OAO TMK

Consolidated Financial Statements

for the year ended December 31, 2010

ERNST & YOUNG

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

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 2010, 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 consolidated financial statements

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

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 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

March 31, 2011

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Consolidated Financial Statements

for the year ended December 31, 2010

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Consolidated Income Statement

for the year ended December 31, 2010

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2010	Year ended December 31, 2009
Revenue:	1	5,578,599	3,460,997
Sales of goods		*5,421,084*	*3,393,303*
Rendering of services		*157,515*	*67,694*
Cost of sales	2	(4,285,349)	(2,904,597)
Gross profit		**1,293,250**	**556,400**
Selling and distribution expenses	3	(403,143)	(312,551)
Advertising and promotion expenses	4	(11,099)	(4,579)
General and administrative expenses	5	(231,975)	(203,748)
Research and development expenses	6	(13,309)	(10,214)
Other operating expenses	7	(44,978)	(33,157)
Other operating income	9	11,042	16,006
Impairment of goodwill	20	-	(10,053)
Impairment of property, plant and equipment	19	-	(37,276)
Foreign exchange gain, net		9,512	14,233
Finance costs		(430,586)	(446,875)
Finance income	10	18,895	43,264
Loss on changes in fair value of derivative financial instrument	25	(12,361)	-
Share of profit in associate	8	-	1,416
Gain on disposal of associate	8	-	379
Profit/(loss) before tax		**185,248**	**(426,755)**
Income tax (expense)/benefit	12	(81,174)	103,010
Profit/(loss) for the year		**104,074**	**(323,745)**
Attributable to:			
Equity holders of the parent entity		104,334	(315,726)
Non-controlling interests		(260)	(8,019)
		104,074	**(323,745)**
Earnings/(loss) per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)	13	**0.12**	**(0.36)**

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, 2010

(All amounts in thousands of US dollars)

	NOTES	2010	2009
Profit/(loss) for the year		**104,074**	**(323,745)**
Exchange differences on translation to presentation currency [a]		(12,547)	60,200
Foreign currency loss on hedged net investment in foreign operation [b]	30 (xi)	(8,847)	(124,077)
Income tax [b]	30 (xi)	1,769	7,698
		(7,078)	**(116,379)**
Net unrealised gain on available-for-sale investments		-	312
Income tax		-	(62)
		-	250
Reclassification of the net gains on available-for-sale investments to the income statement		-	(312)
Income tax		-	62
		-	(250)
Other comprehensive loss for the year, net of tax		**(19,625)**	**(56,179)**
Total comprehensive income/(loss) for the year, net of tax		**84,449**	**(379,924)**
Attributable to:			
Equity holders of the parent entity		85,929	(368,319)
Non-controlling interests		(1,480)	(11,605)
		84,449	**(379,924)**

(a) The amount of exchange differences on translation to presentation currency represents other comprehensive loss of 11,327 (2009: income 63,786) attributable to equity holders of the parent entity and other comprehensive loss of 1,220 (2009: loss 3,586) attributable to non-controlling 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, 2010

(All amounts in thousands of US dollars)

	NOTES	2010		2009	
ASSETS					
Current assets					
Cash and cash equivalents	14, 28	157,524		243,756	
Financial investments		3,966		4,075	
Trade and other receivables	15	716,897		578,956	
Accounts receivable from related parties	28	3,395		1,240	
Inventories	18	1,207,540		926,394	
Prepayments and input VAT	16	154,302		176,489	
Prepaid income taxes		18,099	2,261,723	46,104	1,977,014
Assets classified as held for sale	21	8,003	**2,269,726**	-	**1,977,014**
Non-current assets					
Intangible assets	20	474,791		558,359	
Accounts receivable from related parties	28	-		68	
Property, plant and equipment	19	3,386,660		3,402,680	
Goodwill	20	554,353		555,462	
Deferred tax asset	12	135,307		135,652	
Other non-current assets	17	40,697	4,591,808	51,874	4,704,095
TOTAL ASSETS			**6,861,534**		**6,681,109**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	22	732,733		709,480	
Advances from customers		136,885		325,549	
Accounts payable to related parties	28	8,434		21,772	
Provisions and accruals	23	42,153		18,740	
Interest-bearing loans and borrowings	24, 25	701,864		1,537,382	
Derivative financial instrument	25	47,816		-	
Dividends payable		430		469	
Income tax payable		3,846	1,674,161	8,596	2,621,988
Liabilities directly associated with the assets classified as held for sale	21	143	**1,674,304**	-	**2,621,988**
Non-current liabilities					
Interest-bearing loans and borrowings	24, 25	3,169,714		2,214,168	
Deferred tax liability	12	300,484		271,664	
Provisions and accruals	23	24,096		21,851	
Employee benefit liability	26	24,009		18,441	
Other liabilities		32,020	3,550,323	13,701	2,539,825
Total liabilities			**5,224,627**		**5,161,813**
Equity	30				
Parent shareholders' equity					
Issued capital		326,417		305,407	
Treasury shares		(318,351)		(37,378)	
Additional paid-in capital		362,898		104,003	
Reserve capital		15,387		15,387	
Retained earnings		1,122,771		1,019,322	
Foreign currency translation reserve		18,276	1,527,398	36,681	1,443,422
Non-controlling interests			109,509		75,874
Total equity			**1,636,907**		**1,519,296**
TOTAL EQUITY AND LIABILITIES			**6,861,534**		**6,681,109**

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, 2010

(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**	**Non-controlling interests**	**TOTAL**
At January 1, 2010	**305,407**	**(37,378)**	**104,003**	**15,387**	**1,019,322**	**36,681**	**1,443,422**	**75,874**	**1,519,296**
Profit/(loss) for the year	-	-	-	-	104,334	-	**104,334**	(260)	**104,074**
Other comprehensive income/(loss), net of tax	-	-	-	-	-	(18,405)	**(18,405)**	(1,220)	**(19,625)**
Total comprehensive income/(loss), net of tax	**-**	**-**	**-**	**-**	**104,334**	**(18,405)**	**85,929**	**(1,480)**	**84,449**
Issue of share capital (Note 30 i)	21,010	-	258,417	-	-	-	**279,427**	-	**279,427**
Purchase of treasury shares (Note 30 xii)	-	(280,973)	-	-	-	-	**(280,973)**	-	**(280,973)**
Dividends by subsidiaries of the Group to the non-controlling interest owners in subsidiaries (Note 30 vii)	-	-	-	-	-	-	**-**	(8)	**(8)**
Sale of non-controlling interests (Note 30 v)	-	-	-	-	(741)	-	**(741)**	13,587	**12,846**
Contributions from non-controlling interest owners (Note 30 vi)	-	-	-	-	-	-	**-**	23,124	**23,124**
Acquisition of non-controlling interests (Note 30 iv)	-	-	478	-	(144)	-	**334**	(1,588)	**(1,254)**
At December 31, 2010	**326,417**	**(318,351)**	**362,898**	**15,387**	**1,122,771**	**18,276**	**1,527,398**	**109,509**	**1,636,907**

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, 2010 (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	Total	Non-controlling 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 year	-	-	-	-	(315,726)	-	**(315,726)**	(8,019)	**(323,745)**
Other comprehensive income/ (loss), net of tax	-	-	-	-	-	(52,593)	**(52,593)**	(3,586)	**(56,179)**
Total comprehensive income/ (loss), net of tax	**-**	**-**	**-**	**-**	**(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 30 xii)	-	(89)	-	-	-	-	**(89)**	-	**(89)**
Purchase of treasury shares (Note 30 xii)	-	(221)	-	-	-	-	**(221)**	-	**(221)**
Sale of treasury shares (Note 30 xii)	-	759	-	-	-	-	**759**	-	**759**
Expiration of warrants (Note 30 x)	-	-	5,590	-	(5,590)	-	**-**	-	**-**
Dividends by subsidiaries of the Group to the non-controlling interest owners in subsidiaries (Note 30 vii)	-	-	-	-	-	-	**-**	(2,302)	**(2,302)**
Acquisition of non-controlling interests (Note 30 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 Cash Flows

for the year ended December 31, 2010

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2010	2009
Operating activities			
Profit/(loss) before tax		185,248	(426,755)
Adjustment to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		215,416	205,288
Amortisation of intangible assets	20	85,199	107,798
Loss on disposal of property, plant and equipment	7	10,195	3,959
Impairment of goodwill	20	-	10,053
Impairment of property, plant and equipment	19	-	37,276
Foreign exchange gain, net		(9,512)	(14,233)
Finance costs		430,586	446,875
Finance income	10	(18,895)	(41,276)
Gain on disposal of available-for-sale investments	10	-	(1,988)
Loss on changes in fair value of derivative financial instrument	25	12,361	-
Share of profit in associate	8	-	(1,416)
Gain on disposal of associate	8	-	(379)
Allowance for net realisable value of inventory	18	(4,818)	(4,559)
Allowance for doubtful debts	31	5,420	4,219
Movement in other provisions		31,115	3,232
Operating cash flow before working capital changes		**942,315**	**328,094**
Working capital changes:			
(Increase)/decrease in inventories		(277,508)	226,912
(Increase)/decrease in trade and other receivables		(148,208)	183,001
Decrease in prepayments		21,095	5,152
Increase/(decrease) in trade and other payables		90,862	(77,213)
Increase/(decrease) in advances from customers		(213,250)	219,747
Cash generated from operations		**415,306**	**885,693**
Income taxes paid		(28,987)	(33,387)
Net cash flows from operating activities		**386,319**	**852,306**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(314,096)	(395,318)
Proceeds from sale of property, plant and equipment		386	1,323
Proceeds from disposal of subsidiaries	21	26,027	-
Sale of available-for-sale investments		-	8,177
Disposal of associate		-	785
Acquisition of subsidiaries, net of cash acquired		-	(509,714)
Issuance of loans		(968)	(1,833)
Proceeds from repayment of loans issued		1,277	991
Interest received		2,120	2,013
Dividends received		14,092	-
Dividends received from associate		-	2,676
Net cash flows used in investing activities		**(271,162)**	**(890,900)**
Financing activities			
Purchase of treasury shares	30 (xii)	(280,973)	(310)
Proceeds from sales of treasury shares	30 (xii)	-	759
Proceeds from issue of share capital	30 (i)	279,427	-
Proceeds from borrowings		3,097,306	4,190,093
Repayment of borrowings		(2,994,735)	(3,608,268)
Interest paid		(342,743)	(444,111)
Reimbursement of interest paid		3,905	10,498
Payment of finance lease liabilities		(2,822)	(2,809)
Acquisition of non-controlling interest		(1,085)	(8,961)
Proceeds from sale of non-controlling interests	30 (v)	32,939	-
Contributions from non-controlling interest owners	30 (vi)	23,124	46
Dividends paid to non-controlling interest shareholders		(599)	(2,069)
Net cash flows from financing activities		**(186,256)**	**134,868**
Net (decrease)/increase in cash and cash equivalents		(71,099)	96,274
Net foreign exchange difference		(15,133)	4,089
Cash and cash equivalents at January 1		243,756	143,393
Cash and cash equivalents at December 31		**157,524**	**243,756**

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

Corporate Information

These consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the year ended December 31, 2010 were authorised for issue in accordance with a resolution of the General Director on March 30, 2011.

OAO TMK (the "Company"), the parent company of the Group, is an open joint stock company (OAO). Both registered and principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

As at December 31, 2010, the Company's controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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.

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.

Basis of Preparation of the Financial Statements (continued)

Functional and Presentation Currency (continued)

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 hedges of net investment in foreign operations. 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.

The Group hedges its net investment in operations located in the Unites States against foreign currency risks using US dollar denominated liabilities. Gains or losses on the hedging instruments 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 a component of other comprehensive income is transferred to the income statement.

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 2010, no impairment losses were recognised in respect of property, plant and equipment. In 2009, the Group recognised impairment losses of 37,276 in respect of property, plant and equipment (Note 19).

Significant Estimates and Assumptions (continued)

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 2010.

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.

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, 2010 was 554,353 (2009: 555,462). In 2010, no impairment losses were recognised in respect of goodwill (Note 20) (2009: 10,053).

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 26).

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, 2010 and 2009, allowances for doubtful accounts have been made in the amount of 17,947 and 15,172, respectively (Notes 15, 17, 31).

Significant Estimates and Assumptions (continued)

Allowances (continued)

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, 2010 and 2009, allowances for net realisable value of inventory were 17,112 and 22,133, respectively (Note 18).

Litigations

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. Furthermore, 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, 2010, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained (Note 29).

Significant Estimates and Assumptions (continued)

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 are 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 30 ix.

Significant Judgments

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

Consolidation of Special Purpose Entities

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).

The Group determined that the substance of the relationship between the Group and TMK Bonds, a special purpose entity, indicates that the Group controls TMK Bonds. In February 2010, TMK Bonds completed the offering of convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAO TMK to provide financing to the Group's companies (Note 25).

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, 2010:

- IFRS 2 *Share-based Payment (amended);*
- IFRS 3 *Business Combinations (revised)* and IAS 27 *Consolidated and Separate Financial Statements (amended);*
- IAS 39 *Financial Instruments: Recognition and Measurement (amended);*
- IFRIC 17 *Distribution of Non-cash Assets to Owners;*
- Improvements to IFRSs (April 2009)

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

IFRS 2 *Share-based Payment* – Group Cash-settled Share-based Payment Transactions

The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

IFRS 3 *Business Combinations* (Revised) and IAS 27 *Consolidated and Separate Financial Statements* (Amended)

The Group applies the revised standards from January 1, 2010. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. 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 that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as equity transaction (i.e. transaction with owners in their capacity as owners). The amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect transactions with non-controlling interests and will affect future acquisitions or loss of control of subsidiaries.

IAS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items

The amendment clarifies that the entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position or performance of the Group.

Changes in Accounting Policies (continued)

Application of New and Amended IFRS and IFRIC (continued)

IFRIC 17 *Distribution of Non-cash Assets to Owners* (effective for annual periods beginning on or after July 1, 2009)

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

Improvements to IFRSs

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 changes for presentation, recognition or measurement purposes terminology or editorial changes. The group illustrates the adoption of these amendments.

Reclassifications

Certain corresponding information, presented in the consolidated financial statements for the year ended December 31, 2009 has been reclassified in order to achieve comparability with the presentation used in these consolidated financial statements.

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 intends to adopt these standards when they become effective.

IAS 12 *Income Taxes* (amended) – Deferred Tax: Recovery of Underlying Assets (effective for financial years beginning on or after January 1, 2012)

The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. The Group expects that the adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application.

IAS 24 *Related Party Disclosures* (revised) (effective for financial years beginning on or after January 1, 2011)

The revision clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application, introduces a partial exemption of disclosure requirements for government – related entities. The Group does not expect a significant impact of the revised standard on its results of operations and financial position in the period of initial application.

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 alters the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that the adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application.

IFRS 7 *Financial Instruments: Disclosures* (amended) – Disclosures – Transfers of Financial Assets (effective for financial years beginning on or after July 1, 2011)

The International Accounting Standards Board has amended the required disclosures relating to transfers of financial assets. The objective of the amendments is to help users of financial statements evaluate the risk exposures relating to such transfers and the effect of those risks on an entity's financial position. The Group expects that the adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after January 1, 2013)

The standard as issued reflects the first phase of the International Accounting Standards Boards work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities. In subsequent phases, the International Accounting Standards Board will address impairment methodology and hedge accounting. The adoption of the first phrase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

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. The amendment is deemed to have no impact on the financial statement of the Group.

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 provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to recognise a prepayment of pension contributions as an asset rather than an expense. The amendment is deemed to have no impact on the financial statement of the Group.

Improvements to IFRSs (effective for financial years beginning on or after either July 1, 2010 or January 1, 2011)

In May 2010 the International Accounting Standards Board issued "Improvements to IFRSs", primarily with a view to removing inconsistencies and clarifying wording. These are separate transitional provisions for each standard. The document sets out amendments to International Financial Reporting Standards, which are mainly related to changes for presentation, recognition or management purposes terminology or editorial changes.

Significant Accounting Policies

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Significant Accounting Policies

A) Principles of Consolidation

Basis of Consolidation from January 1, 2010

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.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests at the end of reporting period represent the non-controlling interest shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the non-controlling interests' portion of movements in equity since the date of the combination. Non-controlling interest is presented within equity, separately from the parent's shareholders' equity.

Losses within subsidiary are attributed to the non-controlling interest even if that results in deficit balance.

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 non-controlling 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.

When the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Significant Accounting Policies (continued)

A) Principles of Consolidation (continued)

Basis of Consolidation prior to January 1, 2010

Certain of the above-mentioned requirements were applied on prospective basis. The following differences however, are carried forward in certain instances from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

Acquisition of Subsidiaries: Business Combinations from January 1, 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are included in administrative expenses in the periods in which the costs are incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Significant Accounting Policies (continued)

A) Principles of Consolidation (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit 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 the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Acquisition of Subsidiaries: Business Combinations prior to January 1, 2010

In comparison to the above-mentioned requirements, the following differences applied:
The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquire were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

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, revaluates 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.

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)

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.

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 at 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.

D) Trade Receivables

Trade receivables, which generally are 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 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.

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 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 fulfilment 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 finance costs 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 initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is immediately recognised as profit.

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.

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.

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.

Significant Accounting Policies (continued)

J) Other Intangible Assets (continued)

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 fair value less costs to sell and the value in use.

Fair value less costs to sell 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.

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 income statement 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.

Significant Accounting Policies (continued)

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.

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.

Significant Accounting Policies (continued)

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 be reversed in the near future.

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.

Significant Accounting Policies (continued)

P) Equity (continued)

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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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, South Africa that are selling their production (seamless and welded pipes).
- 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).
- Europe segment represents the results of operations and financial position of plants and traders located in Europe (excluding Switzerland) selling their production (seamless pipes and steel billets).

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 and embedded financial instrument gain/loss, determined based on IFRS Financial Statements. Group financing (including finance costs and finance income) is managed on a group basis and is 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, 2010 and 2009, respectively.

Year ended December 31, 2010	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	3,997,737	1,324,380	256,482	**5,578,599**
Cost of sales	(3,065,574)	(1,022,663)	(197,112)	**(4,285,349)**
GROSS PROFIT	**932,163**	**301,717**	**59,370**	**1,293,250**
Selling, general and administrative expenses	(470,495)	(152,734)	(36,297)	**(659,526)**
Other operating income/(expenses), net	(32,867)	700	(1,769)	**(33,936)**
OPERATING PROFIT/(LOSS)	**428,801**	**149,683**	**21,304**	**599,788**
ADD BACK:				
Depreciation and amortisation	172,647	119,928	8,040	**300,615**
Loss/(gain) on disposal of property, plant and equipment	9,650	(26)	571	**10,195**
Allowance for net realisable value of inventory	(3,247)	(529)	(1,042)	**(4,818)**
Allowance for doubtful debts	6,520	(1,103)	3	**5,420**
Movement in other provisions	18,346	12,603	166	**31,115**
	203,916	**130,873**	**7,738**	**342,527**
ADJUSTED EBITDA	**632,717**	**280,556**	**29,042**	**942,315**

1) Segment Information (continued)

Year ended December 31, 2010	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
ADJUSTED EBITDA	**632,717**	**280,556**	**29,042**	**942,315**
Reversal of adjustments from operating profit to EBITDA	(203,916)	(130,873)	(7,738)	**(342,527)**
OPERATING PROFIT/(LOSS)	**428,801**	**149,683**	**21,304**	**599,788**
Foreign exchange gain/(loss), net	19,391	-	(9,879)	**9,512**
OPERATING PROFIT/(LOSS) AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**448,192**	**149,683**	**11,425**	**609,300**
Finance costs				**(430,586)**
Finance income				**18,895**
Loss on changes in fair value of derivative financial instrument				**(12,361)**
PROFIT/(LOSS) BEFORE TAX				**185,248**

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/(LOSS)	**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/(gain) 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**

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 from 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	(259)	-	(37,017)	**(37,276)**
Foreign exchange gain/(loss), net	29,640	8	(15,415)	**14,233**
OPERATING PROFIT/(LOSS) AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	**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 sales of investments in associate				**379**
PROFIT/(LOSS) BEFORE TAX				**(426,755)**

1) Segment Information (continued)

The following tables present additional information of the Group's reportable segments as at December 31, 2010 and 2009:

Year ended December 31, 2010	Russia	Americas	Europe	TOTAL
Segment assets	4,585,342	1,941,572	334,620	**6,861,534**
Property, plant and equipment expenditure	228,657	36,188	5,456	**270,301**

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**

The following table presents the revenues from external customers for each group of similar products and services for the year ended December 31, 2010 and 2009, respectively:

	Welded pipes	Seamless pipes	Other operations	TOTAL
Sales to external customers				
Year ended December 31, 2010	2,351,729	2,951,592	275,278	**5,578,599**
Year ended December 31, 2009	1,150,370	2,082,945	227,682	**3,460,997**

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, 2010	Russia	Americas	Cent.Asia & Caspian Region	Middle East & Gulf Region	Africa	Europe	Asia & Far East	TOTAL
Revenue	3,485,287	1,434,653	161,115	56,132	13,030	398,586	29,796	**5,578,599**
Non-current assets	2,882,293	1,330,740	25,270	46	23	177,432	-	**4,415,804**

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**

2) Cost of Sales

Cost of sales for the year ended December 31 was as follows:

	2010	2009
Raw materials and consumables	2,971,841	1,660,289
Staff costs including social security	540,214	387,596
Energy and utilities	336,072	216,478
Depreciation and amortisation	218,251	192,540
Repairs and maintenance	110,087	70,706
Contracted manufacture	70,597	17,720
Freight	52,259	24,558
Taxes	43,543	32,225
Professional fees and services	19,986	12,244
Rent	8,900	4,121
Travel	1,568	1,042
Communications	858	886
Insurance	774	646
Other	4,045	5,946
Total production cost	**4,378,995**	**2,626,997**
Change in own finished goods and work in progress	(170,645)	244,396
Cost of sales of externally purchased goods	80,949	26,705
Obsolete stock, write-offs/(reversal of write-offs)	(3,950)	6,499
Cost of sales	**4,285,349**	**2,904,597**

3) Selling and Distribution Expenses

Selling and distribution expenses for the year ended December 31 were as follows:

	2010	2009
Freight	207,384	117,550
Depreciation and amortisation	81,304	100,006
Staff costs including social security	53,980	45,079
Consumables	18,465	12,974
Professional fees and services	18,196	15,634
Rent	6,690	6,386
Bad debt expense	5,740	4,219
Travel	4,185	2,613
Utilities and maintenance	1,587	2,131
Insurance	1,303	1,416
Communications	1,282	1,242
Taxes	1,281	1,703
Other	1,746	1,598
	403,143	**312,551**

4) Advertising and Promotion Expenses

Advertising and promotion expenses for the year ended December 31 were as follows:

	2010	2009
Outdoor advertising	5,800	2,248
Exhibits and catalogues	4,014	1,410
Media	636	564
Other	649	357
	11,099	**4,579**

5) General and Administrative Expenses

General and administrative expenses for the year ended December 31 were as follows:

	2010	2009
Staff costs including social security	126,525	100,838
Professional fees and services	47,737	44,753
Depreciation and amortisation	12,658	15,678
Travel	9,132	6,398
Utilities and maintenance	7,626	6,743
Rent	5,427	6,029
Taxes	5,241	5,113
Transportation	4,571	4,700
Communications	4,102	4,160
Insurance	3,957	4,977
Consumables	2,795	2,468
Other	2,204	1,891
	231,975	**203,748**

6) Research and Development Expenses

Research and development expenses for the year ended December 31 were as follows:

	2010	2009
Staff costs including social security	9,510	7,990
Professional fees and services	1,578	563
Depreciation and amortisation	643	536
Utilities and maintenance	426	336
Consumables	379	323
Travel	378	119
Transportation	153	131
Communications	39	48
Other	203	168
	13,309	**10,214**

7) Other Operating Expenses

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

	2010	2009
Social and social infrastructure maintenance expenses	12,104	10,266
Charitable donations	10,207	8,330
Loss on disposal of property, plant and equipment	10,195	3,959
Other	12,472	10,602
	44,978	**33,157**

Other operating expenses include expenses and additional provisions related to tax issues, tax fines and other fines in the amount of 8,675 (8,694 in 2009).

8) Share of Profit in Associate and Disposal of Associate

Share of Profit in Associate

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

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, 2010, the investment in North-Europe Pipe Project was stated at cost as part of Other non-current assets.

9) Other Operating Income

Other operating income for the year ended December 31 was as follows:

	2010	2009
Gain from penalties and fines	2,340	5,560
Income from emission rights sale	2,149	3,290
Gain on sales of current assets	296	-
Assets received for free	553	-
Gain from reversal of litigation provision	-	1,994
Other	5,704	5,162
	11,042	**16,006**

10) Finance Income

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

	2010	2009
Gain on extinguishment of debts	-	38,928
Dividends received	14,992	-
Interest income - bank accounts and deposits	3,024	2,348
Gain on disposal of available-for-sale investments	-	1,988
Gain on disposal of other investments	879	-
	18,895	**43,264**

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.

10) Finance Income (continued)

On September 10, 2009 the Group disposed of 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.

In December 2010, the Group sold 2.05% participation in North-Europe Pipe Project to a third party for a total consideration of 28,809 thousand Russian roubles (945 at the exchange rate as at December 31, 2010). The Group recognised gain on disposal of 879 as finance income for the year ended December 31, 2010.

11) Acquisition of Subsidiaries

NS Group Inc. and IPSCO Tubulars 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.

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).

12) Income Tax

Income tax expense/(benefit) for the year ended December 31 was as follows:

	2010	2009
Current income tax expense	53,985	17,133
Current income tax benefit	(2,430)	(36,777)
Adjustments in respect of income tax of previous periods	(1,697)	1,269
Deferred tax expenses arising from write-down of deferred tax asset	46	1,464
Deferred income tax expense/(benefit) related to origination and reversal of temporary differences	31,270	(86,099)
Total income tax expense/(benefit)	**81,174**	**(103,010)**

12) Income Tax (continued)

Profit/(loss) before tax for financial reporting purposes is reconciled to tax expense as follows:

	2010	2009
Profit/(loss) before tax	185,248	(426,755)
Theoretical tax charge at statutory rate in Russia of 20%	37,050	(85,351)
Adjustment in respect of income tax of previous years	(1,697)	1,269
Effect of items which are not deductible or assessable for taxation purposes	30,455	23,887
Effect of different tax rates in countries other than Russia	14,689	(38,447)
Effect of changes in tax rate in Kazakhstan	-	(98)
Effect of differences in tax rates on dividend income	436	-
Effect of change of US (state) effective tax rate	1,317	(5,163)
Effect of previously unrecognised tax credits and temporary difference of a prior period	(971)	-
Other	(105)	893
Total income tax expense/(benefit)	**81,174**	**(103,010)**

Deferred income tax assets and liabilities, their movements for the years ended December 31, 2010 and December 31, 2009 were as follows:

	2010	Change recognised in income statement	Change recognised in other comprehen-sive income	Foreign currency translation reserve	2009	Change recognised in income statement	Change recognised in other comprehen-sive income	Foreign currency translation reserve	2008
Deferred income tax liability:									
Valuation and depreciation of property, plant and equipment	(271,776)	(18,945)	-	1,481	(254,312)	(26,752)	-	3,672	(231,232)
Valuation and amortisation of intangible assets	(59,285)	13,331	-	(2)	(72,614)	32,012	-	141	(104,767)
Valuation of accounts receivable	(6,157)	455	-	49	(6,661)	851	-	264	(7,776)
Prepayments and other current assets	(2,494)	(2,996)	-	(3)	505	(686)	-	(124)	1,315
	(339,712)	**(8,155)**	**-**	**1,525**	**(333,082)**	**5,425**	**-**	**3,953**	**(342,460)**
Deferred income tax asset:									
Tax losses available for offset	131,696	(21,395)	1,769	(975)	152,297	76,852	7,698	1,040	66,707
Impairment of accounts receivable	2,413	(423)	-	(13)	2,849	(2,294)	-	(264)	5,407
Valuation of inventory	9,310	(8,854)	-	(30)	18,194	(1,904)	-	(795)	20,893
Provisions and accruals	7,747	3,151	-	(46)	4,642	(6,195)	-	(274)	11,111
Finance lease obligations	7,019	(1)	-	(55)	7,075	5,780	-	253	1,042
Trade and other payable	10,590	3,775	-	(8)	6,823	950	-	(380)	6,253
Other	5,760	586	-	(16)	5,190	6,021	-	(24)	(807)
	174,535	**(23,161)**	**1,769**	**(1,143)**	**197,070**	**79,210**	**7,698**	**(444)**	**110,606**
Net deferred income tax liability	**(300,484)**	**(30,076)**	**-**	**1,256**	**(271,664)**	**93,258**	**-**	**5,639**	**(370,561)**
Net deferred income tax asset	**135,307**	**(1,240)**	**1,769**	**(874)**	**135,652**	**(8,623)**	**7,698**	**(2,130)**	**138,707**

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, 2010, the deferred tax asset for 3,633 (2009: 3,661) 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 are offset only against future taxable profits generated in transactions with securities over a period of 4 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, 2010, the Group has not recognised deferred tax liability in respect of 1,321,361 (2009: 1,335,353) 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.

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.

	Year ended December 31,	
	2010	**2009**
Net profit/(loss) attributable to the equity holders of the parent entity	104,334	(315,726)
Weighted average number of ordinary shares outstanding	860,480,570	865,857,940
Earnings/(loss) per share attributable to equity holders of the parent entity, basic and diluted in US dollars (3.68 RUR and (11.57) RUR for 2010 and 2009, respectively)	**0.12**	**(0.36)**

In 2010, the Group issued bonds due 2015 which are convertible into 71,505,956 shares, which could potentially dilute basic earnings per share (Note 25).

In 2010, the convertible bonds were antidilutive as the interest expense and other gains and losses for the year ended December 31, 2010, net of tax, relating to convertible bonds divided by the number of ordinary shares obtainable on the conversion of the convertible bonds exceeded basic earnings per share.

Share options under the TMK share options programme expired in 2009 (Note 30 ix) were not included in the calculation of diluted earnings per share because they were antidilutive in 2009.

14) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	2010	2009
Russian rouble	108,516	185,710
US dollar	39,819	43,363
Euro	4,823	13,810
Romanian lei	4,035	149
Other currencies	331	724
	157,524	**243,756**

The above cash and cash equivalents consisted of the following:

	2010	2009
Cash and cash equivalents	156,320	210,082
Deposits	1,204	33,674
	157,524	**243,756**

As at December 31, 2010, the amount of cash and cash equivalents included 1,000 million Russian roubles (32,812 at the exchange rate as at December 31, 2010) of cash received as a consideration from sales of non-controlling interests in OOO "TMK-INOX" (Note 30 v) and 700 million Russian roubles (22,968 at the exchange rate as at December 31, 2010) of cash received as contribution from non-controlling interest owners in OAO "Sinarskaya heat and power plant" (Note 30 vi) which are available to finance investing activities only.

Bank accounts and a cash deposit in the amount of 1,181 have been pledged as security for borrowings at December 31, 2010 (December 31, 2009: 130) (Note 24).

15) Trade and Other Receivables

Trade and other receivables consisted of the following:

	2010	2009
Trade receivables	710,714	576,132
Officers and employees	2,235	1,471
Other accounts receivable	21,884	16,514
Gross accounts receivable	**734,833**	**594,117**
Allowance for doubtful debts	(17,936)	(15,161)
Net accounts receivable	**716,897**	**578,956**

Accounts receivables in the amount of 91,661 has been pledged as security for borrowings at December 31, 2010 (December 31, 2009: nil) (Note 24).

16) Prepayments and Input VAT

Prepayments and input VAT consisted of the following:

	2010	2009
Prepayment for VAT, Input VAT	92,304	123,351
Prepayment for services, inventories	45,778	37,171
Prepayment for insurance	9,887	9,858
Deferred charges	4,372	3,365
Prepayment for other taxes	1,551	2,293
Prepayment for rent	231	267
Prepayment for property tax	179	184
	154,302	**176,489**

16) Prepayments and Input VAT (continued)

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.

17) Other Non-Current Assets

Other non-current assets consisted of the following:

	2010	2009
Prepayments for acquisition of property, plant and equipment	29,774	37,996
Loans to employees	5,357	5,796
Restricted cash deposits for fulfillment of guaranties	1,659	2,237
Prepaid debt issue costs	5	2,136
Other	3,913	3,720
Gross investments and other long-term receivables	**40,708**	**51,885**
Allowance for doubtful debts	(11)	(11)
Net investments and other long-term receivables	**40,697**	**51,874**

18) Inventories

Inventories consisted of the following:

	2010	2009
Raw materials	335,362	233,924
Work in process	325,386	244,998
Finished goods and finished goods in transit	364,211	282,795
Goods for resale	4,084	4,688
Supplies	195,609	182,122
Gross inventories	**1,224,652**	**948,527**
Allowance for net realisable value of inventory	(17,112)	(22,133)
Net inventories	**1,207,540**	**926,394**

Inventories carried at net realisable value in the amount of 262,328 (December 31, 2009: 194,494) are included in inventories as at December 31, 2010.

As at December 31, 2010, certain items of inventory with a carrying amount of 122,794 (December 31, 2009: 166,182) were pledged as security for borrowings (Note 24).

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

	2010	2009
Balance at the beginning of the year	22,133	28,587
Additional decrease in allowance	(4,818)	(4,559)
Currency translation adjustments	(203)	(1,895)
Balance at the end of the year	**17,112**	**22,133**

19) Property, Plant and Equipment

Movement in property, plant and equipment for the year ended December 31, 2010 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, 2010	1,243,839	2,370,728	59,571	40,466	9,439	567,204	**4,291,247**
Additions	-	-	-	-	-	270,301	**270,301**
Assets put into operation	32,374	232,626	4,263	8,172	485	(277,920)	**-**
Transfer to assets held for sale	(8,844)	(730)	(301)	(13)	-	(158)	**(10,046)**
Disposals	(1,779)	(33,227)	(1,289)	(576)	-	(707)	**(37,578)**
Currency translation adjustments	(17,103)	(32,477)	(1,927)	(464)	(13)	(4,614)	**(56,598)**
BALANCE AT DECEMBER 31, 2010	**1,248,487**	**2,536,920**	**60,317**	**47,585**	**9,911**	**554,106**	**4,457,326**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2010	(150,761)	(692,309)	(23,150)	(20,758)	(1,589)	-	**(888,567)**
Depreciation charge	(35,720)	(177,543)	(4,165)	(6,506)	(1,024)	-	**(224,958)**
Transfer to assets held for sale	1,486	527	59	3	-	-	**2,075**
Disposals	563	21,129	1,027	424	-	-	**23,143**
Currency translation adjustments	2,698	14,119	642	261	(79)	-	**17,641**
BALANCE AT DECEMBER 31, 2010	**(181,734)**	**(834,077)**	**(25,587)**	**(26,576)**	**(2,692)**	**-**	**(1,070,666)**
NET BOOK VALUE AT DECEMBER 31, 2010	**1,066,753**	**1,702,843**	**34,730**	**21,009**	**7,219**	**554,106**	**3,386,660**
NET BOOK VALUE AT JANUARY 1, 2010	**1,093,078**	**1,678,419**	**36,421**	**19,708**	**7,850**	**567,204**	**3,402,680**

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	94,581	475,804	1,452	6,771	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	**1,243,839**	**2,370,728**	**59,571**	**40,466**	**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	-	(37,276)	-	-	-	-	**(37,276)**
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	**1,093,078**	**1,678,419**	**36,421**	**19,708**	**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**

As at December 31, 2010, bank borrowings are secured by properties and equipment with the carrying value of 746,307 (December 31, 2009: 817,520) (Note 24).

19) Property, Plant and Equipment (continued)

In 2010, no impairment losses were recognised in respect of property, plant and equipment.

At December 31, 2009, the Group conducted an impairment test of property, plant and equipment and recognised impairment of property, plant and equipment in the amount of 37,276.

Capitalised borrowing costs

The Group started to capitalise borrowing costs for all eligible assets where construction was commenced on or after January 1, 2009. The amount of borrowing costs capitalised during the year ended December 31, 2010 was 4,488 (2009: 1,702). The rate of the specific borrowing used to determine the amount of borrowing costs eligible for capitalisation was 5.19% in 2010 (2009: 5.11%).

20) Goodwill and Other Intangible Assets

Movement in intangible assets for the year ended December 31, 2010 was as follows:

	Patents and trademarks	Goodwill	Software	Customer relation-ships	Proprietary technology	Backlog	Other	TOTAL
COST								
Balance at January 1, 2010	209,740	568,891	17,049	472,300	14,100	8,500	5,708	**1,296,288**
Additions	28	-	75	-	-	-	1,907	**2,010**
Disposals	(181)	-	-	-	-	-	(304)	**(485)**
Currency translation adjustments	(9)	(1,210)	(152)	-	-	-	(46)	**(1,417)**
BALANCE AT DECEMBER 31, 2010	**209,578**	**567,681**	**16,972**	**472,300**	**14,100**	**8,500**	**7,265**	**1,296,396**
ACCUMULATED AMORTISATION AND IMPAIRMENT								
Balance at January 1, 2010	(217)	(13,429)	(8,930)	(147,092)	(2,737)	(8,500)	(1,562)	**(182,467)**
Amortisation charge	(82)	-	(3,118)	(79,297)	(1,762)	-	(940)	**(85,199)**
Disposals	61	-	-	-	-	-	143	**204**
Currency translation adjustments	7	101	85	-	-	-	17	**210**
BALANCE AT DECEMBER 31, 2010	**(231)**	**(13,328)**	**(11,963)**	**(226,389)**	**(4,499)**	**(8,500)**	**(2,342)**	**(267,252)**
NET BOOK VALUE AT DECEMBER 31, 2010	**209,347**	**554,353**	**5,009**	**245,911**	**9,601**	**-**	**4,923**	**1,029,144**
NET BOOK VALUE AT JANUARY 1, 2010	**209,523**	**555,462**	**8,119**	**325,208**	**11,363**	**-**	**4,146**	**1,113,821**

20) Goodwill and Other Intangible Assets (continued)

Movement in intangible assets for the year ended December 31, 2009 was as follows:

	Patents and trademarks	Goodwill	Software	Customer relation-ships	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**

Customer relationships represent non-contracted interactions with clients. Remaining amortisation period for customer relationships is 6-8 years. Customer relationships are amortised using the diminishing balance method which reflects the pattern of consumption of the economic benefits that customer relationships provide.

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 (2009: 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:

	2010		2009	
	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	6,324	-	6,855	-
Kaztrubprom Plant	8,301	-	8,365	-
Oilfield division	31,648	-	31,891	-
Other cash generating units	35,112	-	35,383	-
	554,353	**208,700**	**555,462**	**208,700**

20) Goodwill and Other Intangible Assets (continued)

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.

Goodwill and intangible assets with indefinite useful lives were tested for impairment at December 31, 2010. As a result of the test, the Group determined that the carrying values of all cash generating units do not exceed their recoverable amounts. Consequently, no impairment losses were recognised in the year ended December 31, 2010 (2009: 10,053).

For the purpose of impairment testing of goodwill the Group has determined value in use of each of its cash generating units. The value in use 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 value in use 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 zero growth rate.

Cash generating units	Period of forecast, years	Pre-tax discount rate, %
American division	5	10.71
European division	5	12.53
Kaztrubprom Plant	5	11.16
Oilfield division	5	11.68
Other cash generating units	5	11.54-12.92

With regard to the assessment of values in use of European division, Oilfield service division and other cash generating units no reasonably possible change in the key assumptions would cause the carrying value of each of these units to materially exceed its recoverable amount.

The calculation of American division and Kaztrubprom Plant cash generating unit's value in use was the most sensitive to the following assumptions:

Costs and Expenses

The recoverable amounts of American division cash generating unit and Kaztrubprom Plant cash generating unit are based on the business plans approved by management. The reasonably possible deviation of costs from these plans could lead to an impairment.

If the actual raw material costs of Kaztrubprom Plant cash generating unit were 7% higher than those assumed in the impairment test, this would lead to an impairment of goodwill in the amount of 1,324.

If the actual raw material costs of American division cash generating unit were 7% higher than those assumed in the impairment test, this would lead to an impairment of goodwill in the amount of 113,824.

20) Goodwill and Other Intangible Assets (continued)

Volume of production of OCTG pipes (American division cash generating unit)

The management assumed that sales volume of OCTG pipes would increase by 29% in 2011 in comparison with 2010. This growth will be provided by increase of plant's production capacity and increase of demand.

Reasonably possible changes in quantities of produced and sold units could lead to an impairment. If the quantities of the units sold were 10% lower than those assumed in the impairment test, this would lead to an impairment of goodwill in the amount of 143,840.

21) Assets Held for Sale

On December 23, 2010, the Group entered into a contractual agreement to sell a 100% ownership interest in TMK HYDROENERGY POWER S.R.L. ("TMK-Hydro"), four hydropower plants located in Romania, for cash consideration of 19.8 million Euro.

Under the terms of the agreement, control over TMK-Hydro will be transferred to the purchaser within five months from the date of agreement upon obtaining the approval from the competition authority of Romania.

As at December 31, 2010, TMK-Hydro was classified as a disposal group held for sale.

As at December 31, 2010, the major classes of assets and liabilities of the disposal group measured at the lower of carrying amount and fair value less costs to sell were as follows:

	2010
Inventories	59
Prepayments	9
Current assets	**68**
Property, plant and equipment	7,785
Intangible assets	150
Non-current assets	**7,935**
Assets classified as held for sale	**8,003**
Current liabilities	(143)
Liabilities directly associated with the assets classified as held for sale	**(143)**
Net assets directly associated with disposal group	**7,860**

In December 2010, the Group received 26,027 as a consideration from the purchaser. The cash consideration received was included in advances from customers.

TMK-Hydro assets were included in the Europe segment of the Group's operations.

22) Trade and Other Payables

Trade and other payables consisted of the following:

	2010	2009
Trade payables	531,888	417,108
Accounts payable for property, plant and equipment	65,410	138,092
Payroll liabilities	29,942	26,861
Accrued and withheld taxes on payroll	14,368	13,091
Liabilities for VAT	27,994	58,779
Liabilities for property tax	10,281	7,537
Liabilities under put options of non-controlling interest shareholders in subsidiaries	14,934	15,836
Notes issued to third parties	7,226	5,941
Sales rebate payable	7,134	1,541
Liabilities for other taxes	4,500	5,165
Deferred VAT	126	73
Other payables	18,930	19,456
	732,733	**709,480**

23) Provisions and Accruals

Provisions and accruals consisted of the following:

	2010	2009
Current:		
Accrual for bonuses	20,710	1,873
Accrual for unused annual leaves, current portion	9,546	8,030
Accrual for long-service benefit	8,468	5,872
Current portion of employee-benefit liability	1,850	1,540
Environmental provision, current portion	1,338	719
Provision for tax and other fines	241	706
	42,153	**18,740**
Non-current:		
Accrual for unused annual leaves	19,379	15,405
Environmental provision	4,717	6,446
	24,096	**21,851**

24) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	2010	2009
Current:		
Bank loans	201,585	1,251,575
Interest payable	26,473	24,891
Current portion of non-current borrowings	125,104	105,858
Current portion of bearer coupon debt securities	350,759	165,321
Unamortised debt issue costs	(3,648)	(11,858)
	700,273	**1,535,787**
Finance lease liability - current	1,591	1,595
Total short-term loans and borrowings	**701,864**	**1,537,382**
Non-current:		
Bank loans	2,733,457	2,160,060
Bearer coupon debt securities	897,034	352,021
Unamortised debt issue costs	(20,048)	(63,470)
Less: current portion of non-current borrowings	(125,104)	(105,858)
Less: current portion of bearer coupon debt securities	(350,759)	(165,321)
	3,134,580	**2,177,432**
Finance lease liability - non-current	35,134	36,736
Total long-term loans and borrowings	**3,169,714**	**2,214,168**

In addition to collaterals disclosed in Notes 14, 15, 18, 19 the Group pledged its rights under sales contracts in Romania totaling to 9,444 as collateral under loan agreements as at December 31, 2010 (December 31, 2009: 4,914). 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 the year	2010	Interest rates for the year	2009
Russian rouble	Fixed 4.3% - 10%	1,640,713	Fixed 5% - 17%	1,153,219
US Dollar	Fixed 10%	193,129	Fixed 10%	192,812
	Fixed 5.25%	377,910		
	Fixed 2.6% - 8.5%	1,244,629	Fixed 6.48% - 12.1%	2,048,035
	Variable:	112,546	Variable:	4,179
	Libor (1m) + 1.75% - 5.65%		Libor (3m) + 1.7%	
	Libor (1w) + 2.39%		Libor (1w) + 1.8%	
Euro	Fixed 5.19%	84,420	Fixed 1.3% - 5.11%	91,044
			Cost of funds + 1.25% (*)	34,611
	Variable:	179,248	Variable:	189,319
	Euribor (1m) + 1.6%		Euribor (1m) + 0.23% - 1.6%	
	Euribor (3m) + 2.7% - 4%		Euribor (3m) + 0.45% - 4%	
	Euribor (5m) + 1.1%			
	Euribor (6m) + 0.26% - 1.1%		Euribor (6m) + 0.23% - 4%	
	Euribor (8m) + 1.1%			
	Euribor (12m) + 1.2%			
Romanian Lei	Fixed 10.5% - 11%	2,253		-
Swiss Frank	Variable: Libor (1w) + 2.39%	5		-
		3,834,853		**3,713,219**

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

24) Interest-Bearing Loans and Borrowings (continued)

Bank Loans

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. The Group amended the agreement with Gazprombank in August and December 2009, extending the loan term from 2.5 to 5 years and reducing interest rate. In August 2010, the Group further amended the agreement changing the repayment schedule and reducing interest rate. In December 2010, the Group amended the terms of the agreement with Gazprombank by extending the loan term up to 8 years and cancelling a security in the form of pledged shares of OAO TMK. As at December 31, 2010, the principal outstanding balance of the loan was 1,107,542.

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 4,125 unsecured guaranteed convertible bonds with a nominal value of 100,000 US dollars each.

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. As at December 31, 2010, the principal outstanding balance of the loan was 94,000.

In September - December 2010, the Group entered into several loan agreements with Sberbank for the aggregated amount of 14,000 million Russian roubles due 2015, which were used for debt refinancing. As at December 31, 2010, the aggregated principle outstanding balance of the Sberbank's loans was 14,000 million Russian roubles (459,364 at the exchange rate at December 31, 2010).

In November 2010, the Group entered into a loan agreement with Alfa-Bank in the amount of 10,200 million Russian roubles due November 2016. As at December 31, 2010, the principal outstanding balance of the loan was 10,200 million Russian roubles (334,680 at the exchange rate at December 31, 2010).

In December 2010, the Group received 96,706 under a senior secured credit facility with Wells Fargo Capital Finance due 2014. As at December 31, 2010, the principal outstanding balance of the loan was 96,706.

In December 2010, the Group fully refinanced 450,000 VTB loan due 2012 using the proceeds from Wells Fargo Capital Finance, Alfa-Bank and Sberbank borrowing facilities.

24) Interest-Bearing Loans and Borrowings (continued)

Loan Participation Notes

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 1,200 million.

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 and to increase the amount of outstanding secured indebtedness up to 40% of total assets or to 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 were financed by 450,000 loan provided by VTB. As at December 31, 2010, an aggregate of 186,700 of notes remained outstanding.

Bearer Coupon Debt Securities

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 was 9.6% per annum. On February 16 and 19, 2010 a buy-back option on the 5,000,000 outstanding interest-bearing coupon bonds 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%. As at December 31, 2010, an aggregate of 5,000 million Russian roubles (164,059 at the exchange rate as at December 31, 2010) remained outstanding under these bonds series.

On October 26, 2010, the Group issued 5,000,000 bonds with a nominal value of 1,000 Russian roubles (33.08 US dollars at the exchange rate as at the date of issuance) each, with 6 coupon periods of 182 days each. The maturity date is October 22, 2013. The interest rate for each semi-annual coupon was 8.85%. As at December 31, 2010, an aggregate of 5,000 million Russian roubles (164,059 at the exchange rate as at December 31, 2010) 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.

24) Interest-Bearing Loans and Borrowings (continued)

Unutilised Borrowing Facilities

As at December 31, 2010, the Group had unutilised borrowing facilities in the amount 588,281 (December 31, 2009: 411,175).

Finance Lease Liabilities

Starting from 2001, the Group entered into lease agreements under certain of which it has a bargain option to acquire the leased assets at the end of lease term ranging from 2 to 20 years. The estimated average remaining useful life of leased assets varies from 13 to 18 years.

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

	2010	2009
Machinery and equipment	28,372	30,298
Transport and motor vehicles	183	342
	28,555	**30,640**

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

Future minimum lease payments under finance leases with the present value of the net minimum lease payments were as follows at December 31, 2010:

	Minimum payments	Present value of payments
2011	2,779	1,591
2012-2015	10,779	6,571
after 2015	35,142	28,563
Total minimum lease payments	**48,700**	**36,725**
Less amounts representing finance charges	(11,975)	
Present value of minimum lease payments	**36,725**	**36,725**

Future minimum lease payments under finance leases with the present value of the net minimum lease payments were 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**

In the years ended December 31, 2010 and December 31, 2009, the average interest rate under the finance lease liabilities was 3%.

25) Convertible Bonds

On February 11, 2010, TMK Bonds S.A., the Group's special purposes entity, completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAO TMK. The bonds are listed on the London Stock Exchange. The bonds have nominal value of 100,000 US dollars each 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 are convertible into GDRs at conversion price of 23.075 US dollars per GDR. In connection with the issue of convertible bonds the Group purchased 64,478,432 treasury shares to guarantee the fulfilment of an obligation to bondholders (Note 30 xii).

The Group can early redeem all outstanding bonds, in whole but not in part, at any time on or after March 4, 2013 at their principal amount plus accrued interest, if the volume weighted average price of the GDRs traded on the London Stock Exchange during 30 consecutive dealing days exceeds 130 per cent of the conversion price (the "Issuer Call"). In addition, the Group has the option to redeem the bonds at the 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.

There were no conversions of the bonds during the period ended December 31, 2010.

The Group determined that the convertible bonds represent a combined financial instrument containing two components: the bond liability (host component) and an embedded derivative representing conversion option in foreign currency combined with the Issuer Call (the "Embedded Conversion Option").

The Embedded Conversion Option in foreign currency was classified as financial instrument at fair value through profit or loss. The Embedded Conversion Option was initially recognised at the fair value of 35,455. The Group used binomial options pricing model for initial and subsequent measurement of fair value of this embedded derivative. For the purposes of this model, the Group assesses implied volatility on the basis of market quotes of the bonds and the implied credit spread. Consequently, the Group assessed that the credit spread comprised 800 bps and 650 bps as at the initial recognition date and December 31, 2010, respectively. The change in the fair value of the embedded derivative during the reporting period resulted in a loss of 12,361, which has been recorded as loss on changes in fair value of derivative financial instrument in the income statement for the year ended December 31, 2010.

The fair value of the host component of 368,149 at the initial recognition date has been determined as a residual amount after deducting the fair value of the Embedded Conversion Option from the issue price of the convertible bonds of 412,500 adjusted for transaction costs of 8,896. The host component is subsequently carried at the amortised cost using the effective interest method. As at December 31, 2010, the carrying value of the host component was 377,909.

26) 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		USA	Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2010**	**2009**
Movement in the benefit liability:							
At January 1	18,639	17,543	1,342	1,513	-	19,981	19,056
Benefit expense	6,136	2,464	595	28	458	7,189	2,492
Benefit paid	(1,363)	(941)	(157)	(112)	-	(1,520)	(1,053)
Other	-	-	-	-	498	498	-
Currency translation adjustment	(160)	(427)	(129)	(87)	-	(289)	(514)
At December 31	**23,252**	**18,639**	**1,651**	**1,342**	**956**	**25,859**	**19,981**
Short-term	**1,772**	**1,540**	**78**	**-**	**-**	**1,850**	**1,540**
Long-term	**21,480**	**17,099**	**1,573**	**1,342**	**956**	**24,009**	**18,441**
Net benefit expense (recognised in cost of sales, general and administrative expenses and selling and distribution expenses):							
Current service cost	796	718	65	29	290	1,151	747
Interest cost on benefit obligation	1,807	1,613	121	128	30	1,958	1,741
Net actuarial (gain)/loss recognised in the period	3,363	(30)	202	(129)	138	3,703	(159)
Past service cost	170	163	207	-	-	377	163
Net benefit expense / (income)	**6,136**	**2,464**	**595**	**28**	**458**	**7,189**	**2,492**

The Group expects to contribute 1,850 to its defined post-employment benefit programme in 2011.

	2010	**2009**
Present value of defined benefit obligation	28,052	22,362
Unrecognised past service cost	(2,193)	(2,381)
Benefit liability as at December 31	**25,859**	**19,981**

The Group had no plan assets and unrecognised actuarial gains or losses in the year ended December 31, 2010.

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

	2010	**2009**
Defined benefit obligation as at December 31	**28,052**	**22,362**
Experience adjustments on plan liabilities	4,120	(1,485)

26) Employee Benefit Liability (continued)

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

	Russia		**Romania**		**USA**
	2010	**2009**	**2010**	**2009**	**2010**
Discount rate	7.96%	8.75%	current 8.74%, decreasing to 4.29% in the long-term	current 9.98%, decreasing to 3.53% in the long-term	5.75%
Average long-term rate of compensation increase	6.3%	6.8%	current 5.5%, decreasing to 3.5% in the long-term	current 4.0%, decreasing to 2.0% in the long-term	3.5%

27) Principal Subsidiaries

Company	Location	Main activity	Actual ownership interest	Effective ownership interest	Actual ownership interest	Effective ownership interest
			December 31, 2010		December 31, 2009	
IPSCO Tubulas Inc.	USA	Manufacturing of welded steel pipes	100.00%	100.00%	100.00%	100.00%
TMK NSG, L.L.C. (former NS Group, Inc.)	USA	Holding company of US assets	100.00%	100.00%	100.00%	100.00%
OAO "Sinarsky Pipe Plant"	Russia	Manufacturing of seamless steel pipes	94.27%	94.27%	94.16%	94.16%
OAO "Seversky Pipe Plant"	Russia	Manufacturing of seamless and welded steel pipes, steel billets	94.37%	94.37%	94.22%	94.22%
OAO "Volzhsky Pipe Plant"	Russia	Manufacturing of seamless and welded steel pipes, steel billets	100.00%	100.00%	100.00%	100.00%
OAO "Taganrog Metallurgical Plant"	Russia	Manufacturing of seamless and welded steel pipes, steel billets	96.10%	96.10%	96.06%	96.06%
OAO "Orsky Machine Building Plant"	Russia	Manufacturing of joints for drill pipes and other products	75.00%	75.00%	75.00%	75.00%
ZAO "Trade House TMK"	Russia	Sales & distribution of pipes, raw materials procurement	100.00%	100.00%	100.00%	100.00%
OOO "TMK-INOX"	Russia	Manufacturing and sales of steel pipes	53.00%	49.97%	100.00%	94.16%
OOO "Skladskoy Kompleks TMK"	Russia	Sales & distribution 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 "TMK-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%	100.00%	100.00%	100.00%
OOO "SinaraTransAvto"	Russia	Services	100.00%	94.27%	100.00%	94.16%
TMK Global S.A.	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%	92.66%	92.66%
SC TMK-RESITA SA	Romania	Manufacturing of steel billets	100.00%	100.00%	100.00%	100.00%
TMK Capital S.A.	Luxembourg	Financing (SPV)	0.00%	0.00%	0.00%	0.00%
TMK Bonds S.A.	Luxembourg	Financing (SPV)	0.00%	0.00%	0.00%	0.00%
OAO "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 of 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 Ltd.	Cyprus	Stock servicing	100.00%	100.00%	100.00%	100.00%
ZAO "TMK-CPW" *	Russia	Manufacturing of welded steel pipes	51.00%	48.13%	51.00%	48.05%
OOO TMK Metallurgical Service	Russia	Maintenance and repair of equipment	100.00%	94.37%	51.00%	48.05%
TMK Africa Tubulars (PTY) Ltd.	South Africa	Sales & distribution of pipes	100.00%	100.00%	0.00%	0.00%
OAO "TMK Oilfield Services"	Russia	Management services	100.00%	100.00%	100.00%	100.00%
SC TMK Hydroenergy Power SRL	Romania	Electrical energy production	100.00%	100.00%	0.00%	0.00%
OAO "Sinarskaya heat and power plant"	Russia	Heat and electrical energy production	68.79%	64.85%	0.00%	0.00%
Blytheville Finance Corporation	USA	Financial Investments	100.00%	100.00%	100.00%	100.00%
TMK IPSCO Canada, Ltd.	USA	Sales & distribution of pipes	100.00%	100.00%	0.00%	0.00%
IPSCO Koppel Tubulars Corporation, LLC	USA	Manufacturing of seamless steel pipes	100.00%	100.00%	100.00%	100.00%
IPSCO Tubulars (KY) Inc	USA	Manufacturing of welded steel pipes	100.00%	100.00%	100.00%	100.00%
IPSCO Tubulars (OK) Incorporated	USA	Manufacturing of seamless and welded steel pipes	100.00%	100.00%	100.00%	100.00%
UPOS GP, LLC	USA	Holding company of US assets	100.00%	100.00%	100.00%	100.00%
UPOS, LLC	USA	Holding company of US assets	100.00%	100.00%	100.00%	100.00%
Ultra Premium Oilfield Services, Ltd	USA	Manufacturing of premium pipes connections, services for oil and gas industries	100.00%	100.00%	100.00%	100.00%

** 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 non-controlling interests in subsidiaries that hold ownership interest in other subsidiaries.

28) 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, 2010 and 2009 are detailed below.

Transactions with the Parent Company and Entity with Significant Influence

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. In 2010, the Group paid to the parent company 16,300 for the guarantee (2009: 56,300). 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. In 2010, the Group paid 10,700 to Bravecorp for the guarantee (2009: 6,000). As at December 31, 2010, the unpaid fees for the guarantee provided by Bravecorp amounted to 5,300. As at December 31, 2009, the unpaid fees for the guarantees provided by TMK Steel and Bravecorp amounted to 16,300 and 4,000, respectively.

In 2010, the Group amended the terms of the agreement with Gazprombank cancelling a security in the form of pledged shares of OAO TMK. The Group concluded that this amendment of the terms of the agreement with Gazprombank represents a substantial modification of the terms of the agreement and accounted this modification as an extinguishment of the original financial liability under the agreement with Gazprombank and the recognition of a new financial liability under the agreement with Gazprombank.

Also, in 2010 the Group repaid VTB borrowing facilities in the amount of 750,000 secured by pledged shares of OAO TMK (Note 24).

The commission to TMK Steel and Bravecorp was amortised during the period commencing on the date of loans received and ending on the date of the cessation of a security. The Group recognised the commission to TMK Steel and Bravecorp in the amounts of 57,436 and 18,516, respectively, as finance costs in the income statement for the year ended December 31, 2010. In 2009, amortisation of the commission to TMK Steel and Bravecorp amounted to 15,164 and 3,484, respectively.

The Group paid no dividends to the parent company in 2010 (2009: nil).

Compensation to 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, 2010 (26 persons as at December 31, 2009).

28) Related Parties Disclosures (continued)

Compensation to Key Management Personnel of the Group (continued)

The Group provides compensation to key management personnel only in the form of short-term employee benefits, which include:

- Wages, salaries and social security contributions in the amount of 9,136 for the year ended December 31, 2010 (2009: 13,231);
- Bonuses payable within twelve months after December 31, 2010 in the amount of 3,086 (December 31, 2009: nil). The exact amount of bonuses is determined within next four months after December 31, 2010 based on the analysis of fulfilment of certain conditions.

The amounts disclosed above are recognised as general and administrative expenses in the income statement during the reporting period.

In the years ended December 31, 2010 and 2009, the Group did not provide compensation to key management personnel in the form of post-employment benefits, other long-term benefits, share-based payment or termination benefits.

The balance of loans issued to key management personnel amounted to 396 as at December 31, 2010 (December 31, 2009: 360).

The Group guaranteed debts of key management personnel outstanding as at December 31, 2010 in the amount of 3,368 with maturity in 2011 – 2017 (December 31, 2009: 3,201).

In 2010, the Group paid 2,494 to the member of key management personnel for the guarantee issued.

Transactions with Other Related Parties

The following table provides outstanding balances with other related parties as at December 31:

	2010	2009
Cash and cash equivalents	47,151	86,541
Accounts receivable – current	3,305	818
Prepayments – current	90	422
Accounts receivable – non-current	-	68
Accounts payable – current	(2,157)	(949)
Interest payable	(977)	(523)

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

	2010	2009
Sales revenue	4,718	1,201
Purchases of goods and services	7,509	6,897
Interest income from loans and borrowings	521	216
Interest expenses from loans and borrowings	460	489

In the year ended December 31, 2010, sales transactions with related parties constituted approximately 0.08% of the total Group's sales (2009: 0.03%).

29) Contingencies and Commitments

Operating Environment of the Group

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

In 2010, the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. The stabilisation measures have led to stronger customer demand, increased production levels and improved liquidity in the banking sector.

The United States economy completed its sixth consecutive quarter of recovery by the end of 2010. Recent growth in consumer spending reflects improvements in sentiment, in the stock market, and in banks' willingness to lend, easing many of the adverse shocks received during the recession.

Despite some indications of recovery there continues to be uncertainty regarding further economic growth which could negatively affect the Group's future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

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 unfavourable 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.

In 2009 and 2010, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 684,178 thousand Russian roubles (22,449 at the exchange rate as at December 31, 2010). Up to the date of authorisation of these consolidated financial statements for issuance, the Group defended its position in the courts and settled the claims in the pre-trial dispute resolution procedures in the amount of 548,289 thousand Russian roubles (17,990 at the exchange rate as at December 31, 2010). The court proceedings had not been finalised for the remaining claims in the amount of 130,346 thousand Russian roubles (4,277 at the exchange rate as at December 31, 2010).

29) Contingencies and Commitments (continued)

Taxation (continued)

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. Consequently, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2010.

Contractual Commitments and Guarantees

As at December 31, 2010, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 1,402,296 thousand Russian roubles (46,012 at the exchange rate as at December 31, 2010), 42,700 thousand Euros (56,509 at the exchange rate as at December 31, 2010), 2,615 thousand Romanian lei (805 at the exchange rate as at December 31, 2010) and 15,880 thousand US dollars for the total amount of 119,206 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 29,774 with respect to such commitments (2009: 37,996).

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 8,330 (2009: 52,458).

Insurance Policies

The Group currently maintains insurance against losses that may arise in case of property damage, accidents and transportation of goods. The Group also maintains corporate product liability and directors and officers' liability insurance policies. Nevertheless, any recoveries under maintained insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

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 guaranteed debts of others outstanding at December 31, 2010 in the amount of 4,664 (December 31, 2009: 4,246).

30) Equity

i) Share Capital

	2010	2009
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	937,586,094	873,001,000
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	937,586,094	873,001,000

30) Equity (continued)

i) Share Capital (continued)

On February 5, 2010, the Board of Directors authorised an increase of share capital.

In June 2010 the Group received 8,589,818 thousand Russian roubles (279,427 at the historical exchange rate) as consideration from shareholders for the issuance of 64,585,094 shares with par value of 10 Russian roubles each at price of 133 Russian roubles per share.

On November 30, 2010, the Group finalised the increase of share capital by 64,585,094 shares with par value of 10 Russian roubles each by means of an open subscription at price of 133 Russian roubles per share. Number of shares subscribed represented approximately 7.4% of the Company's issued and fully paid share capital before additional issue. After completion of the share capital increase, the total number of the issued and fully paid shares was 937,586,094.

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.

iii) Dividends

The Company declared no final dividends in respect of 2009. No interim dividends were declared during 2010.

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 276,155 of undistributed and unreserved earnings recognised in Russian statutory financial statements as at December 31, 2010. In addition, the Group's share in the undistributed and unreserved earnings of its subsidiaries was 1,435,233 as at December 31, 2010.

iv) Acquisition of Non-controlling Interests in Subsidiaries

In the year ended December 31, 2010, the Company purchased additional 0.15% of the shares of OAO "Seversky Pipe Plant", 0.11% of the shares of OAO "Sinarsky Pipe Plant", 0.04% of the shares of OAO "Taganrog Metallurgical Plant" and 49% ownership interest in OOO "TMK-SMS Metallurgical Service". The total cash consideration for the shares amounted to 1,254.

The excess in the amount of 144 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" and OAO "Taganrog Metallurgical Plant" was charged to accumulated profit. The excess in the amount of 478 of the carrying values of net assets attributable to interest in OAO "Seversky Pipe Plant" over the consideration paid for such non-controlling interest is recorded in additional paid-in capital.

30) Equity (continued)

iv) Acquisition of Non-controlling Interests in Subsidiaries (continued)

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 non-controlling 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 non-controlling interest decreased and the Group increased its interest in this subsidiary by 12.10%. The effect of the decrease of share of non-controlling 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 non-controlling interest shareholders comprised 145.

v) Sale of Non-controlling Interests

In December 2010, the Group increased share capital of OOO “TMK-INOX”. The share capital increase was partially financed by non-controlling interest shareholder. Cash consideration received from non-controlling interest shareholder amounted to 1,000 million Russian roubles (32,939 at historical exchange rate). As a result of the transaction, the ownership interest of the Group in OOO “TMK-INOX” decreased and amounted to 53.00%. The difference between the consideration received and the carrying values of net assets attributable to non-controlling interest in the amount of 741 was charged to accumulated profit. As non-controlling interest shareholder has a right to sell its ownership interest to the Group under certain circumstances beyond the Group’s control starting 2018, the Group recognised the amount of 20,015 at the exchange rate as at December 31, 2010 as a liability to non-controlling interest shareholder under put option and included it in other non-current liabilities. Also, the Group recognised non-controlling interest in the amount of 13,587. Cash in the amount of 1,000 million Russian roubles received as a consideration for 47.00% of ownership interest in OOO “TMK-INOX” from non-controlling interest shareholder is available to finance investing activities of OOO “TMK-INOX” only.

30) Equity (continued)

vi) Contributions from Non-controlling Interest Owners

In 2010, the Group established a new subsidiary, OAO “Sinarskaya heat and power plant”. The 31.21% ownership interest in OAO “Sinarskaya heat and power plant” was acquired by a third party for 700 million Russian roubles (23,124 at historical exchange rate). As a result of the transaction, the Group’s ownership interest in OAO “Sinarskaya heat and power plant” amounted to 68.79%. As at the date of transaction, the Group recognised non-controlling interest in the amount of 23,124. Cash in the amount of 700 million Russian roubles received as a consideration for 31.21% of ownership interest in OAO “Sinarskaya heat and power plant” from non-controlling interest shareholder is available to finance investing activities of OAO “Sinarskaya heat and power plant” only.

vii) Dividends by Subsidiaries of the Group to the Non-controlling Interest Owners in Subsidiaries

Dividends declared by subsidiaries of the Group to the non-controlling interest owners in subsidiaries were recorded as a reduction in non-controlling interests of 8 and 2,302 in the consolidated financial statements for the years ended December 31, 2010 and 2009, respectively.

viii) Non-controlling Interests Put Options

In 2007, the Group established ZAO “TMK-CPW”, a new subsidiary with 51% ownership. Under the shareholders’ agreement, the non-controlling 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 non-controlling 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 non-controlling 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%.

ix) 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.

30) Equity (continued)

ix) Share-Based Payments (continued)

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 217.60 Russian roubles per share. The exercise price for options under the second phase was fixed at 226.68 Russian roubles per share. The exercise price for options under the third phase was fixed at 228.60 Russian roubles per share.

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 number and weighted average exercise price (WAEP) of share options as of January 1, 2009 were 3,841,204 and 7.78 US dollars per share, respectively. No share options have been granted or exercised during 2009.

The Programme expired on October 1, 2009.

x) 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.

xi) 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 borrowings in US dollars made by Russian companies of the Group. As at December 31, 2010, the Group designated US dollar denominated loans in the amount of 1,158,610 (December 31, 2009: 1,158,610) as the hedging instrument. The aim of the hedging was to eliminate foreign currency risk associated with the repayment of these liabilities resulting from changes in US dollar/Russian rouble spot rates.

30) Equity (continued)

xi) Hedges of Net Investment in Foreign Operations (continued)

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, 2010, the effective portion of net losses from spot rate changes in the amount of 269,609 thousand Russian roubles (8,847 at historical exchange rate), net of income tax benefit of 53,922 thousand Russian roubles (1,769 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

xii) Treasury shares

	2010		2009	
	Number of shares	Cost	Number of shares	Cost
Outstanding as at January 1	7,097,364	37,378	7,167,049	37,827
Purchased during the period	64,478,432	280,973	105,791	310
Sold during the year	-	-	(175,476)	(759)
Outstanding as at December 31	**71,575,796**	**318,351**	**7,097,364**	**37,378**

In the year ended December 31, 2010, the Group purchased 64,478,432 shares of the Company from TMK Steel for 280,973 (including transaction fees of 2,000). As at December 31, 2010, the Group owned 71,575,796 treasury shares.

In order to facilitate the issuance of the convertible bonds, investment banks offered to certain institutional investors an opportunity to borrow GDRs of OAO TMK during the term of the bonds.

During 2009, the Group purchased 105,791 treasury shares for 310, including 34,318 shares that were purchased back from the Share option programme participants for the amount of 89 (Note 30 ix), and sold 175,476 treasury shares for 759.

31) Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise bank loans, bonds issued, trade payables, liabilities under put options of non-controlling 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.

31) Financial Risk Management Objectives and Policies (continued)

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 8% of the total loan portfolio at the end of 2010 (5% at the end of 2009), 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.

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 2010		
Increase in LIBOR	100	(1,126)
Decrease in LIBOR	(25)	281
Increase in EURIBOR	100	(1,792)
Decrease in EURIBOR	(25)	448
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

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.

31) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

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

	2010	2009
USD/RUR (*)	(1,457,948)	(1,692,345)
EUR/RUR	(323,931)	(418,433)
EUR/USD	21,467	(5,018)
USD/RON	(90,967)	(94,818)
EUR/RON	(5,541)	(39,380)

*As disclosed in Note 30 the Group hedged its net investments in foreign operations against borrowings in US dollars made by Russian companies of the Group. The net monetary position in USD/RUR included the hedging instruments in the amount of 1,158,610 (2009: 1,158,610) which exposure to currency risk is reflected directly in other comprehensive income.

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 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 estimating reasonably possible changes for 2010 and 2009 the Group assessed the volatility of foreign exchange rates during the three years preceding the end of reporting period.

	As at December 31, 2010					
	Volatility range		Effect on Income Statement		Effect on Statement of Comprehensive Income	
	Low	High	Low	High	Low	High
USD/RUR	11.91%	-11.91%	(35,651)	35,651	(137,990)	137,990
EUR/RUR	10.07%	-10.07%	(32,620)	32,620	-	-
EUR/USD	11.75%	-11.75%	2,522	(2,522)	-	-
USD/RON	16.49%	-16.49%	(15,000)	15,000	-	-
EUR/RON	7.85%	-7.85%	(435)	435	-	-

	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	-	-

31) Financial Risk Management Objectives and Policies (continued)

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's exposure to other price risk relates to changes of the fair value of its derivative financial instrument as a result of fluctuations of GDR's quotations. The Group manages its exposure to other price risk by holding of treasury shares in the quantity corresponding to the number of shares in which convertible bonds are convertible.

The reasonably possible changes in the price of underlying GDRs, with all other variables held constant, would have an effect on the Group's profit before tax. In estimating of reasonably possible fluctuations of GDR's quotations, the Group assessed the volatility of GDRs during the period starting the date of convertible bonds issuance (Note 25) till the end of the reporting period. A 34.10% increase to the value of GDR as at December 31, 2010 would reduce profit before tax by 83,962. A 34.10% decrease from the value of GDR as at December 31, 2010 would result in the increase of profit before tax by 41,379.

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.

31) 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 2010	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	617,862	5,171	-	-	-	-	**623,033**
Accounts payable to related parties	7,457	977	-	-	-	-	**8,434**
Interest-bearing loans and borrowings:							
Principal	346,061	332,978	429,252	822,783	560,812	1,407,200	**3,899,086**
Interest	91,411	207,935	238,268	189,386	139,254	171,767	**1,038,021**
Dividends payable	261	169	-	-	-	-	**430**
Liabilities under put options of non-controlling interest shareholders in subsidiaries	14,934	-	-	-	-	-	**14,934**
Other non-current liabilities	-	-	599	1,040	20,481	9,900	**32,020**
	1,077,986	**547,230**	**668,119**	**1,013,209**	**720,547**	**1,588,867**	**5,615,958**

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 non-controlling 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**

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.

31) 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, 2010, accounts receivable from the three biggest debtors of the Group amounted to 234,055 (December 31, 2009: 184,756). 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 are disclosed below:

	2010	2009
Cash and cash equivalents	157,524	243,756
Financial investments	3,966	4,075
Trade and other receivables	716,940	578,973
Accounts receivable from related parties	3,305	886
Other	7,016	8,033
	888,751	**835,723**

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

	2010		2009	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
Current Trade and other receivables - not past due	578,481	(292)	486,826	(27)
Current Trade and other receivables - past due				
less than 30 days	65,141	(43)	56,977	(35)
between 30 and 90 days	33,412	(229)	14,498	(55)
over 90 days	57,799	(17,372)	35,816	(15,044)
Accounts receivable from related parties - not past due	3,305	-	886	-
Non-current Trade and other receivables - not past due	54	(11)	28	(11)
Other - not past due	7,016	-	8,033	-
	745,208	**(17,947)**	**603,064**	**(15,172)**

The movement in allowance for doubtful accounts was as follows:

	2010	2009
Balance at the beginning of the year	15,172	13,132
Utilised during the year	(2,347)	(2,199)
Additional increase in allowance	5,420	4,219
Currency translation adjustment	(298)	20
Balance at the end of the year	**17,947**	**15,172**

31) 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 2010, the Group 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 dividend 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 which carrying amounts differ from fair values:

	31 December 2010		31 December 2009	
	Net carrying amount	Fair Value	Net carrying amount	Fair Value
Financial Liabilities				
Fixed rate long term bank loans	2,471,628	2,469,174	1,953,175	1,934,655
Variable rate long term bank loans	244,378	242,660	158,093	140,903
Bonds due 2013	164,059	165,371	-	-
Bonds due 2011	164,059	165,010	165,321	165,445
5.25 per cent convertible bonds	382,216	404,123	-	-
10 per cent loan participation notes due 2011	186,700	193,261	186,700	191,834

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 9%, 8% and 5% per annum for loans denominated in Russian rouble, US dollar and Euro, respectively, as at December 31, 2010 (14%, 10% and 5% per annum for loans denominated in Russian rouble, US dollar and Euro, respectively, as at December 31, 2009).

31) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

As at December 31, 2010 and 2009, the Group held the following financial instruments measured at fair value:

	2010	Level 2	2009	Level 2
Liabilities measured at fair value				
Derivative financial instrument	47,816	47,816	-	-

During the reporting period, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

32) Subsequent Events

Loan Participation Notes

On January 27, 2011, TMK Capital S.A. completed the offering of loan participation notes due 2018 in the total amount of 500,000 with a coupon of 7.75% per annum, payable on semi-annual basis. The notes are admitted for trading on the London Stock Exchange.

Bank Loans

In January 2011, the Group partially repaid 1,107,542 Gazprombank loan facilities using the proceeds from issuance of 7.75% loan participation notes in the amount of 500,000.

In February 2011, the Group entered into new credit line agreements with Gazprombank for the amount of 12,000,000 thousand Russian roubles (407,587 at the exchange rates as at the cash proceeds dates) with a maturity in 2014.

Russian Bond Obligations

On February 15, 2011, the Group fully repaid its liability under 5,000,000 thousand Russian roubles bonds issued on February 21, 2006 (170,892 at the exchange rate as at the payment date) using the proceeds from the loan provided by Gazprombank.

Acquisition of the Shares of Volgograd River Port

In March 2011, the Group won an auction for acquisition of 25.5% of Volgograd River Port for 112,825 thousand Russian roubles (3,928 at the exchange rate as at the date of auction). The transfer of ownership is expected to be finalized in the second quarter of 2011.