoverable amount represents the value in use determined based on discounted future cash flow. The group used pre-tax discount rates of 15.03% for determining the value in use for Romanian subsidiaries. As a result, the Group recognised impairment of property, plant and equipment amounting to 37,017 (2008: 55,680). The entire amount of impairment loss of Romanian subsidiaries was recognised in the income statement.

As at June 30, 2009, the Group conducted an impairment test of property, plant and equipment at that date. As a result the Group determined that carrying value of property, plant and equipment of its Orsk Plant exceeds their recoverable amount. The recoverable amount was determined based on the value in use determined based on discounted future cash flow. The group used pre-tax discount rate 15.14% for determining the value in use for Orsk Plant. As a result, the Group recognised impairment of property, plant and equipment amounting to 2,713.

(All amounts are in thousands of US dollars, unless specified otherwise)

19) Property, Plant and Equipment (continued)

At December 31, 2009 the Group determined that the value in use of Orsk Plant significantly exceeded its carrying value. As a result, the Group reversed the impairment loss in amount of 2,454 previously recognised in six-month period ended June 30, 2009 in respect of property, plant and equipment of Orsk Plant (2008: 4,166 of impairment loss). The Group used pre-tax discount rates of 15.41% for determining of the value in use of Orsk Plant. The increase of the recoverable amount of property, plant and equipment of Orsk Plant was mostly due to the increase of the share of the most profitable products in total production and sales volume of Orsk Plant.

Capitalised borrowing costs

The Group started capitalising borrowing costs for all eligible assets where construction was commenced on or after January 1, 2009. The amount of borrowing costs capitalized during the year ended December 31, 2009 was 1,702. The rate of the specific borrowing used to determine the amount of borrowing costs eligible for capitalization was 5.11%.

20) Goodwill and Other Intangible Assets

	Patents and trademarks	Goodwill	Software	Customer relationships	Proprietary technology	Backlog	Other	TOTAL
COST								
Balance at January 1, 2009	209,530	571,394	15,731	472,300	14,100	8,500	8,065	**1,299,620**
Additions	7	-	497	-	-	-	2,283	**2,787**
Disposals	(35)	-	-	-	-	-	(3,004)	**(3,039)**
Reclassification	255	-	1,177	-	-	-	(1,432)	**-**
Currency translation adjustments	(17)	(2,503)	(356)	-	-	-	(204)	**(3,080)**
BALANCE AT DECEMBER 31, 2009	**209,740**	**568,891**	**17,049**	**472,300**	**14,100**	**8,500**	**5,708**	**1,296,288**
ACCUMULATED AMORTISATION AND IMPAIRMENT								
Balance at January 1, 2009	(180)	(2,970)	(5,740)	(48,851)	(974)	(4,332)	(2,604)	**(65,651)**
Amortisation charge	(70)	-	(2,955)	(98,241)	(1,763)	(4,168)	(601)	**(107,798)**
Impairment	-	(10,053)	-	-	-	-	-	**(10,053)**
Disposals	28	-	-	-	-	-	1,417	**1,445**
Currency translation adjustments	5	(406)	(235)	-	-	-	226	**(410)**
BALANCE AT DECEMBER 31, 2009	**(217)**	**(13,429)**	**(8,930)**	**(147,092)**	**(2,737)**	**(8,500)**	**(1,562)**	**(182,467)**
NET BOOK VALUE AT DECEMBER 31, 2009	**209,523**	**555,462**	**8,119**	**325,208**	**11,363**	**-**	**4,146**	**1,113,821**
NET BOOK VALUE AT JANUARY 1, 2009	**209,350**	**568,424**	**9,991**	**423,449**	**13,126**	**4,168**	**5,461**	**1,233,969**

(All amounts are in thousands of US dollars, unless specified otherwise)

20) Goodwill and Other Intangible Assets (continued)

	Patents and trademarks	Goodwill	Software	Customer relationships	Proprietary technology	Backlog	Other	TOTAL
COST								
Balance at January 1, 2008	781	101,858	17,133	-	-	-	9,354	**129,126**
Additions	213	-	1,637	-	-	-	284	**2,134**
Disposals	(8)	-	-	-	-	-	(1,725)	**(1,733)**
Assets acquired business combination (Note 10)	208,700	488,225	-	472,300	14,100	8,500	1,565	**1,193,390**
Currency translation adjustments	(156)	(18,689)	(3,039)	-	-	-	(1,413)	**(23,297)**
BALANCE AT DECEMBER 31, 2008	**209,530**	**571,394**	**15,731**	**472,300**	**14,100**	**8,500**	**8,065**	**1,299,620**
ACCUMULATED AMORTISATION AND IMPAIRMENT								
Balance at January 1, 2008	(160)	-	(4,322)	-	-	-	(2,071)	**(6,553)**
Amortisation charge	(54)	-	(2,507)	(48,851)	(974)	(4,332)	(2,111)	**(58,829)**
Impairment	-	(3,512)	-	-	-	-	-	**(3,512)**
Disposals	1	-	-	-	-	-	1,095	**1,096**
Currency translation adjustments	33	542	1,089	-	-	-	483	**2,147**
BALANCE AT DECEMBER 31, 2008	**(180)**	**(2,970)**	**(5,740)**	**(48,851)**	**(974)**	**(4,332)**	**(2,604)**	**(65,651)**
NET BOOK VALUE AT DECEMBER 31, 2008	**209,350**	**568,424**	**9,991**	**423,449**	**13,126**	**4,168**	**5,461**	**1,233,969**
NET BOOK VALUE AT JANUARY 1, 2008	**621**	**101,858**	**12,811**	**-**	**-**	**-**	**7,283**	**122,573**

Customer relationships represent non-contracted interactions with clients. Remaining amortisation period for customer relationships is 7-9 years.

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group.

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (2008: 208,700).

The carrying amount of goodwill and intangible assets with indefinite useful lives were allocated among cash generating units as follows at December 31:

	2009		2008	
	Goodwill	**Intangible assets with indefinite useful lives**	**Goodwill**	**Intangible assets with indefinite useful lives**
American division	472,968	208,700	472,968	208,700
European division	6,855	-	6,740	-
Kaztrubprom Plant	8,365	-	12,236	-
Oilfield division	31,891	-	40,058	-
Other cash generating units	35,383	-	36,422	-
TOTAL GOODWILL	**555,462**	**208,700**	**568,424**	**208,700**

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate the goodwill and intangible assets may be impaired. At December 31, 2009 there were indicators of impairment, therefore, the Group performed an impairment test at that date.

(All amounts are in thousands of US dollars, unless specified otherwise)

20) Goodwill and Other Intangible Assets (continued)

The aggregation of assets for identifying cash generating units and estimate of the cash-generating unit's recoverable amount has changed in comparison to December 31, 2008 classification. The changes in aggregating the assets into cash generating units are as follows:

Cash generating units in 2009	Cash generating units in 2008
American division	IPSCO Tubulars Inc. NS Group Inc. TMK North America Inc.
European division	TMK Italia s.r.l. TMK Europe GmbH SC TMK-ARTROM SA, SC TMK-RESITA SA

In 2009 the Group formed the European and American divisions as a separate business units of the Group. As a result, there were changes in management and performance assessment approach of these entities. This caused the changes in the way of aggregating assets into cash generating units.

Goodwill and intangible assets with indefinite useful lives were tested for impairment at December 31, 2009. As a result of the test, the Group determined that the carrying value of cash generating units in all cash generating units approximates their recoverable amounts. Consequently, no additional impairment to the previously reported in the period ended June 30, 2009 in the amount of 10,053, was recognised (2008: 3,512).

For the purpose of impairment testing of goodwill the Group has determined fair value of each of its cash generating units. The fair value has been calculated using cash flow projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash generating unit or group of cash generating units. The key assumptions used by management in calculation of the fair value are presented in the table below. For the periods not covered by management plans, cash flow projections have been estimated by extrapolating the respective business plans taking into account business cycles using in zero growth rate.

Cash generating units	Period of forecast, years	Pre-tax discount rate, %
American division	5	12.27
European division	5	14.37
Kaztrubprom Plant	5	14.05
Oilfield division	5	14.45
Other cash generating units	5	14.36

The calculation of Oilfield service, Kaztrubprom Plant and European division cash generating unit's fair value was most sensitive to the following assumptions:

20) Goodwill and Other Intangible Assets (continued)

Discount Rates

Discount rates reflect the current market assessment of the risks specific to cash generating unit. The discount rates have been determined using the CAPM concept and analysis of industry peers. Reasonably possible change in discount rate could lead to impairment of goodwill.

A 10% increase in the discount rate of Oilfield service cash generating unit would result in an additional impairment of 3,841.

A 10% increase in the discount rate of Kaztrubprom Plant cash generating unit would result in an additional impairment of 1,485.

A 10% increase in the discount rate of European Division cash generating unit would result in a full impairment of goodwill in the amount of 6,855.

Volume of production of OCTG *pipes (Kaztrubprom Plant cash generating unit)*

The management assumed that sale volumes of OCTG pipes would increase by 331% in 2010 in comparison with 2009. This growth will be provided by production capacity increase of the plant and increase of demand.

Reasonably possible changes in quantities of produced and sold could lead to the additional impairment. The most sensitive years for analysis are 2010-2011, as the economic growth rate can be lower than forecasted. If the quantities of the units of production sold were 10% lower than those assumed in the impairment test during 2010 and 2011, this would lead to an additional impairment of 419.

Volume of production of seamless pipes (European cash generating unit)

The management assumed that the volume of sales of seamless pipes would increase by 40% during 2010 and would grow in 2011, 2012 and 2013 by 1%, 9%, and 7%, respectively. In 2014 and thereafter a zero growth rate was assumed. Reasonably possible changes in quantities of produced and sold could lead to the additional impairment. The most sensitive years for analysis are 2010-2011, as the economic growth rate can be lower than forecasted. If the quantities of the units of seamless pipes sold were 10% lower than those assumed in the impairment test during 2010 and 2011, this would lead to the full impairment of goodwill in the amount of 6,855.

Costs and Expenses

The recoverable amounts of Oilfield service cash generating unit, Kaztrubprom Plant cash generating unit and European Division cash generating unit are based on the business plans approved by management. The reasonably possible deviation of cost from these plans could lead to an additional impairment.

If the actual costs of Oilfield service cash generating unit were 10% higher than those assumed in the impairment test, this would lead to the full impairment of goodwill.

(All amounts are in thousands of US dollars, unless specified otherwise)

20) Goodwill and Other Intangible Assets (continued)

Costs and Expenses (continued)

If the actual costs of Kaztrubprom Plant cash generating unit were 10% higher than those assumed in the impairment test during 2010-2013, this would lead to the full impairment of goodwill in the amount of 8,365.

If the actual costs of European Division cash generating unit were 10% higher than those assumed in the impairment test during 2010-2013, this would lead to the full impairment of goodwill in the amount of 6,855.

Commodity Prices

The recoverable amounts of Oilfield service cash generating unit, Kaztrubprom Plant cash generating unit and European Division cash generating unit are based on the business plans approved by management. The reasonably possible deviation of prices from these plans could lead to an additional impairment.

If the actual prices of Oilfield service cash generating unit were 5% lower than those assumed in the impairment test, this would lead to an additional impairment of 24,286.

If the actual prices of Kaztrubprom Plant cash generating unit were 5% lower than those assumed in the impairment test, this would lead to the full impairment of goodwill in the amount of 8,365.

If the actual prices of European Division cash generating unit were 5% lower than those assumed in the impairment test, this would lead to the full impairment of goodwill in the amount of 6,855.

21) Trade and Other Payables

	2009	2008
Trade payables	417,108	546,217
Accounts payable for property, plant and equipment	138,092	144,585
Notes issued to third parties	5,941	869
Sales rebate payable	1,541	5,400
Other payables	10,836	12,863
TOTAL ACCOUNTS PAYABLE	**573,518**	**709,934**

22) Accrued Liabilities

	2009	2008
Payroll liabilities	26,861	34,447
Accrued and withheld taxes on payroll	13,091	11,529
Liabilities for VAT	58,779	19,298
Liabilities for property tax	7,537	4,791
Liabilities for other taxes	5,165	3,309
Deferred VAT	73	99
Current portion of employee-benefit liability	1,540	1,869
Accrual for long-service benefit	5,872	5,348
Liabilities under put options of minority interest shareholders in subsidiaries	15,836	552,989
Liability for bonuses	1,873	17,028
Accrued liability on acquisitions	-	1,510
Miscellaneous	8,620	13,235
TOTAL ACCRUED LIABILITIES	**145,247**	**665,452**

(All amounts are in thousands of US dollars, unless specified otherwise)

23) Provisions

	2009	2008
Current:		
Provision for unused annual leaves, current portion	8,030	8,813
Accrual for tax fines	706	1,270
Environmental provision	719	393
TOTAL CURRENT PROVISIONS	**9,455**	**10,476**
Non-current:		
Environmental provision	6,446	6,508
Provision for unused annual leaves	15,405	13,194
TOTAL NON-CURRENT PROVISIONS	**21,851**	**19,702**

24) Interest-Bearing Loans and Borrowings

Short-term and long-term borrowings were as follows as at December 31, 2009:

	2009	2008
Current:		
Bank loans	1,251,575	1,676,590
Interest payable	24,891	46,651
Current portion of non-current borrowings	105,858	92,463
Current portion of bearer coupon debt securities	165,321	402,078
Unamortised debt issue costs	(11,858)	(3,145)
	1,535,787	**2,214,637**
Finance lease liability - current	1,595	1,822
TOTAL SHORT-TERM BORROWINGS	**1,537,382**	**2,216,459**
Non-current:		
Bank loans	2,160,060	287,811
Bearer coupon debt securities	352,021	1,172,259
Unamortised debt issue costs	(63,470)	(10,273)
Less: current portion of non-current borrowings	(105,858)	(92,463)
Less: current portion of bearer coupon debt securities	(165,321)	(402,078)
	2,177,432	**955,256**
Finance lease liability - non-current	36,736	38,969
TOTAL LONG-TERM BORROWINGS	**2,214,168**	**994,225**

(All amounts are in thousands of US dollars, unless specified otherwise)

24) Interest-Bearing Loans and Borrowings (continued)

In addition to collaterals disclosed in Notes 14, 15, 18, 19 the Group pledged its rights under sales contracts in Romania totaling to 4,914 as collateral under loan agreements as at December 31, 2009 (December 31, 2008: 15,169). Proceeds from sales pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Interest rates for period ended	**2009**	**Interest rates for period ended**	**2008**
Russian rouble	Fixed 5% -17%	1,153,219	Fixed 7.6% -17.55%	1,206,957
US dollar			Fixed 8.5%	305,451
	Fixed 10%	192,812	Fixed 10%	619,506
	Fixed 6.48%-12.1%	2,048,035	Fixed 9.75%-14.7%	114,195
	Variable:	4,179	Variable:	659,234
			Libor (1m) + 1.6% - 2.5%	
	Libor (3m) + 1.7%		Libor (3m) + 1.7%	
			Federal Funds Rate +1.6%	
	Libor (1w) + 1.8%			
Euro	Fixed 1.3%-5.11%	91,044	Fixed 5.11%-9.4%	5,405
	Cost of funds + 1.25% (*)	34,611		
	Variable:	189,319	Variable:	258,734
	Euribor (1m) + 0.23% - 1.6%		Euribor (1m) + 1.6%	
	Euribor (3m) 0.45% + 4%		Euribor (3m) + 2.75%	
	Euribor (6m) + 0.23% - 4%		Euribor (6m) + 0.23% - 2.4%	
Romanian lei		-	Fixed 16%	411
		3,713,219		**3,169,893**

(*) Cost of funds represents internal rate of a bank.

Covenants reset and covenants compliance during 2009

Certain loan agreements provide for covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness, profitability and guarantees issued to other parties.

Prior to December 31, 2009, the Group obtained waivers from the relevant lenders for the testing of financial covenants as of December 31, 2009.

At the date of publication of interim condensed consolidated financial statements for the six-month period ended June 30, 2009 the Group's debt to EBITDA ratio under 10% loan participation notes due 2011 exceeded its allowed level. As a consequence, the Group has been limited to increase its financial indebtedness except for amounts available under clauses of permitted indebtedness.

24) Interest-Bearing Loans and Borrowings (continued)

Covenants reset and covenants compliance during 2009 (continued)

In August 2009, to increase financial flexibility the Group implemented a tender offer and consent solicitation with respect of 600,000 loan participation notes due 2011 to modify certain restrictive covenants in order to increase financial flexibility of the Group by raising the level of secured debt. In particular the Group amended the definition of "Permitted Liens" and increased the level of permitted indebtedness.

Based on management forecasts for 2010 year results, in order to be in compliance with covenants the Group undertook some actions to reset the level of the certain financial covenants for 2010. At the date of issue of consolidated financial statements for the year ended December 31, 2009, the Group amended the relevant loan agreements so as to ensure compliance with the relevant financial covenants during 2010.

Bank Loans

On May 30, 2008, TMK entered into the IPSCO Bridge Facility Agreement for 1,200,000 to finance the acquisition of a 51% interest in NS Group Inc. and the 100% interest in IPSCO Tubulars Inc. ABN AMRO Bank N.V., Bank of Tokyo Mitsubishi UFJ, Ltd., Barclays Bank PLC, BNP Paribas (Suisse) S.A., ING Bank N.V., Natixis, Nomura International plc. and Sumitomo Mitsui Finance Dublin Limited are arrangers of the facility. In July 2008 the Group partly refinanced this bridge facility using the proceeds from issuance of 600,000 10% loan participation notes due 2011.

In January 2009, the Group entered into agreement with Gazprombank for 2.5 year term borrowing facilities of 1,107,542 to refinance the remaining part of the IPSCO Bridge Facility and acquire 49% of NS Group Inc. from Evraz in accordance with a call/put option concluded between TMK and Evraz in June 2008 in the amount of 507,542. In August 2009, the Group amended agreement with Gazprombank for borrowing facilities of 1,107,542 extending the loan term from 2.5 to 5 years and reducing interest rate. In December 2009, the Group further amended agreement reducing interest rate. The facilities will be repaid by 13 tranches starting from 2011. As at December 31, 2009, the principle outstanding balance of the loan was 1,107,542.

On March 23, 2009, TMK entered into a short-term loan with VTB Bank in the principal amount of 90,185. The proceeds were used to redeem the bearer coupon debt securities for the amount of 3,000,000 thousand Russian roubles on March 24, 2009. As at December 31, 2009, the principle outstanding balance was 90,185.

On August 18, 2009 and on September 25, 2009, the Group entered into loans with VTB in the amounts of 450,000 and 300,000, respectively, with an initial maturity of one year, and with an option to extend the maturity by up to 5 years. The proceeds from the loans were used to partially redeem 10% loan participation notes due 2011 and fully repaid the liability under 8.5% loan participation notes due 2009. As at December 31, 2009, the principle outstanding balances of the loans were 450,000 and 300,000, respectively.

24) Interest-Bearing Loans and Borrowings (continued)

Bank Loans (continued)

In October 2009, the Group entered into several credit line arrangements with VTB in the aggregated amount of 10,000 million Russian roubles with a maturity of 5 years. As at December 31, 2009 the principal outstanding balance was 7,928.6 million Russian roubles (262,153 at the exchange rate at December 31, 2009).

In June – December 2009, the Group entered into short-term and long-term loans with Sberbank in the aggregated amounts of 1,660 million Russian roubles and 12,555 million Russian roubles, respectively. As at December 31, 2009, the principle outstanding balances were 1,660 and 12,555 million Russian roubles (54,887 and 415,121 at the exchange rate at December 31, 2009), respectively.

Loan participation notes

On September 29, 2006, the Group issued 3,000 8.5% loan participation notes with a nominal value of 100,000 US dollars each, due September 2009. On July 25, 2008, the Group issued 6,000 10% loan participation notes with a nominal value of 100,000 US dollars each, due July 2011. The notes were issued by TMK Capital S.A. ("TMK Capital"), a Luxemburg special purpose vehicle. The notes have been admitted to trading on the London Stock Exchange. The terms of the notes provide for certain restrictions on the Company's ability to incur financial indebtedness, liens, to engage in assets sales, to engage in transactions with affiliates and to engage in mergers and similar transactions. The proceeds of the 10% loan participation notes were used for partial repayment of the IPSCO Bridge Facility for the amount of 1.2 billion.

On July 8, 2009, the Group offered to the holders of the 10% loan participation notes to increase the level of permitted indebtedness up to 100,000 or sell the notes to the Group at offered price. The offer expired on July 31, 2009. As a result, the Group bought back 4,133 notes with nominal amount of 413,300. Total payments of the Group related to this transaction comprised 406,623, which was financed by 450,000 loan provided by VTB. As at December 31, 2009, an aggregate of 186,700 of notes remained outstanding.

On September 29, 2009, the Group fully repaid its liability for the amount of 300,000 and 12,750 of coupon under the loan participation notes issued on September 29, 2006 using the proceeds from the loan provided by VTB.

Bearer Coupon Debt Securities

On March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 Russian roubles (35.95 US dollars at the exchange rate as at the date of issuance) each, with eight coupon periods of 182 days each. The bonds matured on March 24, 2009. The annual interest rate for the last four semi-annual coupons was 7.6% per annum. On March 24, 2009, the Group repaid its liability under these bonds using the proceeds from the loan provided by VTB.

(All amounts are in thousands of US dollars, unless specified otherwise)

24) Interest-Bearing Loans and Borrowings (continued)

Bearer Coupon Debt Securities (continued)

On February 21, 2006, the Group issued 5,000,000 bonds with a nominal value of 1,000 Russian roubles (35.53 US dollars at the exchange rate as at the date of issuance) each, with ten coupon periods of 182 days each. The maturity date is February 15, 2011. The interest rate for the first, second, third and fourth semi-annual coupons was 7.95% per annum. The interest rate for the fifth, sixth, seventh and eighth semi-annual coupons is 9.6% per annum. The annual interest rate for the ninth and tenth semi-annual coupon periods is to be established and announced by the Company on any date before the last 10 days of the ninth coupon period. As at December 31, 2009, an aggregate of 5.0 billion Russian roubles (165,321 at the exchange rate as at December 31, 2009) remained outstanding under these bonds series.

Unamortised Debt Issue Costs

Unamortised debt issue costs represent agent commission and arrangement costs paid by the Group in relation to the arrangement of loans and issue of notes.

Unutilised Borrowing Facilities

As at December 31, 2009, the Group had unutilised borrowing facilities in the amount of 411,175 (December 31, 2008: 280,522).

Finance Lease Liabilities

Starting from 2001, the Group entered into lease agreements under which it has a bargain option to acquire the leased assets at the end of lease term ranging from 1 to 20 years. The estimated average remaining useful life of leased assets varies from 4 to 19 years.

The leases accounted for as finance leases in the consolidated financial statements. The carrying value of the leased assets was as follows as at December 31:

	2009	2008
Machinery and equipment	30,806	34,578
Transport and motor vehicles	133	863
	30,939	**35,441**

The leased assets are included in property, plant and equipment in the consolidated statement of financial position (Note 19).

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows at December 31, 2009:

	Minimum payments	Present value of payments
2010	2,841	1,595
2011-2014	10,883	6,456
after 2014	37,828	30,280
Total minimum lease payments	**51,552**	**38,331**
Less amounts representing finance charges	(13,221)	-
Present value of minimum lease payments	**38,331**	**38,331**

(All amounts are in thousands of US dollars, unless specified otherwise)

24) Interest-Bearing Loans and Borrowings (continued)

Finance Lease Liabilities (continued)

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows at December 31, 2008:

	Minimum payments	Present value of payments
2009	3,050	1,822
2010-2013	11,028	6,679
after 2013	40,205	32,290
Total minimum lease payments	**54,283**	**40,791**
Less amounts representing finance charges	(13,492)	-
Present value of minimum lease payments	**40,791**	**40,791**

In the years ended December 31, 2009 and December 31, 2008, the average interest rate under the finance lease liabilities was 3%.

25) Employee Benefit Liability

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. Defined benefits consist of lump-sum amounts payable at the retirement date and certain regular post-retirement payments. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreement. The Group pays the benefits when they fall due for payment.

The following table summarises the components of net benefit expense recognised in the consolidated income statement and amounts recognised in the consolidated statement of financial position by country:

	Russia		Romania		Total	
	2009	2008	2009	2008	2009	2008
Movement in the benefit liability:						
At January 1	(17,543)	(22,216)	(1,513)	(1,931)	(19,056)	(24,147)
Benefit expense	(2,464)	(365)	(28)	53	(2,492)	(312)
Benefit paid	941	1,568	112	119	1,053	1,687
Change in liability due to business combinations	-	-	-	-	-	-
Currency translation adjustment	427	3,470	87	246	514	3,716
At December 31	**(18,639)**	**(17,543)**	**(1,342)**	**(1,513)**	**(19,981)**	**(19,056)**
Short-term	**(1,540)**	**(1,869)**	**-**	**-**	**(1,540)**	**(1,869)**
Long-term	**(17,099)**	**(15,674)**	**(1,342)**	**(1,513)**	**(18,441)**	**(17,187)**
Net benefit expense (recognised in cost of sales, general and administrative expenses and selling and distribution expenses):						
Current service cost	718	1,127	29	250	747	1,377
Interest cost on benefit obligation	1,613	967	128	168	1,741	1,135
Net actuarial (gain) / loss recognised in the period	(30)	(1,913)	(130)	(471)	(160)	(2,384)
Past service cost	163	184	-	-	163	184
Net benefit expense / (income)	**2,464**	**365**	**27**	**(53)**	**2,491**	**312**

(All amounts are in thousands of US dollars, unless specified otherwise)

25) Employee Benefit Liability (continued)

The Group expects to contribute 1,539 to its defined post-employment benefit programme in 2010.

	2009	2008
Present value of defined benefit obligation	22,362	21,317
Unrecognised past service cost	(2,381)	(2,261)
Benefit liability as at December 31	**19,981**	**19,056**

The Group had no plan assets and unrecognised actuarial gains or losses in the year ended December 31, 2009.

The following table is a summary of the present value of the benefit obligation and experience adjustments as at December 31:

	2009	2008
Defined benefit obligation as at December 31	**22,362**	**21,317**
Experience adjustments on plan liabilities	(1,485)	954

The principal actuarial assumptions used in determining pension obligations for the Group's plan are shown below:

	Russia		Romania	
	2009	2008	2009	2008
Discount rate	8.75%	8.85%	current 9.98%, decreasing to 3.53% in the long- term	current 9.51%, decreasing to 3.53% in the long- term
Average long-term rate of compensation increase	6.8%	6.25%	current 4.0%, decreasing to 2.0% in the long-term	current 6.0%, decreasing to 2.0% in the long-term

(All amounts are in thousands of US dollars, unless specified otherwise)

26) Principal Subsidiaries

Company	Location	Main activity	Actual ownership interest December 31, 2009	Effective ownership interest December 31, 2009	Actual ownership interest December 31, 2008	Effective ownership interest December 31, 2008
IPSCO Tubulas Inc.	USA	Manufacturing of welded steel pipes and other products	100.00%	100.00%	100.00%	100.00%
NS Group Inc.	USA	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	100.00%	51.00%	51.00%
OAO "Sinarsky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, sale of electric and heating power and other services	94.16%	94.16%	92.95%	92.95%
OAO "Seversky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of electric and heating power and other services	94.22%	94.22%	93.53%	93.53%
OAO "Volzhsky Pipe Plant"	Russia	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	100.00%	100.00%	100.00%
OAO "Taganrog Metallurgical Plant"	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of steel ingots and other products	96.06%	96.06%	95.94%	95.94%
OAO "Orsky Machine Building Plant"	Russia	Manufacturing of drilling locks and other products	75.00%	75.00%	75.00%	75.00%
ZAO "Trade House TMK"	Russia	Sales & Distrubution of pipes, raw materials procurement	100.00%	99.92%	100.00%	99.92%
OOO "TMK-INOX"	Russia	Sales & Distrubution of pipes	100.00%	100.00%	0.00%	0.00%
OOO "Skladskoy Kompleks TMK"	Russia	Sales & Distrubution of pipes	100.00%	100.00%	100.00%	100.00%
TOO "TMK-Kazakhstan"	Kazakhstan	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
TOO Kaztrubprom	Kazakhstan	Manufacturing of seamless steel pipes	100.00%	100.00%	100.00%	100.00%
OOO "TMK-Trans"	Russia	Logistics	100.00%	100.00%	100.00%	100.00%
OOO "Blagoustroystvo"	Russia	Services	100.00%	99.99%	100.00%	99.99%
OOO "Sinarsky Trubnik"	Russia	Services	100.00%	100.00%	100.00%	100.00%
OOO "SinaraTransAvto"	Russia	Services	100.00%	100.00%	100.00%	100.00%
OOO "Sinaraproekt"	Russia	Services	0.00%	0.00%	100.00%	100.00%
TMK Global AG	Switzerland	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
TMK North America Inc.	USA	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
TMK Italia s.r.l.	Italy	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
TMK Middle East FZCO	UAE	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
OOO Pokrovka 40	Russia	Assets holding	100.00%	100.00%	100.00%	100.00%
TMK Europe GmbH	Germany	Sales & Distribution of pipes, raw materials and equipment procurement	100.00%	100.00%	100.00%	100.00%
SC TMK-ARTROM SA	Romania	Manufacturing of seamless steel pipes	92.66%	92.66%	80.56%	80.56%
SC TMK-RESITA SA	Romania	Manufacturing of billets	100.00%	100.00%	99.49%	99.49%
WRJ INWESTYCJE SP Z O.O.	Poland	Investment company	100.00%	100.00%	100.00%	100.00%
TMK Capital S.A.	Luxembourg	Financing (SPV)	0.00%	0.00%	0.00%	0.00%
Joint-Stock Company "Russian Research Institute of the Tube and Pipe Industries"	Russia	In-house R&D facility	97.36%	97.36%	97.36%	97.36%
OOO "Predpriyatiye "Truboplast"	Russia	Coating of pipes	100.00%	100.00%	100.00%	100.00%
ZAO "Pipe Repair Department"	Russia	Services for oil and gas industries	100.00%	100.00%	100.00%	100.00%
OOO "TMK-Premium Services"	Russia	Sales & Distribution, premium pipes	100.00%	100.00%	100.00%	100.00%
OOO "Central Pipe Yard"	Russia	Services for oil and gas industries	100.00%	100.00%	100.00%	100.00%
OOO " Accounting services center"	Russia	Accounting shared-services	100.00%	100.00%	100.00%	100.00%
Rockarrow Investments Limited	Cyprus	Stock servicing	100.00%	100.00%	100.00%	100.00%
ZAO "TMK-CPW" *	Russia	Manufacturing of welded steel pipes	51.00%	48.05%	54.00%	50.51%
OOO TMK –SMS Metallurgical Service	Russia	Maintenance and repair of equipment	51.00%	47.58%	51.00%	47.58%

** The Group recorded a liability under that put option in the consolidated financial statements*

Actual ownership interest in subsidiaries differs from the effective ownership interests due to the existence of minority interests in subsidiaries that hold ownership interest in other subsidiaries.

(All amounts are in thousands of US dollars, unless specified otherwise)

27) Related Parties Disclosures

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

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 December 31, 2009 and 2008 are detailed below.

In the year ended December 31, 2009, sales transactions with related parties constituted approximately 0.03 % of the total volume of the Group's sales of goods (2008: 0.2 %).

The following table provides outstanding balances with related parties at the year-end:

	2009	2008
Cash and cash equivalents	86,541	6,062
Accounts receivable – current	818	6,007
Prepayments – current	422	2
Accounts receivable – non-current	68	68
Accounts payable – current	(21,249)	(1,427)
Interest payable	(523)	(32)

The following table provides the total amount of transactions with related parties for the years ended December 31:

	2009	2008
Sales revenue	1,201	13,628
Purchases of goods and services	6,897	8,283
Interest income from loans and borrowings	216	841
Interest expenses from loans and borrowings	489	155
Loss on sale of treasury shares to management	2	15

Parent company, TMK Steel, pledged shares of OAO "TMK" in order to guarantee the Group's loans from Gazprombank in the amount of 1,107,542. The Group paid to the parent company 56,300 for the guarantee. Bravecorp Limited (an entity under common control with TMK Steel) pledged its shares of OAO "TMK" to VTB in order to guarantee the Group's loans in the amount of 750,000 from VTB. The Group paid 6,000 to Bravecorp for the guarantee. Accounts payable balance as at December 31, 2009 related principally to the unpaid fees for the guarantee provided by TMK Steel and Bravecorp in the amount of 16,300 and 4,000 respectively.

The Group paid no dividends to the parent company in 2009 (2008: 163,861).

27) Related Parties Disclosures (continued)

In addition to transactions with related parties disclosed in this note, other transactions with related parties are disclosed in Notes 11 and 29.

Compensation of Key Management Personnel of the Group

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totaling 28 persons as at December 31, 2009 (30 persons as at December 31, 2008). Total compensation to key management personnel included in general and administrative expenses in the income statement amounted to 13,231 for the year ended December 31, 2009 (2008: 22,875). There were no share-based payments to key management personnel for the year ended December 31, 2009 (2008: 4,452).

Compensation to key management personnel consists of contractual salary and performance bonus depending on operating results.

The Group issued loans to key management personnel in the amount of 360 during for the year ended December 31, 2009.

The Group guaranteed debts of key management personnel outstanding as at December 31, 2009 in the amount of 3,201 with maturity in 2011 – 2014 (2008: 3,826).

The Group purchased 75,943 shares of OAO TMK from key management personnel for 223 during the year ended December 31, 2009. The Group sold 107,859 shares of OAO TMK to key management personnel for 467 during the year ended December 31, 2009.

28) Contingencies and Commitments

Operating Environment of the Group

Significant part of the Group's principal assets are located in the Russian Federation and therefore its significant operating risks are related to the activities of the Group in this country.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The ongoing global financial crisis resulted in capital market instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. The volatile global economic climate resulted in negative effects on the Group's business in North America.

The worldwide financial crisis may result in further reduction of the available credit facilities as well as substantively higher interest rates. The reduced cash from operations and reduced availability of credit may increase the cost, delay the timing of, or reduce planned capital expenditures.

The unexpected changes in economical environment could negatively affect the Group's results and financial position in a manner not currently determinable.

28) Contingencies and Commitments (continued)

Taxation

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. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

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.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Claims from the tax authorities received by the Group in 2007 – 2008 were successfully contested by the Group in the courts (except those accepted by the Group). In 2009, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 496,512 thousand Russian roubles (16,417 at the exchange rate as at December 31, 2009). The Group contested these claims in the courts; however, up to the date of authorisation of consolidated financial statements of the Group for issuance the court proceedings had not been finalised.

In 2009, tax authorities started tax audits of major Russian production entities for 2006 – 2008 fiscal periods. These audits had not been completed up to the date of authorization of consolidated financial statements of the Group for issuance.

Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Therefore, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2009.

Contractual Commitments and Guarantees

As at December 31, 2009, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 1,162,497 thousand Russian roubles (38,437 at the exchange rate as at December 31, 2009), 55,929 thousand Euros (80,235 at the exchange rate as at December 31, 2009), 749 thousand Romanian lei (253 at the exchange rate as at December 31, 2009) and 9,338 thousand US dollars for the total amount of 128,263 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 37,996 with respect to such commitments (2008: 52,179).

28) Contingencies and Commitments (continued)

Contractual Commitments and Guarantees (continued)

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 52,458 (2008: 154,556).

Insurance Policies

For Russian subsidiaries the Group maintains obligatory insurance policies required by the Russian Law and insurance policies in respect of certain assets pledged under loan agreements. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

Legal Claims

During the period, 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 Company and which have not been accrued or disclosed in these consolidated financial statements.

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding at December 31, 2009 in the amount of 4,246 (2008: 6,219).

29) Equity

i) Share Capital

As at December 31, 2009, the authorised number of ordinary shares of the Company was 873,001,000 (2008: 873,001,000) with a nominal value per share of 10 Russian roubles. All these shares are issued and fully paid.

ii) Reserve Capital

According to Russian Law, the Company must create a reserve capital in the amount of 5% of the share capital per the Russian statutory accounts by annual appropriations that should be at least 5% of the annual net profit per the statutory financial statements. The reserve capital can be used only for covering losses and for the redemption of the Company's bonds and purchase of its own shares if there are no other sources of financing.

29) Equity (continued)

iii) Dividends

In June 2008, the Company declared a final dividend in respect of 2007 in the amount of 899,191 thousand Russian roubles (38,224 at the exchange rate at the announcement date) or 1.03 Russian roubles per share (0.044 US dollars per share), from which 1,819 thousand Russian roubles (77 at the exchange rate at the transaction date) related to the treasury shares in possession of the Group as at the date of dividends declaration.

In November 2008, the Company declared an interim dividend in respect of 2008 in the amount of 1,527,752 thousand Russian roubles (56,660 at the exchange rate at the announcement date) or 1.75 Russian roubles per share (0.065 US dollars per share), from which 5,871 thousand Russian roubles (218 at the exchange rate at the transaction date) related to the treasury shares in possession of the Group as at the date of dividends declaration.

The Company declared no final dividends in respect of 2008. No interim dividends were declared during 2009.

In accordance with Russian legislation, dividends may only be declared to the shareholders from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. The Company had 463,768 of undistributed and unreserved earnings recognised in Russian statutory financial statements as at December 31, 2009. In addition, the Group’s share in the undistributed and unreserved earnings of its subsidiaries was 1,228,862 as at December 31, 2009.

iv) Acquisition of Minority Interests in Subsidiaries

In the year ended December 31, 2009, the Company purchased additional 0.69% of OAO “Seversky Pipe Plant” shares, 1.21% of OAO “Sinarsky Pipe Plant” shares, 0.12% of OAO “Taganrog Metallurgical Plant” and 0.51% of SC TMK-RESITA SA. The total cash consideration for the shares amounted to 9,349.

The excess in the amount of 1,121 of the consideration given for the shares over the carrying values of net assets attributable to interest in OAO “Seversky Pipe Plant”, OAO “Sinarsky Pipe Plant”, OAO “Taganrog Metallurgical Plant” and SC TMK-RESITA SA was charged to accumulated profit. The excess in the amount of 498 of the carrying values of net assets attributable to interest in OAO “Sinarsky Pipe Plant” and OAO “Taganrog Metallurgical Plant” over the consideration paid for such minority interest is recorded in additional paid-in capital.

In the year ended December 31, 2009 SC TMK-ARTROM SA issued additional shares, which were acquired by the Group. As a result, the share of minority interest decreased and the Group increased its interest in this subsidiary by 12.10%. The effect of the decrease of share of minority interest shareholders in the carrying value of net assets in SC TMK-ARTROM SA in the amount of 1,496 was charged to accumulated profit. Additional contribution from minority interest shareholders comprised 145.

29) Equity (continued)

iv) Acquisition of Minority Interests in Subsidiaries (continued)

In the year ended December 31, 2008, the Company purchased additional 0.24% of OAO "Seversky Pipe Plant" shares, 0.27% of OAO "Sinarsky Pipe Plant" shares. The total cash consideration for the shares amounted to 2,547. The excess in the amount of 191 of the consideration given for the shares over the carrying values of net assets attributable to interest in OAO "Seversky Pipe Plant" was charged to accumulated profit. The excess in the amount of 178 of the carrying values of net assets attributable to interest in OAO "Sinarsky Pipe Plant" over the consideration paid for such minority interest is recorded in additional paid-in capital.

v) Dividends by Subsidiaries of the Group to the Minority Interest Owners in Subsidiaries

Dividends declared by subsidiaries of the Group to the minority interest owners in subsidiaries were recorded as a reduction in minority interests of 2,302 and 4,752 in the consolidated financial statements for the years ended December 31, 2009 and 2008, respectively.

vi) Minority Interests Put Options

In 2006, new regulations were introduced in the Russian Federation in respect of joint stock companies in which a controlling shareholder owns not less than 95% of the share capital as at July 1, 2006. These amendments oblige a controlling shareholder to acquire the company's shares in the case when minority interest shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can initiate a forced disposal of the shares held by minority interest shareholders. The put and call options under this legislation expired in August 1, 2008.

On July 1, 2006, the Group had a 95.74% ownership interest in OAO "Taganrog Metallurgical Plant". As at December 31, 2008, the Group derecognised minority interests of 14,443 and accrued a liability to minority interest shareholders for 27,106. The liability was measured based on the highest purchase price of these shares by the Group. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounted to 12,663 for year 2006.

In the year ended December 31, 2007, the Company purchased additional 0.2% of OAO "Taganrog Metallurgical Plant" shares for 1,298 and recorded a decrease in the liability under put options by that amount.

On August 1, 2008, after expiration of minority interest put options, the Group recognised minority interests in OAO "Taganrog Metallurgical Plant" for 21,443 and derecognised liability for 20,077. The excess of the amount of the recognised minority interests over the carrying value of the liability amounted to 1,366 and was charged to retained earnings.

At July 2, 2007, the Group had a 95.11% ownership interest in OAO "RosNITI". As at December 31, 2008, the Group derecognised minority interests of 389 and accrued a liability to minority interest shareholders for 389.

29) Equity (continued)

vi) Minority Interests Put Options (continued)

As at August 1, 2008 the Group recognised minority interests in OAO “RosNITI” for 200 and derecognised a liability to minority interest shareholders for 200.

In 2007, the Group established ZAO “TMK-CPW”, a new subsidiary with 51% ownership. Under the shareholders’ agreement, the minority interest shareholder in TMK-CPW owning 49% shares in the subsidiary has a put option to sell its shares to the Group under certain circumstances beyond the Group’s control. The Group recorded a liability under that put option in the consolidated financial statements.

In 2008, the share capital of the subsidiary was reduced to the actually paid amount of 714,601,000 Russian roubles. The decision was made by the Shareholder’s meeting as at September 30, 2008. The ownership of the Group amounted to 54%. Under the shareholders’ agreement, the minority interest shareholder in TMK-CPW owning 46% (2007: 49%) shares in the subsidiary had a put option to sell its shares to the Group under certain circumstances beyond the Group’s control. The Group recorded a liability under that put option in the consolidated financial statements.

In 2009, the minority interest shareholder made contribution to share capital of TMK-CPW in accordance to initial agreement. As a result, share capital of TMK-CPW increased to the amount of 759,100,000 Russian roubles and the ownership of the Group in the subsidiary decreased to 51%.

vii) Share-Based Payments

On March 2, 2007, the Group adopted a share options programme (the “Programme”). Under the Programme, the members of the Board of Directors, senior executives and certain employees (the “Participants”) were granted options to acquire shares in the Company. The Programme provides for the grants of options to acquire up to 9,603,011 shares, representing 1.1% of the Company’s shares outstanding as at December 31, 2006. All the options were granted to the Participants in March 2007.

The options were exercisable in three phases in June 2007, June 2008 and June 2009, representing 25%, 35% and 40%, respectively, of the total amount of shares subject to the Programme.

The exercise price for options under the first phase was fixed at 217.6 Russian roubles per share (7.41 US dollars per share at the exchange rate as at December 31, 2008). The exercise price for options under the second phase was fixed at 226.68 Russian roubles per share (7.72 US dollars per share at the exchange rate as at December 31, 2008). The exercise price for options under the third phase was fixed at 228.60 Russian roubles per share (7.78 US dollars per share at the exchange rate as at December 31, 2008).

(All amounts are in thousands of US dollars, unless specified otherwise)

29) Equity (continued)

vii) Share-Based Payments (continued)

The weighted average fair value of options granted during 2007 was 1.32 US dollars per share. The fair value of the options granted is estimated at the date of grant using the Black Scholes pricing model, taking into account the terms and conditions upon which options were granted. The fair value of options granted during the year ended December 31, 2007 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	1.62 – 2.07
Expected volatility (%)	14.54
Risk-free interest rate (%)	4.62 – 4.93
Expected life (years)	0.58 – 2.59
Share price on the date of grant (US dollars)	7.78

The historical volatility has been used for valuation of the share options granted in 2007. The expected volatility reflected the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The Programme expired on October 1, 2009.

The following table illustrates the number and weighted average exercise prices (WAEP) of share options during the year:

	2009		2008	
	Number of shares	WAEP	Number of shares	WAEP
Outstanding as at January 1	3,841,204	7.78	7,202,258	9.40
Granted during the year	-	-	-	-
Excercised during the year	-	-	-	-
Expired during the year	(3,841,204)	7.78	(3,361,054)	8.93
Outstanding as at December 31	-	-	3,841,204	7.78
Excercisable as at December 31	-	-	-	-

viii) Purchase of the Company's Shares for the Purpose of Realisation of the Share Options Programme

	2009		2008	
	Number of shares	Cost	Number of shares	Cost
Outstanding as at January 1	7,167,049	37,827	1,081,967	10,752
Purchased during the year	34,318	89	6,089,182	27,110
Sold during the year	-	-	(4,100)	(35)
Outstanding as at December 31	7,201,367	37,916	7,167,049	37,827

In the year ended 31 December, 2009 the Group purchased back from the Programme participants 34,318 shares of the Company for the amount of 89.

In the year ended December 31, 2008, the Group purchased 6,089,182 shares of the Company of the total amount of 27,110 (at the exchange rates at the transaction dates), including 3,050 shares purchased from an entity under common control with the Group for 35 and including 43,532 shares purchased back from the Programme participants for the amount of 383. There were no sales of shares to the Programme participants in 2008. The Programme expired on October 1, 2009.

29) Equity (continued)

ix) Warrants

On March 5, 2008, the Group purchased 1,200,000 warrants for the total amount of 5,590. Each warrant granted the Group a right to acquire the Company's shares at a strike price of 4.51 US dollars. The Group did not exercise the warrants which expired on October 10, 2009 and were written-off from Additional paid-in capital to Retained earnings.

x) Hedges of Net Investment in Foreign Operations

At the date of acquisition of controlling interests in NS Group, Inc. and IPSCO Tubulars, Inc. the Group hedged its net investment in these operations against foreign currency risk using US dollar denominated liabilities incurred in connection with this acquisition. As at December 31, 2008, such liabilities included 600,000 bridge loan facility, 600,000 10% loan participation notes issued on July 25, 2008 and put option liability to Evraz Group S.A. amounting to 510,625. The aim of the hedging was to eliminate foreign currency risk associated with the repayment of the liabilities resulting from changes in US dollar/Russian rouble spot rates.

As disclosed in Notes 10 and 24, in January 2009 the Group refinanced its liabilities under the bridge loan and put option using the proceeds from borrowings. The refinancing was structured in the way that reduced the Group's liabilities, which are available to hedge the foreign currency risk, to 1,200,000. On August 20, 2009 the Group bought back 4,133 notes with nominal amount of 413,300, which was financed by 450,000 loan provided by VTB for cash consideration of 371,910 excluding transaction costs in the amount of 34,713. As a result, since August 20, 2009 the Group ceased previous hedging relationships and designated 186,700 10% loan participation notes, 600,000 of liability to Gazprombank and 371,910 of liability to VTB as hedging instruments.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar/Russian rouble spot rates on the hedging instrument and on the hedged item. In the year ended December 31, 2009, the effective portion of net losses from spot rate changes of the above mentioned liabilities of 3,808,098 thousand Russian roubles (124,077 at historical exchange rate), net of income tax benefit of 221,177 thousand Russian roubles (approximately 7,698 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

30) Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise bank loans, bonds issued, trade payables, liabilities under put options of minority interest shareholders in subsidiaries and finance leases. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The presented information shows susceptibility of the Group concerning each of these risks. The Board of Directors reviews and establishes policies for managing each of these risks which are summarised below.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of its financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on the risk.

Interest Rate Risk

Changes in interest rates affect the market value of financial assets and liabilities of the Group and level of finance charges. Group's interest rate risk management policy is to minimise risk with the aim to achieve financial structure objectives defined and approved in the management's plans. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to manage net positions and the funding of portfolio developments consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

The Group borrows on both a fixed and variable rate basis. EURIBOR and LIBOR served as the basis for the calculation of interest rates on loans with variable rate. As these loans accounted for only 5% of the total loan portfolio at the end of 2009 (29% at the end of 2008), the Group considers such risks as not significant and is not using instruments to hedge such interest-rate risks at present. Nevertheless, the Group monitors interest rates and will use instruments to hedge such risk as necessary.

The Group does not have any financial assets with variable interest rate.

(All amounts are in thousands of US dollars, unless specified otherwise)

30) Financial Risk Management Objectives and Policies (continued)

Interest Rate Risk (continued)

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Basis points	Effect on profit before tax
As at 31 December 2009		
Increase in LIBOR	100	(42)
Decrease in LIBOR	(25)	10
Increase in EURIBOR	100	(1,893)
Decrease in EURIBOR	(25)	473
As at 31 December 2008		
Increase in LIBOR	55	(3,481)
Decrease in LIBOR	(55)	3,481
Increase in EURIBOR	30	(776)
Decrease in EURIBOR	(30)	776

Foreign Currency Risk

The Group's exposure to currency risk relates to sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries, and the Group's net investments in foreign operations. The currencies in which these transactions and balances primarily denominated are US dollars and Euro.

As disclosed in Note 29 the Group hedged its net investments in foreign operations (NS Group, Inc. and IPSCO Tubulars, Inc.) by holding borrowings in US dollars.

The Group doesn't have other formal arrangements to manage currency risks of the Group's operations and balances. However, the Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows as at December 31:

	2009			2008		
	Resulting exchange differences reflected in:			Resulting exchange differences reflected in:		
	Income Statement	Statement of Comprehensive Income	Total	Income Statement	Statement of Comprehensive Income	Total
USD/RUR	(533,735)	(1,158,610)	(1,692,345)	(182,743)	(1,710,625)	(1,893,368)
EUR/RUR	(418,433)	-	(418,433)	(259,737)	-	(259,737)
EUR/USD	(5,018)	-	(5,018)	24,247	-	24,247
USD/RON	(94,818)	-	(94,818)	(133,809)	-	(133,809)
EUR/RON	(39,380)	-	(39,380)	(66,892)	-	(66,892)

(All amounts are in thousands of US dollars, unless specified otherwise)

30) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax and other comprehensive income. In 2008 the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during 2008. In estimating reasonably possible changes for 2009 the Group assessed the volatility of foreign exchange rates during the three years preceding the end of reporting period.

	As at December 31, 2009					
	Volatility range		Effect on Income Statement		Effect on Statement of Comprehensive Income	
	Low	High	Low	High	Low	High
USD/RUR	10.67%	-10.67%	(56,950)	56,950	(123,624)	123,624
EUR/RUR	8.84%	-8.84%	(36,989)	36,989	-	-
EUR/USD	10.06%	-10.06%	(505)	505	-	-
USD/RON	15.36%	-15.36%	(14,564)	14,564	-	-
EUR/RON	8.46%	-8.46%	(3,332)	3,332	-	-

	As at December 31, 2008					
	Volatility range		Effect on Income Statement		Effect on Statement of Comprehensive Income	
	Low	High	Low	High	Low	High
USD/RUR	9.02%	-9.02%	(16,483)	16,483	(154,298)	154,298
EUR/RUR	8.67%	-8.67%	(22,519)	22,519	-	-
EUR/USD	14.32%	-14.32%	3,472	(3,472)	-	-
USD/RON	19.50%	-19.50%	(26,093)	26,093	-	-
EUR/RON	11.35%	-11.35%	(7,592)	7,592	-	-

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of funding at competitive rates through the capital markets and banks and coordinates relationships with banks centrally. At present, the Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

(All amounts are in thousands of US dollars, unless specified otherwise)

30) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

As at 31 December 2009	Less than 3 months	3 to 12 month	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	542,063	31,455	-	-	-	-	**573,518**
Accounts payable to related parties	5,949	15,823	-	-	-	-	**21,772**
Interest-bearing loans and borrowings:							
Principal	459,288	1,065,061	730,095	383,903	293,739	869,901	**3,801,987**
Interest	113,008	229,842	207,861	143,831	109,060	69,505	**873,107**
Dividends payable	449	20	-	-	-	-	**469**
Liabilities under put options of minority interest shareholders in subsidiaries	15,836	-	-	-	-	-	**15,836**
Other non-current liabilities	-	-	22	59	-	13,620	**13,701**
	1,136,593	**1,342,201**	**937,978**	**527,793**	**402,799**	**953,026**	**5,300,390**

As at 31 December 2008	Less than 3 months	3 to 12 month	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	507,397	202,537	-	-	-	-	**709,934**
Accounts payable to related parties	1,459	-	-	-	-	-	**1,459**
Interest-bearing loans and borrowings:							
Principal	458,603	1,714,350	82,337	820,778	46,549	54,834	**3,177,451**
Interest	101,004	113,997	85,553	73,017	2,818	9,460	**385,849**
Dividends payable	248	113	-	-	-	-	**361**
Liabilities under put options of minority interest shareholders in subsidiaries	552,989	-	-	-	-	-	**552,989**
Other non-current liabilities	-	-	3,491	67	4	11,654	**15,216**
	1,621,700	**2,030,997**	**171,381**	**893,862**	**49,371**	**75,948**	**4,843,259**

Credit Risk

Credit risk is the potential exposure of the Group to losses that would be recognised if counterparties failed to perform or failed to pay amounts due. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The monitoring activity of credit risk exposure is performed at the Group level according to set guidelines and measurement techniques to qualify and monitor counterparty risk.

(All amounts are in thousands of US dollars, unless specified otherwise)

30) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The Group sells goods to some of the biggest Russian and international companies on credit terms. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

As at December 31, 2009, accounts receivable from the three biggest debtors of the Group amounted to 184,756 (December 31, 2008: 153,092). As at December 31, 2008, accounts receivable from the three biggest debtors of the Group amounted to 153,092. Management determines concentration by reference to receivables from particular customers as percentage of total accounts receivable.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below:

	2009	2008
Cash and cash equivalents	243,756	143,393
Financial investments	4,075	3,885
Trade and other receivables	578,973	751,715
Accounts receivable from related parties	886	6,075
Other	8,033	8,851
	835,723	**913,919**

The ageing analysis of trade and other receivables, accounts receivable from related parties and other financial assets is presented in the table below:

	2009		2008	
	Gross amount	Impairment	Gross amount	Impairment
Current Trade and other receivables - not past due	486,826	(27)	575,467	(20)
Current Trade and other receivables - past due				
less then 30 days	56,977	(35)	66,300	(82)
between 30 and 90 days	14,498	(55)	98,010	(2,855)
over 90 days	35,816	(15,044)	25,034	(10,163)
Accounts receivable from related parties - not past due	886	-	6,075	-
Non-current Trade and other receivables - not past due	28	(11)	36	(12)
Other - not past due	8,033	-	8,851	-
	603,064	**(15,172)**	**779,773**	**(13,132)**

The movement in allowance for doubtful accounts was as follows:

	2009	2008
Balance at the beginning of the year	13,132	9,632
Utilised during the year	(2,199)	(1,565)
Additional (decrease)/increase in allowance	4,219	7,212
Currency translation adjustment	20	(2,147)
BALANCE AT THE END OF THE YEAR	**15,172**	**13,132**

(All amounts are in thousands of US dollars, unless specified otherwise)

30) Financial Risk Management Objectives and Policies (continued)

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators. In addition, the Group is subject to externally imposed capital requirements (debt covenants) which are used for capital monitoring. Through 2009, the Croup was in compliance with such externally imposed capital requirements. The Group met its objectives for managing capital.

Capital includes equity attributable to the equity holders of the parent entity.

The Group manages its capital structure and adjusts it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, such as cash and cash equivalents, short-term and long-term investments, short-term accounts receivable and short-term loans approximate their fair value.

The following table shows financial instruments with carrying amounts differ from fair values:

	31 December 2009		31 December 2008	
	Net carrying amount	**Fair Value**	**Net carrying amount**	**Fair Value**
Financial Liabilities				
Fixed rate long term bank loans	1,953,175	1,934,655	17,597	16,342
Variable rate long term bank loans	158,093	140,903	248,190	212,177
Bonds due 2009	-	-	102,078	102,078
Bonds due 2011	165,321	165,445	170,181	144,229
8.5 per cent loan participation notes due 2009	-	-	300,000	235,500
10 per cent loan participation notes due 2011	186,700	191,834	600,000	324,000

The fair value of the bonds and notes was determined based on market quotations. The fair value of fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at prevailing interest rates of 14%, 10% and 5% per annum for loans denominated in Russian rouble, US dollar and Euro, respectively, as at December 31, 2009.

31) Subsequent events

Bonds and Equity Offerings

On February 11, 2010, TMK Bonds S.A. completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of TMK. The notes are registered on the London Stock Exchange.

The bonds have nominal value of 100,000 US dollars and were issued at 100% of their principal amount. The convertible bonds carry a coupon of 5.25% per annum, payable on a quarterly basis. The conversion can be exercised at the option of bondholders on any date during the period commencing 41 days following the February 11, 2010 and ending on the date falling seven London business days prior to the maturity date or, if earlier, ending on the seventh day prior to any earlier date fixed for redemption of the Convertible Bonds. The bonds will be convertible into GDRs at an initial conversion price of $23.075 per GDR.

The Group can early redeem all, but not some only, of the bonds after three years from issuance at their principal amount plus accrued interest, if the volume weighted average price of the GDRs traded on the London Stock Exchange exceeds 130 per cent of the conversion price. In addition, the Group has the option to redeem the bonds at principal amount plus accrued interest if 15% or less of the bonds remain outstanding. Bondholders have the right to request redemption of the bonds on the third anniversary following the issue date at the principal amount plus accrued interest.

The proceeds from the offerings were used to refinance existing short-term indebtedness.

*Russian bond obligation*s

On February 16 and 19, 2010 a buy-back option on the 5,000,000 outstanding interest-bearing coupon bonds issued on February 21, 2006 took place. The full bonds issue was left outstanding. The new rate for the ninth and tenth semi-annual coupons was set at 9.8%.

Loan participation notes

In February 2010 a consent solicitation with respect to 600,000 loan participation notes issued in July 25, 2008 was implemented. The terms of the notes were modified in order to further enhance a financial flexibility of the Group. In particular, the definition of "Refinancing Indebtedness" and the clause "Incurrence of Indebtedness" in the conditions of the notes were added and amended.

Bank Loans

In March 2010, the Group amended agreement with VTB for borrowing facilities of 450,000 extending the loan term from 1 to 3 years with an option to extend the maturity up to five years from the initial extension and reducing interest rate. The Group will pay additional 12,000 to Bravecorp Limited (an entity under common control with TMK Steel) for the extension of guarantee.

In February 2010, the Group repaid VTB loan facility in the amount of 300,000 and other short-term loans for the total amount of 109,886 using the proceeds from issuance of 412,500 unsecured guaranteed convertible bonds.

31) Subsequent events (continued)

Bank Loans (continued)

On March 23, 2010, the Group fully repaid a short-term loan from VTB in the principal amount of 90,185 in accordance with the terms of the loan agreement and entered into a new loan agreement with VTB in the amount of 94,000 with an initial maturity of 1 year and an option to extend the maturity up to 5 years.

Increase of Authorised Share Capital

On February 5, 2010, the Board of Directors authorised an increase share capital by 86,166,871 shares with par value of 10 Russian roubles each. This represents approximately 9.87% of the Company's issued share capital before the additional issue. On March 30, 2010 the documents were submitted to the Federal Service on Financial Markets in Russia. According to the Russian legislation, share capital increase will be approved during one month period from the date of documents submission.