Open Joint Stock Company Chelyabinsk Pipe-Rolling Plant

Unaudited Condensed Consolidated Interim Financial Statements

For the Six Months Ended 30 June 2011

OPEN JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

Management is responsible for the preparation of condensed consolidated interim financial statements that present fairly the condensed consolidated interim financial position of Open Join Stock Company Chelyabinsk Pipe-Rolling Plant and its subsidiaries (the "Group") at 30 June 2011, and the condensed consolidated interim results of its operations, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34").

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

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's condensed consolidated interim financial position and financial performance; and
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the condensed consolidated interim financial position of the Group, and which enable them to ensure that the condensed consolidated interim financial statements of the Group comply with IAS 34;
- Maintaining statutory accounting records in compliance with applicable legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Detecting and preventing fraud and other irregularities.

The condensed consolidated interim financial statements for the six months ended 30 June 2011 were approved on 30 September 2011.

Alexander Fedorov
Chief Executive Officer

Sergei Moiseyev
Chief Financial Officer

30 September 2011
Moscow, Russia

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INDEPENDENT AUDITORS' REPORT ON REVIEW OF THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

We have reviewed the accompanying condensed consolidated interim financial statements of Open Joint Stock Company Chelyabinsk Pipe-Rolling Plant and its subsidiaries (the "Group"), which comprise the condensed consolidated interim statement of financial position at 30 June 2011 and the related condensed consolidated interim statements of comprehensive income, cash flows and changes in equity for the six months then ended and the related Notes 1 to 25. Management is responsible for the preparation and fair presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of matter – going concern

Without qualifying our conclusion, we draw attention to Note 2 to the accompanying unaudited condensed consolidated interim financial statements which indicate that at 30 June 2011 the Group's current liabilities exceed its current assets by Russian Roubles 16,079,923 thousand. These conditions, along with other matters set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte & Touche

30 September 2011
Moscow, Russia

OPEN JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION FOR THE SIX MONTHS ENDED 30 JUNE 2011

(thousands of Russian Roubles)

	Notes	30 June 2011	31 December 2010 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	8	60,696,753	56,622,221
Advances for capital construction		2,490,730	2,589,488
Goodwill		6,538,770	5,928,844
Intangible assets		724,484	684,375
Investments in associates		35,874	697,617
Investments in equity instruments	6	3,204,609	–
Deferred tax assets		291,210	360,697
Other non-current assets		165,463	123,473
Total non-current assets		**74,147,893**	**67,006,715**
Current assets			
Inventory	9	21,875,423	18,856,621
Trade and other receivables	11	32,085,081	20,428,125
Current income tax prepayment		94,460	382,557
Promissory notes and loans receivable	10	728,107	1,588,537
Cash and cash equivalents		2,663,195	3,622,684
Other current assets		1,028,890	1,006,055
Total current assets		**58,475,156**	**45,884,579**
TOTAL ASSETS		**132,623,049**	**112,891,294**
EQUITY AND LIABILITIES			
Share capital		2,498,261	2,498,261
Legal reserve		70,857	70,857
Translation reserve		119,356	11,947
Treasury shares		(2,745,737)	(2,513,715)
Retained earnings		8,505,683	4,347,792
Equity attributable to owners of the Company		**8,448,420**	**4,415,142**
Non-controlling interests		491,536	304,014
Total equity		**8,939,956**	**4,719,156**
Non-current liabilities			
Preferred shares		221,860	221,860
Borrowings	13	47,542,225	39,421,684
Retirement benefit obligations		490,583	411,596
Deferred tax liabilities	20	873,346	690,380
Total non-current liabilities		**49,128,014**	**40,745,520**
Current liabilities			
Borrowings	13	50,678,406	46,487,974
Accounts payable and accrued expenses		17,945,977	16,709,258
Advances from customers		2,987,383	3,315,892
Taxes payable		2,943,313	913,494
Total current liabilities		**74,555,079**	**67,426,618**
Total liabilities		**123,683,093**	**108,172,138**
TOTAL EQUITY AND LIABILITIES		**132,623,049**	**112,891,294**

OPEN JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2011

(thousands of Russian Roubles)

	Notes	Six months ended 30 June 2011	2010
Revenue	14	63,109,461	37,645,517
Cost of sales	15	(45,718,942)	(25,854,423)
Gross profit		**17,390,519**	**11,791,094**
Distribution costs	16	(3,551,738)	(3,092,325)
General and administrative expenses	17	(4,026,962)	(2,401,871)
Loss on disposal of property, plant and equipment		(25,728)	(32,858)
Reversal of impairment of assets	18	110,951	180,482
Operating profit		**9,897,042**	**6,444,522**
Finance income	19	204,095	792,734
Finance costs	19	(5,036,502)	(4,291,352)
Foreign exchange gain, net		211,789	1,455,730
Share of loss of associates		(1,825)	(79,324)
Excess of the Group's share in fair value of net assets acquired over the cost of acquisition	6	200,574	–
Gain on disposal of subsidiary		198	49,685
Profit before income tax		**5,475,371**	**4,371,995**
Income tax	20	(1,320,121)	(1,361,405)
Profit for the period		**4,155,250**	**3,010,590**
Other comprehensive income, after tax			
Exchange difference on translation of foreign operations		107,409	3,721
Total comprehensive income for the period		**4,262,659**	**3,014,311**
Profit for the period attributable to:			
Owners of the Company		4,157,891	3,057,478
Non-controlling interests		(2,641)	(46,888)
		4,155,250	**3,010,590**
Total comprehensive income for the period attributable to:			
Owners of the Company		4,265,300	3,061,199
Non-controlling interests		(2,641)	(46,888)
		4,262,659	**3,014,311**
Earnings per share attributable to owners of the Company, basic and diluted (Russian Roubles per share)	21	9.33	6.65

OPEN JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2011

(thousands of Russian Roubles)

	Notes	Six months ended 30 June 2011	Six months ended 30 June 2010
Operating activities			
Profit before income tax		5,475,371	4,371,995
Adjustments for:			
Depreciation and amortisation	15,16,17	2,387,777	1,292,110
Changes in pension and payroll accruals		139,626	155,896
Changes in inventory allowance	15	(138,022)	(120,656)
Reversal of impairment of assets	18	(110,951)	(180,482)
Loss on disposals of property, plant and equipment		25,728	32,858
Share of loss of associates		1,825	79,324
Gain on disposal of subsidiary		(198)	(49,685)
Finance income	19	(204,095)	(792,734)
Finance costs	19	5,036,502	4,291,352
Excess of the Group's share in fair value of net assets acquired over the cost of acquisition	6	(200,574)	–
Foreign exchange differences on non-operating items		(333,880)	(1,221,122)
Other non-cash movements		(5,597)	3,490
Operating cash flows before working capital changes		**12,073,512**	**7,862,346**
Movements in working capital			
Increase in accounts receivable and prepayments		(12,899,200)	(3,318,213)
Increase in inventories		(2,629,122)	(1,984,410)
Increase/(decrease) in trade and other payables		3,131,532	(1,763,241)
Cash (used in)/generated from operations		**(323,278)**	**796,482**
Income tax paid		(848,841)	(1,163,699)
Interest paid		(4,969,904)	(4,324,913)
Interest received		1,799,819	63,108
Net cash used in operating activities		**(4,342,204)**	**(4,629,022)**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(6,493,458)	(5,331,975)
Proceeds from sale of property, plant and equipment		412,058	64,863
Purchase of promissory notes and loans given		(201,816)	(1,881,343)
Proceeds from sale of promissory notes and loans repaid		941,884	273,837
Net cash (outflow)/inflow on acquisition of subsidiaries	6	(738,612)	264,742
Cash disposed with sale of subsidiary		(5,008)	(304)
Purchase of equity instruments		(3,212,875)	–
Net cash used in investing activities		**(9,297,827)**	**(6,610,180)**
Financing activities			
Proceeds from borrowings and promissory notes		37,977,520	28,529,419
Repayment of borrowings and promissory notes		(25,220,794)	(16,670,796)
Payment of finance lease obligations		(76,184)	(58,309)
Net cash generated from financing activities		**12,680,542**	**11,800,314**
Net (decrease)/increase in cash and cash equivalents		**(959,489)**	**561,112**
Cash and cash equivalents at the beginning of the period		3,622,684	3,644,163
Cash and cash equivalents at the end of the period		**2,663,195**	**4,205,275**

OPEN JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

UNAUDITED CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2011

(thousands of Russian Roubles)

	Attributable to owners of the Company							
	Share capital	**Legal reserve**	**(Accumulated deficit)/ retained earnings**	**Treasury shares**	**Translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2010	**2,498,261**	**70,857**	**(435,691)**	**(320,315)**	**(2,007)**	**1,811,105**	**370,612**	**2,181,717**
Profit/(loss) for the period	–	–	3,057,478	–	–	3,057,478	(46,888)	3,010,590
Other comprehensive income	–	–	–	–	3,721	3,721	–	3,721
Total comprehensive income/(loss) for the period	**–**	**–**	**3,057,478**	**–**	**3,721**	**3,061,199**	**(46,888)**	**3,014,311**
Additions of treasury shares	–	–	–	(2,191,478)	–	(2,191,478)	–	(2,191,478)
Balance at 30 June 2010	**2,498,261**	**70,857**	**2,621,787**	**(2,511,793)**	**1,714**	**2,680,826**	**323,724**	**3,004,550**
Balance at 1 January 2011 (restated)	**2,498,261**	**70,857**	**4,347,792**	**(2,513,715)**	**11,947**	**4,415,142**	**304,014**	**4,719,156**
Profit/(loss) for the period	–	–	4,157,891	–	–	4,157,891	(2,641)	4,155,250
Other comprehensive income	–	–	–	–	107,409	107,409	–	107,409
Total comprehensive income/(loss) for the period	**–**	**–**	**4,157,891**	**–**	**107,409**	**4,265,300**	**(2,641)**	**4,262,659**
Additions of treasury shares	–	–	–	(232,022)	–	(232,022)	–	(232,022)
Business combinations	–	–	–	–	–	–	190,163	190,163
Balance at 30 June 2011	**2,498,261**	**70,857**	**8,505,683**	**(2,745,737)**	**119,356**	**8,448,420**	**491,536**	**8,939,956**

1. GENERAL INFORMATION

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

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

On 31 May 2010, the Group acquired 100% of share capital of CJSC Pipe Bend Plant (“SOT”) and OJSC Magnitogorsk Mechanical Assembly Plant (“MZMZ”). On 25 August 2010, the Group acquired 100% of the share capital of MSA a.s. (“MSA”) with its subsidiaries and associates. On 24 January 2011, the Group increased interest in several associate companies. As a result of this operation, the associate companies became subsidiaries (Note 6). On 24 June 2011, the Group acquired 100% of share capital of Noyabrskaya centralnaya trubnaya baza Ltd. (“NCTB”).

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

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

The Company’s principal subsidiaries are disclosed in Note 5. All companies of the Group are incorporated under the laws of the Russian Federation, except ARKLEY (UK) LIMITED, which is incorporated under the laws of the United Kingdom and MSA a.s. and its subsidiaries, which are incorporated in the Czech Republic.

2. BASIS OF PREPARATION

Statement of compliance

These unaudited condensed consolidated interim financial statements of the Group have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. The statement of financial position at 31 December 2010 has been derived from the statement of financial position included in the Group’s audited consolidated financial statements for the year ended 31 December 2010 and restated upon completion of fair value assessment of MSA acquisition (Note 6). These unaudited condensed consolidated interim financial statements should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2010, which have been prepared in accordance with IFRS.

The same accounting policies, presentation and methods of computation are followed in these condensed consolidated interim financial statements as were applied in the preparation of the Group’s consolidated financial statements for the year ended 31 December 2010, except for the impact of the adoption of the Standards and Interpretations described below.

Financial condition and going concern

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

The Group's performance and liquidity situation were significantly impacted by the worldwide economic crisis, which commenced in 2008. The liquidity position of the Group, as well as its operating performance, were negatively affected by economic and industry conditions and by other financial and business factors, many of which were beyond the control of the Group. Whilst trading conditions have improved considerably during 2010 and 2011 with the Group returning to profitability, the Group experienced negative operating cash flow during the six months of 2011 and at 30 June 2011 current liabilities exceeded current assets in the amount of RUB 16,079,923 thousand (31 December 2010: current liabilities exceeded current assets in the amount of RUB 21,542,039 thousand). A contributing factor to the negative working capital position at 30 June 2011 was advance payments totalling RUB 5,939,030 thousand made by the Group for high quality steel strips for newly commissioned large diameter pipe (LDP) facility to foreign supplier.

In the six months of 2011 and the twelve months of 2010, management of the Group continued to focus on the recovery plan developed in 2009 in response to the global economic crisis. Thus, in 2010 the Group has successfully renegotiated the majority of its borrowings and obtained more favourable terms and waivers for breached covenants. Additionally, the Group has continued to improve operating performance through cost-cutting and productivity gains and at the reporting date, the Group has available and unused credit facilities of RUB 6,762,721 thousand.

The continued weakness of the Group's financial position reflecting negative working capital at 30 June 2011 together with cash outflows from operating activities in the six months ended 30 June 2011 indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Were the Group not to be able to continue as a going concern, adjustments would have to be made to the classification and carrying value of assets and liabilities and accruals would be made for other liabilities that might arise. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

It is the company's intention to also reduce inventory levels to increase stock turn and improve cash flows. The benefits of these actions are expected to generate benefits by the end of 2011.

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

(thousands of Russian Roubles)

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

- IAS 24 "Related party disclosures"– revision;
- IAS 27 "Consolidated and separate financial statements" – amendment;
- IFRIC 19 "Extinguishing financial liabilities with equity";
- Annual Improvements to IFRS (May 2010).

The first time application of the aforementioned amendments to standards and interpretations from 1 January 2011 had no material effect on the unaudited condensed consolidated interim financial statements of the Group.

4. NEW ACCOUNTING PRONOUNCEMENTS

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

	Effective for annual periods beginning on or after
IFRS 7 "Financial instruments" – amendment	1 July 2011
IFRS 9 "Financial instruments"	1 January 2013
IFRS 10 "Consolidated financial statements"	1 January 2013
IFRS 11 "Joint arrangements"	1 January 2013
IFRS 12 "Disclosure of interests in other entities"	1 January 2013
IFRS 13 "Fair value measurement"	1 January 2013
IAS 1 "Presentation of financial statements" – amendment	1 July 2012
IAS 12 "Income taxes" – amendment	1 January 2012
IAS 19 "Employee benefits" – amendment	1 January 2013
IAS 27 "Separate financial statements" – amendment	1 January 2013
IAS 28 "Investments in associates" – amendment	1 January 2013

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

(thousands of Russian Roubles)

5. SUBSIDIARIES

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

				Effective ownership, %	
Subsidiary	**Country of incorporation**	**Activities**	**Operating segment**	**30 June 2011**	**31 December 2010**
OJSC "Pervouralsk New Pipe Plant" ("PNTZ")	Russia	Tube manufacturing	SPP	100.00%	100.00%
CJSC "Uraltrubostal" Trade House ("UTS")	Russia	Tube distribution	SPP	100.00%	100.00%
CJSC SKS "MeTriS"	Russia	Tube distribution	SPP	100.00%	100.00%
ARKLEY (UK) LIMITED	United Kingdom	Tube distribution	SPP	100.00%	100.00%
Meta Ltd.	Russia	Scrap procurement	SPP	99.90%	99.90%
OJSC "Samaravtormet"	Russia	Scrap procurement	SPP	98.05%	98.05%
OJSC "UNP "Vtorchermet"	Russia	Scrap procurement	SPP	100.00%	100.00%
LLC "Meta-Invest"	Russia	Rent of property	SPP	100.00%	100.00%
CJSC "Pipe Bend Plant" ("SOT")	Russia	Manufactures and sells valves	TPS	100.00%	100.00%
OJSC "Magnitogorsk Mechanical Assembly Plant" ("MZMZ") (1)	Russia	Manufactures and sells short radius elbows	TPS	–	100.00%
MSA a.s. ("MSA")	Czech Republic	Manufactures trunk pipeline bends	TPS	100.00%	100.00%
CJSC "RIMERA"	Russia	Oilfield service	OFS	100.00%	100.00%
OJSC "ALNAS"	Russia	Oilfield service	OFS	100.00%	100.00%
LLC "Alnas-N" (2)	Russia	Oilfield service	OFS	–	100.00%
Tomskneftegazgeofizika Ltd. (3)	Russia	Oilfield service	OFS	–	100.00%
Ugansknefteg azgeofizika Ltd.	Russia	Oilfield service	OFS	100.00%	100.00%
OJSC "Izhneftemash"	Russia	Oilfield service	OFS	50.42%	50.42%
Noyabrskaya centralnaya trubnaya baza ("NCTB")	Russia	Oilfield service	OFS	100.00%	–
LLC "Rimera-Service"	Russia	Oilfield service	OFS	100.00%	100.00%

(1) OJSC "Magnitogorsk Mechanical Assembly Plant" merged in CJSC "Pipe Bend Plant"

(2) LLC "Alnas-N" merged in CJSC "RIMERA"

(3) Tomskneftegazgeofizika Ltd. merged in Uganskneftegazgeofizika Ltd

(thousands of Russian Roubles)

6. BUSINESS COMBINATIONS AND DISPOSALS

Acquisitions for the six months ended 30 June 2011

Acquisitions of Izhneftemash group of companies

On 24 January 2011, the Group acquired 88.86% of the share capital of LLC Izhneftemash-101 and 50.48% of the share capital of LLC Trade house "Neftyanoe oborudovanie" from a third party and also increased interest in the associate companies: CJSC "Kompaniya Izhneftemash", LLC "Region-Metall", LLC "Izhneftemashsnab", LLC Trade house "Izhneftemash". As a result of this operation, the associate companies became subsidiaries. LLC "Region-metall", LLC Trading house "Izhneftemash", LLC Trading house "Neftyanoe oborudovanie", LLC "Izhneftemash-Instrument", LLC "Reskont", LLC "Nefteprommarket" merged in LLC "Izhneftemashenergosnab". Purchase consideration comprised redemption of loan receivable in the amount of RUB 166,251 thousand and fair value of previously-held interest in the amount of RUB 659,898 thousand, less deferred tax in the amount of RUB 105,209 thousand and non-controlling interest in the amount of RUB 275,015 thousand. The Group has not finalised the determination of the fair value of the assets and liabilities acquired. The following represents the allocations of the purchase price based on provisional values that will be updated upon completion of the fair value assessments.

The Group measured the separately recognisable identifiable assets acquired and the liabilities assumed, as well as remeasured its previously held equity interest at its acquisition date fair value. The excess of the Group's share in fair value of net assets acquired over the cost of acquisition on this acquisition resulted from the fact that the Group was the only leaseholder of the acquirees' equipment and the former owners of the acquired companies considered it expedient to dispose of their interests at the proposed price.

	Notes	Provisional value
Property, plant and equipment	8	1,121,505
Trade and other accounts receivable		330,494
Loans receivable		135,227
Cash and cash equivalents		2,900
Inventories		2,629
Other non-current assets		868
Deferred tax assets		671
Deferred tax liabilities, net		(207,627)
Trade and other payables		(150,351)
Borrowings		(121,050)
Taxes payable		(1,080)
Provisional value of net assets of subsidiary		**1,114,186**
Non-controlling interests		(467,687)
Provisional value of acquired interest in net assets of subsidiary		**646,499**
Excess of the Group's share in fair value of net assets acquired over the cost of acquisition		(200,574)
Total purchase consideration		**445,925**
Net inflow of cash and cash equivalents on acquisition		**2,900**

The consolidation of the acquired subsidiaries resulted in an increase in the Group's consolidated revenue by RUB 13,589 thousand and a decrease in profit of RUB 16,436 thousand for the six months ended 30 June 2011. Effect on revenue and profits if the acquisition had occurred on 1 January 2011 is not material.

The accounts receivable and loans acquired in these transactions with a provisional value of RUB 330,494 thousand and RUB 135,227 thousand, respectively, had gross contractual amounts of RUB 334,548 thousand and RUB 135,227 thousand, respectively. The best estimate at acquisition date of the contractual cash flows not expected to be collected is RUB 4,054 thousand and nil thousand, respectively.

(thousands of Russian Roubles)

NCTB

On 24 June 2011, the Group acquired 100% of NCTB from a third party for total consideration of RUB 749,790 thousand payable in cash. NCTB renders tubing pipes and bucket rods services, casing pipes preparation, provides tubing pipes for technological operation and adjacent handling and storage services. The consideration was fully paid during the reporting period. The Group has not finalised the determination of the fair value of the assets and liabilities acquired. The following represents the allocations of the purchase price based on provisional values that will be updated upon completion of the fair value assessments.

Management believes that the acquisition of NCTB will allow access to technological and managerial competencies, expand integration with existing operations through cross-selling opportunities, joint research and development activities and help to build a strong base for provision of full suite of services by oilfield services segment.

	Notes	Provisional value
Property, plant and equipment	8	215,858
Trade and other accounts receivable		146,576
Inventories		35,045
Cash and cash equivalents		8,278
Other non-current assets		3,358
Trade and other payables		(138,180)
Taxes payable		(63,530)
Deferred tax liabilities, net		(3,164)
Provisional value of net assets of subsidiary		**204,241**
Goodwill arising from the acquisition		545,549
Total purchase consideration		**749,790**
Less cash and cash equivalents of subsidiary acquired		(8,278)
Net outflow of cash and cash equivalents on acquisition		**741,512**

If the acquisition had occurred on 1 January 2011, consolidated revenue of the Group for the six month ended 30 June 2011 would have increased by RUB 649,932 thousand and consolidated profit would have decreased by RUB 41,075 thousand. Effect of consolidation on revenue and profits is not material to present.

Trade and other accounts receivable resulting from this acquisition with a provisional value of RUB 146,576 thousand had equal gross contractual cash flows which is deemed fully collectible by the Group's best estimate.

Acquisitions for six months ended 30 June 2010

Acquisitions of TPS operating segment companies

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

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

(thousands of Russian Roubles)

SOT and MZMZ

On 31 May 2010, the Group acquired 100% of the share capital of SOT, a company that manufactures pipeline bends and hubs, and MZMZ, a company that manufactures short radius elbows, for cash consideration of RUB 6,163,119 thousand. The consideration was fully paid in 2010. At 30 June 2011, The Group has finalised the determination of the fair value of the assets and liabilities acquired.

The following represents the allocations of the purchase price based on provisional values that was performed during 2010 and fair value, remaining equal to provisional value, upon completion of the fair value assessments.

	Notes	Provisional value	Fair value*
Property, plant and equipment	8	1,190,929	1,190,929
Trade and other accounts receivable		1,074,401	1,074,401
Inventories		440,100	440,100
Loans receivable		416,000	416,000
Cash and cash equivalents		264,742	264,742
Deferred tax assets, net		35,872	35,872
Trade and other payables		(435,502)	(435,502)
Taxes payable		(72,234)	(72,234)
Value of net assets of subsidiaries		**2,914,308**	**2,914,308**
Goodwill arising from the acquisition		3,248,811	3,248,811
Total purchase consideration		**6,163,119**	**6,163,119**
Less cash and cash equivalents of subsidiaries acquired		(264,742)	(264,742)
Foreign exchange differences		(95,759)	(95,759)
Net outflow of cash and cash equivalents on acquisition		**5,802,618**	**5,802,618**

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

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

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

(thousands of Russian Roubles)

MSA

On 25 August 2010, the Group acquired 100% of MSA and its subsidiaries, a group that manufactures valves, for total consideration of RUB 1,751,364 thousand payable in cash. The consideration was fully paid in 2010. The Group finalised the determination of the fair value of the assets and liabilities acquired and adjusted retrospectively the 2010 comparative information to decrease the fair value of the items of property, plant and equipment at the acquisition date by RUB 443,267 thousand (correspondingly net deferred tax liabilities decreased on RUB 99,055 thousand), offset by an increase to goodwill of RUB 422,285 thousand and an increase in depreciation expense for the second half of 2010 year of RUB 3,540 thousand.

The following represents the allocations of the purchase price based on provisional values that was performed during 2010 and fair value updated upon completion of the fair value assessments.

	Notes	Provisional value	Fair value*
Property, plant and equipment	8	1,382,361	939,094
Inventories		252,823	252,823
Trade and other accounts receivable		240,531	240,531
Cash and cash equivalents		60,665	60,665
Other non-current assets		43,498	43,498
Intangible assets		1,333	1,333
Trade and other payables		(698,708)	(698,708)
Borrowings		(544,194)	(544,194)
Deferred tax liabilities, net		(113,044)	(13,989)
Taxes payable		(9,683)	(9,683)
Finance lease liabilities		–	(78,073)
Value of net assets of subsidiary		**615,582**	**193,297**
Goodwill arising from the acquisition		1,135,782	1,558,067
Total purchase consideration		**1,751,364**	**1,751,364**
Less cash and cash equivalents of subsidiary acquired		(60,665)	(60,665)
Foreign exchange differences		(6,403)	(6,403)
Net outflow of cash and cash equivalents on acquisition		**1,684,296**	**1,684,296**

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

The acquired subsidiary contributed revenue of RUB 559,086 thousand and a loss of RUB 19,613 thousand to the Group in 2010. If the acquisition had occurred on 1 January 2010, consolidated revenue of the Group for the year ended 31 December 2010 would have increased by RUB 1,290,826 thousand and consolidated profit would have decreased by RUB 206,102 thousand.

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

Investments in equity instruments

In May 2011, the Group acquired 19% stake in CJSC "TechnoInvest Aliance" from a third party for a cash consideration of RUB 2,020,540 thousand and made an advance in the amount of RUB 1,184,069 thousand for another 11% stake, the rights for which transferred to the Group after the reporting date.

7. SEGMENT REPORTING

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

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

Upon creation of TPS the Group revised its reporting to combine newly acquired entities SOT and MZMZ (Note 6) with its existing subsidiary ChTPZ-KTS into this new segment. Segment information relating to the unaudited condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2010 for this segment is not reported as the amounts were insignificant.

Segment assets consist of current and non-current assets. Segment liabilities comprise current and non-current liabilities. Impairment loss provisions relate only to those charges made against allocated assets.

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

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

- Scope of consolidation – entities consolidated into the Group for IFRS are not consistent with those included for management reporting purposes;
- Reclassifications – the CODM reviews information classified and presented in conformity with Russian statutory accounting which includes recording amounts gross versus net, and aggregating and reclassifying some line items for purpose of making decisions about resources allocation to a segment and assessing its performance; and
- Other adjustments – other adjustments arise due to differences between IFRS and Russian statutory accounting and they are primarily related to adjustments for impairment of property, plant and equipment; intangible assets and promissory notes; discounting of borrowings; and recalculation of deferred taxes.

(thousands of Russian Roubles)

Segment information related to the Group's unaudited condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2011 is as follows:

	SPP (as reviewed by CODM)	OFS (as reviewed by CODM)	TPS (as reviewed by CODM)	Adjustments	Eliminations	Total (as per IFRS unaudited condensed consolidated interim financial statements)
Revenue from external customers	61,015,804	3,873,610	3,880,177	(5,660,130)	–	63,109,461
Inter-segment revenue	179,965	1,864	28,461	–	(210,290)	–
Cost of sales	(45,771,647)	(3,343,032)	(2,820,015)	5,995,429	220,323	(45,718,942)
Distribution costs	(3,226,568)	(98,229)	(201,185)	(25,930)	174	(3,551,738)
General and administrative expenses	(3,015,169)	(813,370)	(312,978)	124,762	(10,207)	(4,026,962)
(Impairment)/reversal of impairment of assets	(134,130)	136,843	93,929	14,309	–	110,951
Gain/(loss) on disposal of property, plant and equipment	102,899	17,764	42,985	(189,376)	–	(25,728)
Foreign exchange gain, net	355,550	1,632	9,109	(154,502)	–	211,789
Share of loss of associates	–	(1,825)	–	–	–	(1,825)
Other (expense)/income, net	(111,050)	(162,984)	127,051	146,983	–	–
Less: depreciation and amortisation	1,624,271	553,880	69,246	140,380	–	2,387,777
Segment EBITDA	**11,019,925**	**166,153**	**916,780**	**391,925**	**–**	**12,494,783**
Depreciation and amortisation	(1,624,271)	(553,880)	(69,246)	(140,380)	-	(2,387,777)
Finance income	551,447	108,397	41,266	(96,896)	(400,119)	204,095
Finance costs	(4,823,680)	(710,682)	(30,606)	128,347	400,119	(5,036,502)
Excess of the Group's share in fair value of net assets acquired over the cost of acquisition	–	200,574	–	–	–	200,574
Gain on disposal of subsidiary	–	198	–	–	–	198
Income tax (expense)/benefit	(1,275,225)	120,546	(99,598)	(65,844)	–	(1,320,121)
Profit/(loss) for the period	**3,848,196**	**(668,694)**	**758,596**	**217,152**	**–**	**4,155,250**

Segment information related to the Group's unaudited condensed consolidated interim statement of financial position at 30 June 2011:

	SPP (as reviewed by CODM)	OFS (as reviewed by CODM)	TPS (as reviewed by CODM)	Adjustments	Total (as per IFRS unaudited condensed consolidated interim financial statements)
Current assets	74,541,744	4,124,274	4,156,254	(24,347,116)	58,475,156
Non-current assets	97,633,864	7,711,894	1,606,581	(32,804,446)	74,147,893
Total assets	**172,175,608**	**11,836,168**	**5,762,835**	**(57,151,562)**	**132,623,049**
Current liabilities	86,590,202	5,526,927	1,680,495	(19,242,545)	74,555,079
Non-current liabilities	50,331,113	10,870,003	167,698	(12,240,800)	49,128,014
Total liabilities	**136,921,315**	**16,396,930**	**1,848,193**	**(31,483,345)**	**123,683,093**

(thousands of Russian Roubles)

The information analysed by the CODM is reconciled to the IFRS unaudited condensed consolidated interim financial statements at 30 June 2011 as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
As reviewed by CODM	**82,822,272**	**106,952,339**	**93,797,624**	**61,368,814**
Scope of consolidation	29,745	(432,262)	263,427	46,907
Reclassifications	(23,584,014)	(6,456,048)	(19,081,117)	(10,958,945)
Other	(792,847)	(25,916,136)	(424,855)	(1,328,762)
As per IFRS unaudited condensed consolidated interim financial statements	**58,475,156**	**74,147,893**	**74,555,079**	**49,128,014**

Segment information related to the Group's unaudited condensed consolidated interim statement of comprehensive income for the six months ended 30 June 2010 is as follows:

	SPP (as reviewed by CODM)	OFS (as reviewed by CODM)	Adjustments	Eliminations	Total (as per IFRS unaudited condensed consolidated interim financial statements)
Revenue from external customers	32,349,414	3,791,278	1,504,825	–	37,645,517
Inter-segment revenue	15,671	506	–	(16,177)	–
Cost of sales	(20,981,548)	(3,335,573)	(1,552,983)	15,681	(25,854,423)
Distribution costs	(2,968,722)	(112,242)	(11,471)	110	(3,092,325)
General and administrative expenses	(1,632,461)	(651,726)	(118,070)	386	(2,401,871)
(Impairment)/reversal of impairment of assets	(870)	88,158	93,194	–	180,482
Gain/(loss) on disposal of property, plant and equipment	9,279	(91,079)	48,942	–	(32,858)
Foreign exchange gain, net	1,449,463	6,536	(269)	–	1,455,730
Share of loss of associates	–	(79,324)	–	–	(79,324)
Other loss, net	(246,999)	(160,056)	407,055	–	–
Less: depreciation and amortisation	844,888	317,446	129,776	–	1,292,110
Segment EBITDA	**8,838,115**	**(226,076)**	**500,999**	**–**	**9,113,038**
Depreciation and amortisation	(844,888)	(317,446)	(129,776)	–	(1,292,110)
Finance income	1,537,020	53,467	(295,140)	(502,613)	792,734
Finance costs	(4,176,183)	(755,610)	137,828	502,613	(4,291,352)
Gain on disposal of subsidiary	–	49,685	–	–	49,685
Income tax (expense)/benefit	(1,391,636)	147,574	(117,343)	–	(1,361,405)
Profit/(loss) for the period	**3,962,428**	**(1,048,406)**	**96,568**	**–**	**3,010,590**

(thousands of Russian Roubles)

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

	SPP (as reviewed by CODM)	OFS (as reviewed by CODM)	TPS (as reviewed by CODM)	Adjustments	Total (as per IFRS consolidated financial statements)
Current assets	57,267,084	3,638,240	3,586,281	(18,607,026)	45,884,579
Non-current assets	91,345,519	6,943,118	2,627,684	(33,909,606)	67,006,715
Total assets	**148,612,603**	**10,581,358**	**6,213,965**	**(52,516,632)**	**112,891,294**
Current liabilities	61,872,058	5,937,042	3,056,913	(3,439,395)	67,426,618
Non-current liabilities	55,886,060	8,997,640	21,896	(24,160,076)	40,745,520
Total liabilities	**117,758,118**	**14,934,682**	**3,078,809**	**(27,599,471)**	**108,172,138**

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

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
As reviewed by CODM	**64,491,605**	**100,916,321**	**70,866,013**	**64,905,596**
Scope of consolidation	30,279	(1,837,104)	(674,373)	46,874
Reclassifications	(18,003,405)	(8,175,960)	(14,877,312)	(11,302,054)
Other	(633,900)	(23,896,542)	12,112,290	(12,904,896)
As per IFRS consolidated financial statements	**45,884,579**	**67,006,715**	**67,426,618**	**40,745,520**

Geographical information

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

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

Revenue for the six months ended 30 June	**Russian Federation**	**Commonwealth of Independent States**	**Other**	**Total**
2011	59,117,093	1,639,605	2,352,763	63,109,461
2010	35,386,598	818,447	1,440,472	37,645,517

Major customers

The Group's sales to major customers for the six months ended 30 June 2011 and 2010 are set out in the table below:

	Six months ended 30 June	
	2011	**2010**
Customer 1	19,333,138	2,221,939
Customer 2	8,765,559	8,735,334
Customer 3	4,278,713	3,263,181
Total revenue	**32,377,410**	**14,220,454**

(thousands of Russian Roubles)

8. PROPERTY, PLANT AND EQUIPMENT

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

	Notes	Land	Buildings	Infrastructure	Plant and equipment	Other	Construction in progress	Total
Cost or valuation at 31 December 2009		385,205	12,928,537	1,961,782	27,223,306	2,052,180	26,306,103	70,857,113
Accumulated depreciation at 31 December 2009		–	(6,883,777)	(1,348,276)	(14,692,063)	(940,653)	–	(23,864,769)
Accumulated impairment at 31 December 2009		–	(100,065)	(40,587)	(280,624)	(4,112)	(377,976)	(803,364)
Carrying amount at 31 December 2009		**385,205**	**5,944,695**	**572,919**	**12,250,619**	**1,107,415**	**25,928,127**	**46,188,980**
Additions and transfers		9,149	1,443,569	54,264	1,760,836	24,559	1,726,285	5,018,662
Acquired in a business combination		60,618	758,670	–	326,544	21,278	23,818	1,190,928
Disposals (cost)		–	(43,419)	(20,655)	(144,286)	(23,439)	(50,588)	(282,387)
Disposals (accumulated depreciation)		–	6,356	4,899	106,356	16,467	–	134,078
Depreciation charge		–	(109,741)	(27,336)	(1,027,851)	(95,138)	–	(1,260,066)
Impairment recognised	18	–	–	–	–	–	(32,349)	(32,349)
Impairment reversed	18	–	–	–	4,015	–	194,609	198,624
Disposals of subsidiaries (cost)		–	(36)	–	(429)	(305)	–	(770)
Disposals of subsidiaries (accumulated depreciation)		–	9	–	59	157	–	225
Cost or valuation at 30 June 2010		454,972	15,087,321	1,995,391	29,165,971	2,074,273	28,005,618	76,783,546
Accumulated depreciation at 30 June 2010		–	(6,987,153)	(1,370,713)	(15,613,499)	(1,019,167)	–	(24,990,532)
Accumulated impairment at 30 June 2010		–	(100,065)	(40,587)	(276,609)	(4,112)	(215,716)	(637,089)
Carrying amount at 30 June 2010		**454,972**	**8,000,103**	**584,091**	**13,275,863**	**1,050,994**	**27,789,902**	**51,155,925**
Cost or valuation at 31 December 2010		485,850	18,575,798	2,447,979	38,434,172	2,268,362	21,435,800	83,647,961
Accumulated depreciation at 31 December 2010		–	(7,146,063)	(1,397,992)	(16,756,456)	(1,096,550)	–	(26,397,061)
Accumulated impairment at 31 December 2010		–	(100,064)	(40,587)	(263,392)	(4,113)	(220,523)	(628,679)
Carrying amount at 31 December 2010		**485,850**	**11,329,671**	**1,009,400**	**21,414,324**	**1,167,699**	**21,215,277**	**56,622,221**
Additions and transfers		1,051	1,696,135	112,814	6,874,376	443,851	(3,751,619)	5,376,608
Acquired in a business combination	6	1,334	1,168,293	–	148,606	7,956	11,174	1,337,363
Disposals (cost)		–	(88,000)	(8,264)	(502,727)	(70,671)	(60,515)	(730,177)
Effect of foreign currency exchange differences (cost)		1,139	23,503	–	10,771	1,977	158	37,548
Disposals (accumulated depreciation)		–	27,266	911	230,791	51,103	–	310,071
Disposals (accumulated impairment)		–	23,736	–	399	7,198	–	31,333
Depreciation charge		–	(200,632)	(36,691)	(1,944,601)	(125,670)	–	(2,307,594)
Effect of foreign currency exchange differences (depreciation)		–	(409)	–	(3,412)	(587)	–	(4,408)
Impairment recognised	18	–	(4,172)	(1,583)	(72,171)	(6,746)	(9,122)	(93,794)
Impairment reversed	18	–	71,054	–	37,663	184	8,681	117,582
Cost or valuation at 30 June 2011		489,374	21,375,729	2,552,529	44,965,198	2,651,475	17,634,998	89,669,303
Accumulated depreciation at 30 June 2011		–	(7,319,838)	(1,433,772)	(18,473,678)	(1,171,704)	–	(28,398,992)
Accumulated impairment at 30 June 2011		–	(9,446)	(42,170)	(297,501)	(3,477)	(220,964)	(573,558)
Carrying amount at 30 June 2011		**489,374**	**14,046,445**	**1,076,587**	**26,194,019**	**1,476,294**	**17,414,034**	**60,696,753**

(thousands of Russian Roubles)

At 30 June 2011, a number of capital works that in management's opinion will not be continued in the foreseeable future are shown net of an impairment provision the amount of which comprises RUB 220,964 thousand (31 December 2010: RUB 220,523 thousand). During the six months ended 30 June 2010, the Group reversed an impairment provision in amount of RUB 116,024 thousand for capitalised reconstruction of workshop No. 1, which was suspended in 1998 and had been standing unusable, but now is being utilised as service and office building for new LDP "Vysota 239" shop.

9. INVENTORY

	30 June 2011	31 December 2010
Raw materials	14,827,025	12,786,751
Work in progress	6,089,356	3,003,069
Finished goods and goods for resale	1,963,158	4,197,748
Allowance for obsolete and slow-moving inventory	(1,004,116)	(1,130,947)
Total inventory	**21,875,423**	**18,856,621**

10. PROMISSORY NOTES AND LOANS RECEIVABLE

	30 June 2011	31 December 2010
Promissory notes and loans receivable from related parties at interest rates as follows		
- Interest free	39,958	12,993
- 1% p.a.	10,582	11,542
- 10% to 13% p.a.	6,364	945,510
- 6.5% to 11% p.a.	186,001	–
- 17% p.a.	–	120,400
Promissory notes and loans receivable from third parties at interest rates as follows		
- Interest free	70,856	86,278
- MOSPRIME 1M + 5.7% p.a.	422,436	359,335
- 5% to 13% p.a.	484,474	496,449
- 13% to 20% p.a.	9,232	54,840
Allowance for impairment of promissory notes	(501,796)	(498,810)
Current promissory notes and loans receivable	**728,107**	**1,588,537**

The fair value of promissory notes does not differ significantly from their carrying value due to either having variable interest rates or being recently renegotiated.

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

	Six months ended 30 June	
	2011	2010
At 1 January	**(498,810)**	**(271,514)**
Allowance recorded (Note 18)	(5,586)	(1,500)
Allowance reversed (Note 18)	2,600	–
Loans receivable written-off during the year as uncollectible	–	238,988
At 30 June	**(501,796)**	**(34,026)**

The creation and release of allowance for impaired promissory notes and loans receivable were included in the consolidated statement of comprehensive income (Note 18). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(thousands of Russian Roubles)

11. TRADE AND OTHER RECEIVABLES

	30 June 2011	31 December 2010
Trade receivables	22,934,023	11,626,468
Interest receivables	865,011	2,512,847
Other receivables	515,575	799,104
Allowance for impairment of trade, other and interest receivables	(2,748,241)	(2,993,629)
Total financial assets	**21,566,368**	**11,944,790**
VAT and other taxes recoverable	3,014,843	2,606,783
Allowance for impairment of VAT and other taxes receivable	(293,725)	(293,921)
Advances and prepayments	8,166,930	6,544,075
Allowance for impairment of advances and prepayments	(369,335)	(373,602)
Total non-financial assets	**10,518,713**	**8,483,335**
Total trade and other receivables	**32,085,081**	**20,428,125**

Management believes that the fair value of accounts receivable does not differ significantly from their carrying amounts due to their short-term nature. No accounts receivable were renegotiated during the six months ended 30 June 2011 (the six months ended 30 June 2010: nil).

During 2011 and 2010, the Group made prepayments for shipment of hot rolled plates for newly commissioned large diameter pipe (LDP) facility “Vysota 239” to a foreign supplier in the amount of RUB 1,365,300 thousand and RUB 4,573,730 thousand respectively. Plates are to be delivered commencing from the 13th month but no later than the 19 month from the date of payment. Delivery schedule stipulates shipment starting from October 2011. As the plates are used in tube production, the Group treated these prepayments as part of working capital and classified as short-term assets.

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

	Trade, other and interest receivables		Advances and prepayments	
	2011	**2010**	**2011**	**2010**
At 1 January	**(2,993,629)**	**(2,843,511)**	**(373,602)**	**(353,947)**
Acquired in a business combination	(3,841)	(69,571)	(213)	(6,491)
Expense recorded (Note 18)	(176,509)	(293,424)	(136,044)	(50,061)
Allowance reversed (Note 18)	300,462	307,879	102,240	42,335
Expense of foreign currency translation differences	(3,285)	–	–	–
Receivables written-off during the period as uncollectible	128,395	46,126	38,284	8,327
Disposal of a subsidiary	166	6,608	–	1,719
At 30 June	**(2,748,241)**	**(2,845,893)**	**(369,335)**	**(358,118)**

12. OTHER CURRENT ASSETS

In 2008, the Group commenced construction of an industrial gas station, which it intended to use internally at its manufacturing sites. During 2010, the Group concluded it was not in the business of operating and producing gas and in December 2010, entered into an agreement with a third party to sell the industrial gas station upon completion of its construction. At that time, the Group will purchase its gas requirements from this third party. Management expects its subcontractor will complete the construction of this asset by the end of 2011. The Group has therefore reclassified its construction cost at 30 June 2011 of RUB 872,083 thousand from property, plant and equipment to other current assets. The remaining balance of RUB 156,807 thousand represents other assets related to the planned sale of this gas station.

(thousands of Russian Roubles)

13. BORROWINGS

	30 June 2011	31 December 2010
Non-current		
Term loans with fixed rates	3,175,560	3,012,431
Term loans with floating rates	12,583,272	11,244,082
Credit lines with fixed rates	16,726,951	20,312,310
Credit lines with floating rates	14,778,829	4,599,600
Finance lease liabilities	273,610	249,445
Promissory notes issued	4,003	3,816
Total non-current borrowings	**47,542,225**	**39,421,684**
Current		
Term loans with fixed rates	12,797,674	10,153,651
Term loans with floating rates	1,667,983	12,532,842
Credit lines with fixed rates	22,857,197	13,840,844
Credit lines with floating rates	8,778,320	5,578,549
Term loans due to related parties	21,000	44,913
Bonds payable	4,424,048	4,170,172
Promissory notes issued	2,664	42,359
Finance lease liabilities	129,520	124,644
Total current borrowings	**50,678,406**	**46,487,974**
Total borrowings	**98,220,631**	**85,909,658**

Bonds payable

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

In April 2008, the Company issued 8 million bonds at par value of RUB 1 thousand per bond ("Bond 03"). The bonds are repayable beginning 21 April 2015, the 2,548-th day following the date of placement. The bonds contain a buy back option by the holder or the Company beginning on 26 April 2012 equal to the amortised cost of the bonds on the date the option is exercised. The interest yield on the bonds amounts to 8.0% p.a. During the year ended 31 December 2010, the Group repaid 1,209 bonds for RUB 1,209 thousand. The carrying value of Bond 03 at 30 June 2011 was RUB 3,209 thousand (31 December 2010: RUB 3,209 thousand).

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

In December 2009, the Company issued 5 million bonds BO 01 at par value of RUB 1 thousand each. The bonds contain a buy-back option commencing 8 December 2011. The bonds are repayable beginning 4 December 2012, the 1,092-th day following the date of placement. The interest yield amounts to 16.5% p.a. In 2009, the Company repurchased 1,257,634 bonds for RUB 1,257,634 thousand. During the year ended 31 December 2010, the Group sold 418,149 bonds to third parties for RUB 428,606 thousand. During the six months ended 30 June 2011, the Group sold 247,388 bonds to third parties for RUB 261,820 thousand. The carrying value of the BO 01 at 30 June 2011 was RUB 4,420,839 thousand (31 December 2010: RUB 4,166,963 thousand).

(thousands of Russian Roubles)

Term loans and credit lines

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

During the period, the Group entered into additional borrowing facilities totalling RUB 21,859,878 thousand which comprised term loans of RUB 6,536,000 thousand and credit lines of RUB 15,323,878 thousand including the following:

- Various term loans totalling RUB 6,536,000 thousand fully drawn at period end are repayable from July 2011 to June 2014;
- Credit lines from various banks denominated in Russian Roubles totalling RUB 15,075,000 thousand are each repayable on dates from September 2011 to April 2016;
- Credit line denominated in EUR totalling RUB 149,412 thousand is repayable in full in December 2011;
- Credit line denominated in Czech koruna totalling RUB 99,466 thousand is repayable in full in July 2011.

The above additional borrowing facilities bear interest at rates varying between 8.2% and 12.5% and were used to retire debts and fund working capital.

In addition, at 30 June 2011, the Group had available undrawn amounts under credit lines totalling RUB 6,762,721 thousand, of which the RUB 4,447,577 thousand is denominated in Russian Roubles and the rest is in Euro and US Dollars.

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

	30 June 2011	31 December 2010
1 to 2 years	20,933,037	15,508,897
2 to 3 years	13,544,154	12,448,975
3 to 4 years	7,397,655	8,574,311
4 to 5 years	2,260,745	1,953,955
Beyond 5 years	3,133,023	686,101
Total non-current borrowings	**47,268,614**	**39,172,239**

At 31 December 2010, the Group was not in compliance with certain financial covenants contained in lending agreements with BNP Paribas and Bank of Moscow. As a result of these breaches, the long term portion of these borrowings in the amount of RUB 11,247,746 thousand was reclassified as a current obligation at 31 December 2010. At the reporting date of these financial statements the Group had remediated these breaches by obtaining waivers from the lenders. As a result, at 30 June 2011 the Group does not have any non-waived breaches of debt covenants.

The original maturity of the long-term borrowings recorded as current is as follows:

	30 June 2011	31 December 2010
1 to 2 years	–	6,180,651
2 to 3 years	–	1,569,728
3 to 4 years	–	491,870
4 to 5 years	–	494,510
Beyond 5 years	–	2,510,987
Total non-current borrowings	**–**	**11,247,746**

(thousands of Russian Roubles)

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

	Minimum lease payments		Present value of minimum lease payments	
	30 June 2011	**31 December 2010**	**30 June 2011**	**31 December 2010**
Due in 1 year	194,856	184,519	129,520	124,644
Due between 1 and 5 years	362,062	331,653	273,610	249,445
Total	**556,918**	**516,172**	**403,130**	**374,089**

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

Management believes that fair values of borrowings do not differ significantly from their carrying amounts.

14. REVENUE

	Six months ended 30 June	
	2011	**2010**
Domestic sales of steel pipes	48,774,484	28,388,440
Domestic sales of oilfield services	6,928,154	5,309,297
Domestic sales of scrap	3,255,885	1,527,701
Export of steel pipes	3,107,396	2,230,732
Export of oilfield services	884,972	28,187
Domestic sales of other goods	158,570	161,160
Total revenue	**63,109,461**	**37,645,517**

15. COST OF SALES

	Six months ended 30 June	
	2011	**2010**
Raw materials	34,337,775	17,998,407
Salaries and salary taxes	4,613,473	3,043,924
Deprecation and amortisation	2,007,147	1,030,941
Production overheads and repairs	1,989,407	962,390
Energy and utilities	1,841,205	1,295,132
Cost of goods for resale	1,790,088	1,788,251
Changes in balances of work in progress and finished goods	(722,131)	(143,966)
Changes in inventory allowance	(138,022)	(120,656)
Total cost of sales	**45,718,942**	**25,854,423**

(thousands of Russian Roubles)

16. DISTRIBUTION COSTS

	Six months ended 30 June	
	2011	**2010**
Transportation and customs expenses	2,187,930	2,240,879
Salaries and salary taxes	644,016	432,369
Packaging, storage and handling	374,871	126,118
Office expenditure	93,263	51,460
Commission	75,627	128,168
Advertising and marketing expenses	50,804	17,633
Operating lease expense	36,863	36,166
Depreciation and amortisation	29,976	35,018
Other	58,388	24,514
Total distribution costs	**3,551,738**	**3,092,325**

17. GENERAL AND ADMINISTRATIVE EXPENSES

	Six months ended 30 June	
	2011	**2010**
Salaries and salary taxes	1,314,379	807,683
Non-production overheads and repairs	995,307	557,343
Taxes other than income tax	541,402	369,734
Depreciation and amortisation	350,654	226,151
Consultancy, audit and legal services	260,931	61,719
Insurance	188,773	122,598
Operating lease expense/(income)	64,556	(81,409)
Auxiliary materials	18,938	6,149
Management services	6,978	361,012
Other	285,044	(29,109)
Total general and administrative expenses	**4,026,962**	**2,401,871**

In six months ended 30 June 2011, other operating expenses of RUB 213,077 thousand (six months ended 30 June 2010: RUB 214,885 thousand) consisted primarily of financial aid to employees and war veterans, donations to a health resort for employees and their families, donation to child day-care centres, football and hockey teams sponsorship. This line was reclassified in general and administrative expenses line and comparative statement of comprehensive income was restated.

18. REVERSAL OF IMPAIRMENT OF ASSETS

	Six months ended 30 June	
	2011	**2010**
Trade and other receivables (Note 11)	90,149	6,729
Property, plant and equipment (Note 8)	23,788	166,275
Promissory notes receivables (Note 10)	(2,986)	(1,500)
VAT recoverable allowance	–	8,978
Total reversal of impairment of assets	**110,951**	**180,482**

(thousands of Russian Roubles)

19. FINANCE INCOME AND COSTS

	Six months ended 30 June	
	2011	**2010**
Interest income on loans receivable	119,271	758,444
Dividend income	84,824	–
Unwinding of discount on trade receivables	–	34,290
Total finance income	**204,095**	**792,734**
Interest expense on borrowings	4,975,647	4,254,690
Finance charges under finance lease	40,973	16,623
Interest on employee benefits liabilities	19,882	20,039
Total finance costs	**5,036,502**	**4,291,352**

20. INCOME TAX

Income taxes comprise the following:

	Six months ended 30 June	
	2011	**2010**
Current tax	1,173,855	1,415,165
Deferred tax	146,266	(53,760)
Income tax expense	**1,320,121**	**1,361,405**

The Group has recorded the provision for income tax based on its estimated effective tax rate during the year ending 31 December 2011.

21. EARNINGS PER SHARE

For the six months ended 30 June 2011, basic earnings per share is calculated by dividing the profit attributable to shareholders of the parent company in the amount of RUB 4,157,891 thousand (six months ended 30 June 2010: profit RUB 3,057,478 thousand) by the weighted average number of ordinary shares outstanding during the six months ended 30 June 2011, excluding treasury shares, which comprised 445,551,981 shares (six months ended 30 June 2010: 459,729,438 shares).

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

(thousands of Russian Roubles)

22. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 30 June 2011 are detailed below:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Gross amount of trade and other receivables	–	664,250	625,034
Originated loans and promissory notes receivable	–	91,756	151,149
Trade and other payables	–	(826,940)	(3,932)
Loans payable	–	–	(21,000)

During six months ended 30 June 2011, the Group transferred debts of third parties to related parties at fair value of RUB 9,701 thousand under cession agreements (six months ended 30 June 2010: RUB 7,091 thousand).

Income and expense items with related parties in six months ended 30 June 2011 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	–	9,155	–
Purchases	–	(845,607)	–
Distribution expenses	–	(2,242)	–
General and administrative expenses	–	(97,667)	–
Finance income, net	–	618	37,842

At 30 June 2011, no guarantees were issued/received by the Group on behalf of related parties.

Transactional cash flows with related parties in six months ended 30 June 2011 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	–	(832,051)	(294,216)
Financing activities	–	–	–
Investing activities	–	(48,611)	2,499,684

(thousands of Russian Roubles)

At 31 December 2010, outstanding balances with related parties were as follows:

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

Income and expense items with related parties over six months ended 30 June 2010 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	517,769	569,396	207,010
Purchases	(9,996)	(350,763)	(1,110,504)
Distribution costs	–	(7,764)	(4,257)
General and administrative expenses	(432)	(488,253)	2,563
Finance income, net	6,401	9,476	41,052

Transactional cash flows with related parties in six months ended 30 June 2010 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	649,778	(1,245,908)	(1,178,052)
Financing activities	(21,132)	(502,742)	143,310
Investing activities	(120,400)	(1,594,091)	–

Directors' and key management remuneration

At 30 June 2011, the Board of Directors comprised 7 directors (31 December 2010: 7 directors). During the six months ended 30 June 2011, compensation of the Board amounted to RUB 13,275 thousand and was included in general and administrative expenses (six months ended 30 June 2010: nil).

Bonuses to executives are discretionary and can be accrued based on annual results, but the Group does not have any legal or constructive obligation to do so. During the six months ended 30 June 2011, short-term bonuses amounted to RUB 85,394 thousand were accrued and paid to executives of the Group (six months ended 30 June 2010: RUB 43,000 thousand).

Non-controlling interest

At 30 June 2011, RUB 152,852 thousand of a non-controlling interest of 26.4% of the net assets of Izhneftemash group of companies was attributable to an entity controlled by the Group's key management personnel (31 December 2010: RUB 163,934 thousand).

(thousands of Russian Roubles)

23. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings

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

Tax legislation

Management estimates that the Group has possible obligations from exposure to other than remote tax risks of RUB 726,569 thousand at 30 June 2011 (31 December 2010: RUB 533,543 thousand), which relate primarily to VAT and corporate profit tax. There is no liability recorded for this exposure as management does not believe payment is probable.

Capital expenditure commitments

At 30 June 2011, the Group had contractual capital expenditure commitments to acquire equipment and works of capital nature totalling RUB 2,206,777 thousand (31 December 2010: RUB 3,641,192 thousand).

Shares pledged and restricted

At 30 June 2011, the following Group's shares were pledged as collateral:

Company	Pledger	Pledgee	Year of pledge	Percent of share capital
ChelPipe	Group's shareholders	OJSC Gazprombank	2010	50%+1 share
ChelPipe	Group's shareholders	OJSC SBERBANK	2010	17.17%
ChelPipe	Group's shareholders	OJSC Bank of Moscow	2009	9.12%
ChelPipe	The Group	OJSC SBERBANK	2010	2.83%
ChelPipe	The Group	OJSC Bank of Moscow	2009	2.99%
PNPP	The Group	OJSC SBERBANK	2010	50%+1 share
PNPP	The Group	ZAO Raiffeisenbank	2009	20.00%
CJSC SKS "Metris", UTS	The Group	OJSC Bank of Moscow	2009	100.00%
Rimera	The Group	OJSC Gazprombank	2011	75%
SOT	The Group	OJSC SBERBANK	2011	50%+1 share
SOT	The Group	OJSC Bank of Moscow	2011	0.08%
OJSC "ALNAS"	The Group	ZAO Raiffeisenbank	2008	95%+1 share

24. FINANCIAL RISK MANAGEMENT

Fair value interest rate risk

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

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Management of the Group minimises exposure to fluctuations in interest rates by holding unused facilities both under fixed and variable interest rate loans. All loan agreements permit early redemption. Management of the Group is able to redeem and withdraw loans managing the exposure to the interest rate risk. In 2010 and during six months ended 30 June 2011, the Group's borrowings at variable rate were denominated in RUB, USD and Euro.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal, existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent major interest-bearing positions and include all types of loan agreements with floated and fixed rates. During six months ended 30 June 2011, based on the simulations performed, the impact on post-tax profit of a 100 basis points shift in interest rate would be an increase/decrease of RUB 314,150 thousand (six months ended 30 June 2010: the impact on post-tax profit would have been a decrease/increase of RUB 295,145 thousand).

25. EVENTS AFTER THE REPORTING PERIOD

In July-September 2011, the Group signed loan agreements to finance operating activities mainly with OJSC MBRD, OJSC Alfa-Bank, OJSC Sberbank and OJSC Bank Soyuz in the total amount of RUB 13,014,000 thousand with interest rates of 7.2-11.31% and maturing between 2012 and 2014. During July-September 2011 the Group repaid loans to various banks in the total amount of RUB 4,359,120 thousand.

In July 2011, the Group obtained rights over 11% stake in CJSC "TechnoInvest Aliance" (Note 6) and increased its ownership interest to 30%.