OJSC Chelyabinsk Tube-Rolling Plant

International Financial Reporting Standards Consolidated Financial Statements and Independent Auditor's Report

31 December 2008 and 2007

Contents

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Independent auditor's report

To the Shareholders of the OJSC Chelyabinsk Tube-Rolling Plant:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of OJSC Chelyabinsk Tube-Rolling Plant and its subsidiaries (the 'Group') which comprise the consolidated balance sheets as of 31 December 2008 and 2007 and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended and a summary of significant accounting policies and other explanatory notes.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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 auditor's 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 and 2007, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 and Note 19 to the accompanying consolidated financial statements which indicate that the Group was loss-making in 2008 and 2009 and did not comply with certain debt covenants as at 31 December 2008. These conditions, along with other matters as 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.

PRICEWATERHOUSECOOPERS

Independent auditor's report

Without qualifying our opinion, we draw attention to Note 2: Reissuance of Financial Statements which indicates that the previously issued financial statements for the years ended 31 December 2007 and 2008 on which we issued audit reports dated 20 June 2008 and 12 August 2009 respectively, have been hereby revised and reissued. As explained in Note 2, this revision is to include certain additional related party disclosures in compliance with IAS 24 "Related Party Disclosures".

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
24 January 2011

In thousands of Russian Roubles	Note	31 December 2008	31 December 2007
Assets			
Non-current assets			
Property, plant and equipment	10	36,523,977	14,851,363
Advances for capital construction		3,805,418	6,965,778
Goodwill	12	632,817	1,654,208
Intangible assets	11	726,684	305,683
Investments in associates	13	795,967	-
Promissory notes and loans receivable	15	58,450	-
Other non-current assets		19,574	3,530
Deferred income tax assets	28	165,857	-
Total non-current assets		**42,728,744**	**23,780,562**
Current assets			
Inventory	14	12,812,394	9,745,111
Trade and other receivables	16	16,977,806	10,542,593
Current income tax prepayment		1,130,883	553,347
Promissory notes and loans receivable	15	2,662,526	4,832,587
Cash and cash equivalents	17	1,542,552	681,899
Total current assets		**35,126,161**	**26,355,537**
Total assets		**77,854,905**	**50,136,099**
Equity			
Share capital	18	2,498,261	2,498,261
Legal reserve	18	70,857	70,857
Cumulative currency translation reserve		(2,999)	-
Treasury shares	18	(504,375)	(8,207)
Retained earnings		3,759,962	13,238,671
Equity attributable to the Company's equity holders		**5,821,706**	**15,799,582**
Minority interest		**1,214,428**	**4,647,100**
Total equity		**7,036,134**	**20,446,682**
Liabilities			
Non-current liabilities			
Preferred shares		166,198	-
Borrowings	19	2,343,317	4,577,224
Employee benefits		236,399	97,593
Share in net assets attributable to minority participants		-	92
Deferred income tax liability	28	675,387	651,813
Total non-current liabilities		**3,421,301**	**5,326,722**
Current liabilities			
Borrowings	19	52,824,590	19,235,706
Accounts payable and accrued expenses	21	12,954,913	3,358,919
Advances from customers		1,003,044	1,205,229
Unamortised balance of fair value of originated financial guarantees		28,628	97,841
Taxes payable	20	586,295	465,000
Total current liabilities		**67,397,470**	**24,362,695**
Total liabilities		**70,818,771**	**29,689,417**
Total liabilities and equity		**77,854,905**	**50,136,099**

Approved for issue and signed on behalf of the Management Board on 24 January 2011.

Alexander Fedorov
Chief Executive Officer

Sergei Moiseyev
Chief Financial Officer

The accompanying notes on pages 5 to 54 are an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2008	2007
Revenue	23	75,621,331	80,663,796
Cost of sales	24	(59,545,852)	(62,196,222)
Gross profit		**16,075,479**	**18,467,574**
Distribution costs	25	(2,289,675)	(2,674,203)
General and administrative costs	25	(5,926,682)	(4,521,079)
Social costs		(658,205)	(456,144)
Loss on disposal of property, plant and equipment		(166,213)	(108,448)
Impairment of assets	26	(10,819,172)	(457,123)
Operating (loss) / profit		**(3,784,468)**	**10,250,577**
Finance income	27	934,342	123,575
Finance costs	27	(4,573,172)	(1,397,246)
Foreign exchange (losses)/gains, net		(1,548,190)	13,391
Share of profit of associates		271,744	-
Other financial income and costs, net		(6,766)	11,683
(Loss) / profit before income tax		**(8,706,510)**	**9,001,980**
Income tax expense	28	(459,531)	(2,449,826)
(Loss) / profit for the period		**(9,166,041)**	**6,552,154**
(Loss) / profit is attributable to:			
Equity holders of the Company		(9,233,715)	5,325,786
Minority interest		67,674	1,226,368
Loss / profit for the period		**(9,166,041)**	**6,552,154**
Earnings per share for (loss) / profit per share attributable to the equity holders of the Company, basic and diluted (expressed in RR per share)	**29**	**(19.8)**	**11.7**

The accompanying notes on pages 5 to 54 are an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Note	2008	2007
Cash flows from operating activities			
(Loss) / profit before income tax		(8,706,510)	9,001,980
Adjustments for:			
Goodwill impairment	12,26	8,434,843	-
Excess in share of net assets acquired in a subsidiary over consideration	12, 25	(109,017)	(70,085)
(Amortisation)/recognition of fair value of originated financial guarantees	25	(69,213)	8,059
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	10,11,24, 25,26	2,163,875	1,627,470
Payroll related accruals and provisions		141,456	73,053
Impairment of trade and other receivables	26	883,000	31,408
Impairment of promissory notes	15,26	19,750	238,988
Change in inventory impairment provision	26	1,336,463	(28,922)
Losses on disposals of property, plant and equipment		166,213	108,448
Share of results of associates	13	(271,744)	-
Gain on disposal of subsidiary		(67,365)	-
Finance income	27	(934,342)	(123,575)
Finance expense	27	4,573,172	1,397,246
Loss/(gain) from sale of securities, net		6,434	(32,685)
Foreign exchange differences on non-operating items		2,020,599	(67,868)
Other non-cash movements		55,221	3,658
Operating cash flows before working capital changes		**9,642,835**	**12,167,175**
Increase in accounts receivable and prepayments		(1,759,864)	(3,144,473)
Increase in inventories		(2,652,706)	(1,227,283)
Decrease in trade and other payables		(305,709)	(2,518,695)
Cash generated from operations		**4,924,556**	**5,276,724**
Income taxes paid		(1,351,761)	(3,028,179)
Interest paid		(3,941,963)	(1,331,162)
Interest received		207,146	125,106
Net cash (used in) / from operating activities		**(162,022)**	**1,042,489**
Cash flows used in investing activities			
Purchase of property, plant and equipment and intangible assets		(12,389,843)	(8,717,849)
Proceeds from sale of property, plant and equipment		206,386	156,973
Purchase of promissory notes and loans given		(20,703,770)	(9,744,293)
Proceeds from sale of promissory notes and loans repaid		12,752,659	5,798,734
Acquisition of minority interest in PNTZ, Alnas, Basa MTS, AIZ		(7,632,636)	(440,770)
Acquisition of minority interest in Meta Invest		-	(256,008)
Acquisition of Zhilevskaya Metallobasa, net of cash acquired	7	-	(609,708)
Cash acquired in UTS, net of purchase consideration	7	-	109,453
Prepaid acquisition of Vtorchermet	7	-	(223,257)
Acquisition of Rimera, net of cash acquired	7	120,179	-
Acquisition of IFG net of cash acquired	7	(1,544,581)	-
Acquisition of RNGG net of cash acquired	7	(198,022)	-
Acquisition of INM net of cash acquired	7	(153,228)	-
Acquisition of VtorCherMet, net of cash acquired	7	5,448	-
Acquisition of Arkley UK, net of cash acquired	7	(62,672)	-
Disposal of other subsidiaries, net of cash disposed		(24,845)	-
Net cash used in investing activities		**(29,624,925)**	**(13,926,725)**
Cash flows from financing activities			
Proceeds from borrowings and promissory notes		118,982,801	59,804,808
Repayment of borrowings and promissory notes		(85,743,207)	(46,822,277)
Lease payments		(236,795)	-
Cash paid to acquire treasury shares	18	(2,358,820)	(4,670,220)
Cash received upon disposal of treasury shares	18	3,621	4,526,779
Net cash from financing activities		**30,647,600**	**12,839,090**
Net increase / (decrease) in cash and cash equivalents		**860,653**	**(45,146)**
Cash and cash equivalents at the beginning of the period		**681,899**	**727,045**
Cash and cash equivalents at the end of the period	17	**1,542,552**	**681,899**

	Attributable to the equity holders of the Company								
In thousands of Russian Roubles	**Share capital**	**Legal reserve**	**Retained earnings**	**Share premium**	**Treasury shares**	**Cumulative currency translation reserve**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2007	**2,498,261**	**23,619**	**8,079,588**	**23,346**	**(7,577)**	**-**	**10,617,237**	**3,836,942**	**14,454,179**
Profit for the period	-	-	5,325,786	-	-	-	5,325,786	1,226,368	6,552,154
Total recognised profit for the period	-	-	5,325,786	-	-	-	5,325,786	1,226,368	6,552,154
Treasury shares									
- Acquisitions	-	-	-	-	(4,670,220)	-	(4,670,220)	-	(4,670,220)
- Disposals	-	-	(119,465)	(23,346)	4,669,590	-	4,526,779	-	4,526,779
Increase in legal reserve	-	47,238	(47,238)	-	-	-	-	-	-
Business combinations	-	-	-	-	-	-	-	(416,210)	(416,210)
Balance at 31 December 2007	**2,498,261**	**70,857**	**13,238,671**	**-**	**(8,207)**	**-**	**15,799,582**	**4,647,100**	**20,446,682**
(Loss) / profit for the period	-	-	(9,233,715)	-	-	-	(9,233,715)	67,674	(9,166,041)
Total recognised profit for the period	-	-	(9,233,715)	-	-	-	(9,233,715)	67,674	(9,166,041)
Treasury shares									
- Acquisitions	-	-	-	-	(2,867,036)	-	(2,867,036)	-	(2,867,036)
- Disposals	-	-	(244,994)	-	2,370,868	-	2,125,874	-	2,125,874
Business combinations	-	-	-	-	-	-	-	(3,500,346)	(3,500,346)
Currency translation differences	-	-	-	-	-	(2,999)	(2,999)	-	(2,999)
Balance at 31 December 2008	**2,498,261**	**70,857**	**3,759,962**	**-**	**(504,375)**	**(2,999)**	**5,821,706**	**1,214,428**	**7,036,134**

1 OJSC Chelyabinsk Tube-Rolling Plant and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 and 2007 for OJSC Chelyabinsk Tube-Rolling Plant (the “Company” or “CTRP”) and its subsidiaries (together referred to as the “Group”).

The Company was incorporated on 21 October 1992 and is domiciled in the Russian Federation. The Company is Open Joint Stock Company and was set up in accordance with Russian regulations.

As at 31 December 2008 the immediate parent company of the Group was Mountrise Limited, which owned 76% of the Company’s shares (at 31 December 2007: Mountrise Limited).

As at 31 December 2008 the Group was ultimately controlled by Mr. A.I. Komarov (at 31 December 2007: Mr. A. I. Komarov).

Principal activity. The Group’s principal activities include the production and distribution of tubes and tube products for oil and gas pipelines, housing and utilities infrastructure and industrial applications. Since May 2008, when ZAO Rimera and its subsidiaries were acquired, the Group’s principal activities have also included oilfield services. The Group’s principal manufacturing facilities are based in Ural and West Siberia regions. Principal subsidiaries are disclosed in Note 6. All companies of the Group are incorporated under the Laws of the Russian Federation, except Arkley UK, which is incorporated under the law of the United Kingdom. At 31 December 2008, the Group employed approximately 31,603 employees (31 December 2007: 21,453).

Registered address and place of business. The Company’s registered address is Russian Federation, 454129, Chelyabinsk, Mashinostroiteley Str., 21.

2 Basis of Preparation and Significant Accounting Policies

***Statement of compliance*.** These consolidated financial statements of the Group and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention as modified by fair value as a deemed cost for the Company and fair value of identifiable assets and liabilities for the acquired subsidiaries.

Reissuance of Financial Statements. The 2007 and 2008 consolidated financial statements of the Company were issued on 20 June 2008 and on 12 August 2009 respectively. Those financial statements did not include certain related party disclosures as required by IAS 24 “Related Party Disclosures”. These re-issued financial statements covering both 2007 and 2008 incorporate the additional related party disclosures in Notes 9 and 32 and were approved for reissuance on behalf of the management board on 24 January 2011.

Going concern and basis of preparation. These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards on a going concern basis, which presumes that the Group will be able to realise its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The global credit market crisis has had a negative effect on the industry of the Group. In the three months ended 31 December 2008, the increased turmoil in the credit markets, sudden and rapid decline in construction industry and temporary suspension of a number of pipeline construction projects, the volatility in the price of oil, the recession in Russia and the slowdown of economic growth in the rest of the world created a substantially more difficult business environment. The liquidity position of the Group, as well as its operating performance, were negatively affected by these economic and industry conditions and by other financial and business factors, many of which are beyond the control of the Group.

As a result, the Group incurred a net loss on its operations and negative operating cash flow for the year ended 31 December 2008 and has breached certain debt covenants as described in Note 19. Therefore, these loans were classified as current in the accompanying balance sheets.

The Group's performance and liquidity situation has been significantly impacted by the worldwide economic crisis. During 2009, Group management took various actions, including significant cost-cutting, refinancing borrowings from lenders, mothballing loss making facilities and other activities aimed at improving operating margins. These actions include the following:

- Engaging independent professionals to examine the efficiency of the Group's inventory management system and to test the efficiency of metal usage at the Company and PNTZ;
- Implementing a new bonus system for sales, operating and finance directors in 2010 in order to improve working capital;
- Renegotiating loan covenants with the Bank of Moscow, Nordea Bank, European Bank of Reconstruction and Development ("EBRD"), BNP Paribas, Sberbank, Gazprombank and HVB in order to remedy financial covenant breaches; and

2 Basis of Presentation and Significant Accounting Policies (continued)

- Reorganising its corporate legal structure in a continuing effort of cost optimisation and to build a transparent consolidated corporate structure, upgrade operational and tax efficiency, optimize corporate governance and management system. Thus, in September 2010, SOT was merged with MZMZ and in October 2010, InvestFinansGroup Ltd., Evro-Aziatskaya Geofizichcskaya Companiya Ltd., Ugorskaya Geofizicheskaya Companiya Ltd. and Zapadno-Sibirskaya Geofizichcskaya Companiya Ltd. were all merged with Uganskneftegazgeofizika Ltd.

In addition, throughout this period the Group has continued to focus on its long-term strategy to become a leading supplier of integrated solutions for the oil and gas production and distribution sector in Russia. In connection with this, the Group has made various acquisitions including acquiring a trunk pipeline equipment business that manufactures a complete range of highly customised components for the construction of oil and gas pipelines in May and August 2010. These acquisitions were financed through bank borrowings.

The Group has prepared detailed cash flow projections in assessing its ability to finance its obligations and operations for the next 6 years. These projections are based on a number of assumptions including future revenues, the impact of integrating the acquired businesses and the impact of continued focus on cost containment. On this basis, the management believes that the Group will be able to continue as a going concern. While management believes, based on these projections, that it has the ability to finance its liabilities and fund its operations, the Group's losses in 2008-2009 and poor working capital position indicate the existence of a material uncertainty, which may cast significant doubt on the Group's ability to continue as a going concern.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards and Interpretations).

Impact of the ongoing global financial and economic crisis. The Group’s activities in all of its operating segments have been adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis. In the fourth quarter of 2008, the willingness of financial institutions to extend committed finance on a long-term basis has reduced significantly. At the same time, the recession affected most of the Group’s markets and the Group experienced lower demand for its products. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

Impact on liquidity

The availability of external funding in financial markets has significantly reduced. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

Impact on customers

Debtors of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments.

Due to decline in commodity prices, and liquidity constraints, combined with the depreciation of the Russian rouble and ongoing weakness in business performance it was resulted in impairment of goodwill and higher provisions for accounts receivable and inventory.

At 31 December 2008, the Group’s current liabilities exceeded its current assets by RR 32,271 million. The current liabilities at 31 December 2008, included RR 15,410 million of loans payable reclassified due to breach of certain debts covenants (Note 19). These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company’s and the Group’s ability to continue as a going concern and therefore the Company/Group may be unable to continue to realise assets and discharge liabilities in the normal course of business. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

The management monitors the compliance with the debt covenants on an ongoing basis.

In the first quarter 2009 the Group has implemented cost optimization measures aimed to reduce production and selling, general and administrative expenses. Cost cutting activities have been aimed to reduce staff costs, repairs, IT, transportation cost, legal services, advertising, cleaning, security services and optimize consumption of metal, auxiliary materials, energy resources.

Management is unable to predict all developments in the economic environment which could have an impact on the Group’s operations and consequently what effect, if any, they could have on the financial position of the Group. Management believes it is taking all the necessary measures to support the sustainability and growth of the Group’s business in the current circumstances.

Amendments of the consolidated financial statements after issue. The Company’s shareholders and management have the power to amend the consolidated financial statements after issue.

2 Basis of Presentation and Significant Accounting Policies (continued)

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

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the current carrying amounts in these financial statements.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

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

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

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

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

Minority interest. Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

Purchases of minority interest. Difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded as goodwill or negative goodwill. Gains and losses on the disposal of interests in subsidiaries where the parent retains control are reported within income statement.

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for in accordance with the purchase method of accounting.

Investments in associates**.** Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights.

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

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

2 Basis of Presentation and Significant Accounting Policies (continued)

Property, plant and equipment. Before transition to IFRS measurement of property, plant and equipment was based on statutory regulations. Upon transition to IFRS for the purpose of determining property, plant and equipment value as at 1 January 2003, the Company used an independent appraiser to perform a valuation of property, plant and equipment as historical cost and accumulated depreciation information was not readily available. Values determined by the appraiser formed deemed cost for IFRS financial statements. Subsequent additions to property, plant and equipment are recorded at purchase or construction cost.

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

Borrowing costs, inclusive of interest on borrowings to finance the construction of property, plant and equipment, are expensed in the period incurred.

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

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognized in profit or loss.

Depreciation. Land is not depreciated. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Buildings and infrastructure	20 to 50
Plant and machinery	10 to 30
Equipment and motor vehicles	5 to 15

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

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

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

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

Development assets are tested for impairment annually, in accordance with IAS 36 "Impairment of assets".

2 Basis of Presentation and Significant Accounting Policies (continued)

Other intangible assets. All of the Group's intangible assets, excluding goodwill, have definite useful lives and primarily include computer software and favourable leasehold interests.

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

Favourable leasehold interests are recognised at fair value as determined in the course of a subsidiary purchase price allocation and are amortised using straight-line method over the lease period not exceeding fifty years.

Acquired customer relationships are amortised using the straight-line method over their useful lives. Average useful live is 3 years.

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

Financial instruments – key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

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

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

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

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

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

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

Financial assets carried at amortized cost. The fair value of floating rate instruments approximates their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate their fair values. Cash and cash equivalents are carried at amortized cost which approximates their current fair value.

Liabilities carried at amortized cost. Fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Refer to Note 19 for the estimated fair values of borrowings.

2 Basis of Presentation and Significant Accounting Policies (continued)

Classification of financial assets. The Group classifies its financial assets as loans and receivables.

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

Initial recognition of financial instruments. Trading investments are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus or minus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

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

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

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognized in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill and subsequently for goodwill which is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilized. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

2 Basis of Presentation and Significant Accounting Policies (continued)

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

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are carried at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement. The primary factors that the Group considers whether a receivable is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue for more than 60 days and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'impairment of assets' expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'impairment of assets ' expenses in the income statement.

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

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

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

2 Basis of Presentation and Significant Accounting Policies (continued)

Value added tax. Value added tax related to sales is payable to tax authorities on the earliest of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognized in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Borrowings. Borrowings are carried at amortized cost using the effective interest method. Borrowing costs are recognized as an expense on a time proportion basis using the effective interest method. The Group does not capitalize borrowing costs.

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

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

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

Provisions for liabilities and charges. Provisions for liabilities and charges are recognized when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

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

Foreign currency translation. The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The Company’s functional currency and the Group’s presentation currency is the national currency of the Russian Federation, Russian Roubles (“RR”).

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

2 Basis of Presentation and Significant Accounting Policies (continued)

At 31 December 2008, the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 29.3804 (31 December 2007: US$ 1 = RR 24.5462). The official Euro to RR exchange rate at 31 December 2008, as determined by the CBRF, was 41.4411 (31 December 2007: 35.9332).

Revenue recognition. Revenues from sales of goods are recognized at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

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

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to the statement of income as cost of sales.

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

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

A defined benefit plan is a pension plan under which the Group pays pension benefit to an employee on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged in the statement of income and expense in the period in which they arise. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Pension plan liabilities under defined benefit plans are included in balance sheet line “Employee benefits”. The Group did not have significant pension plan assets as at reporting date.

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

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

Construction contracts. The Group applies the ‘percentage-of-completion method’ to determine the appropriate amount to recognize in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, revenue and costs is recognized by reference to the stage of completion of the contract activity at the end of the balance sheet date, measured based on proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. Contract costs are recognized as expenses when incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that they have been agreed with the customer and are capable of being reliably measured. The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognized profits (less recognized losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within ‘trade and other receivables’. The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognized profits (less recognized losses).

2 Basis of Presentation and Significant Accounting Policies (continued)

***Segment reporting*.** Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM").

Operating segments are represented by business units:

- engaged in business activities from which they may earn revenues and incur expenses (including from intersegment transactions);
- whose operating results are regularly reviewed by the chief operating decision maker with the view to make decisions about allocation of resources to the segment and segment's performance assessment;
- for which discrete financial information is available.

Information on an operating segment is separately reported if:

- reported segment revenue (external and inter-segment) is 10% or more of the combined revenue of all operating segments;
- the absolute amount of the segment's reported profit or loss is 10% or more of the greater of:
  - the combined reported profit of all operating segments that did not report a loss, and
  - the combined loss of all operating segments that reported a loss;
- the segment's assets are 10% or more of the combined assets of all operating segments.

Two or more operating segments may be combined (aggregated) and reported as one if they are economically similar.

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and separately disclosed, if management believes that information about the segment would be useful to the users of the financial statements.

Total external revenue reported by reportable segments constitutes at least 75% of the consolidated revenue.

3 Critical Accounting Estimates, and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as further detailed in Note 12.

Goodwill was allocated to the following cash-generating units: Uraltrubostal (UTS), Meta-Invest, Pervouralsky Novotrubniy Zavod (PNTZ) and Rimera. All CGUs were tested for impairment as of 31 December 2008 and 2007 (Note 12).

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 30.

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

Inventory obsolescence. The provision for obsolete inventory is based on the Group's ability to identify obsolete inventory and assess future perspective of its utilisation. The net realisable value was estimated based on the arm's length transactions performed immediately before or after the reporting date.

Assessment of the percentage of completion of construction contracts. Certain of the Group's revenue are recognized under the percentage of completion method. The estimation of the extent of revenue to be recognized under the percentage of completion method is the matter of management judgment based upon expectations of future costs to be incurred to complete the respective contracts. Differences between such estimate and actual results may bring to losses in future periods.

Useful life of property, plant and equipment. Depreciation of property, plant and equipment is charged based on the useful life as describe in Note 2. Useful lives are revised by competent employees of the Group on a regular basis.

3 Critical Accounting Estimates, and Judgments in Applying Accounting Policies (continued)

Pension plan liabilities. The pension plan liabilities are estimated using actuarial techniques and following assumptions.

	2008	2007
Discount rate	9% - 9.2%	6.8%
Inflation rate	6.6% - 7%	15.0%
Future salary increases	6.6% - 8%	15.0%
Future pension increases	6.6% - 7%	15.0%
Withdrawal rate	12.5% - 16.3%	22.0%

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

Sensitivity analysis for pension plan liabilities

In thousands of Russian Roubles	Net employee benefit 31 December 2008	Discount rate		Salary rate		Withdrawal rate	
		0.75%	-0.75%	0.75%	-0.75%	1.50%	-1.50%
CTRP	52,511	50,253	54,954	54,998	50,185	47,498	58,344
PNTZ	36,937	30,424	43,972	44,077	30,245	22,555	53,595
ALNAS	146,951	131,956	164,787	146,951	146,951	142,179	152,556
Total	**236,399**	**212,633**	**263,713**	**246,026**	**227,381**	**212,232**	**264,495**

Sensitivity analysis for foreign exchange risk. Following the increase in volatility of fluctuations of RR exchange rate against Euro and US$ during 2008 and beginning of 2009 the Group revised its estimate of reasonably possible change to 33% for US$ and 27% for Euro for the sensitivity analyses (Note 31).

4 Adoption of New or Revised Standards and Interpretations

IFRS 8 'Operating segments' was early adopted by the group in 2008. IFRS 8 replaces IAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. Comparatives as of 31 December 2007 and year ended 31 December 2007 have been restated.

Certain new interpretations became effective for the Group from 1 January 2008:

- ***IFRIC 11, IFRS 2 – Group and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);
- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008); and
- ***IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning on or after 1 January 2008).

These interpretations did not have any significant effect on the Group's consolidated financial statements.

Reclassification of Financial Assets – Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made. The Group has not elected to make any of the optional reclassifications during the period.

The Group did not adopt any other new or revised standards and interpretations.

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted:

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The amendment is not expected to have an impact on the Group's consolidated financial statements.

IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The amendment is not expected to have an impact on the Group's consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income which will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The amendment is not expected to have an impact on the Group's consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The amendment is not expected to have an impact on the Group's consolidated financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (issued in June 2007; effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

5 New Accounting Pronouncements (continued)

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have an impact on these consolidated financial statements as the Group does not apply hedge accounting.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009, with earlier application permitted). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have an impact on the Group's consolidated financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognized. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognized in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's financial statements.

5 New Accounting Pronouncements (continued)

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity settles its debt by issuing its own equity instruments. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt. The Group is currently assessing the impact of the interpretation on its financial statements.

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for.

Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010). The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The Group concluded that the revised standard does not have any effect on its financial statements.

The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses. Many of the principles of full IFRS for recognising and measuring assets, liabilities, income and expense have been simplified, and the number of required disclosures have been simplified and significantly reduced. The IFRS for SMEs may be applied by entities which publish general purpose financial statements for external users and do not have public accountability. The Group does not intend to adopt the IFRS for SMEs.

Classification of Rights Issues – Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

5 New Accounting Pronouncements (continued)

Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011). IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Improvements to International Financial Reporting Standards (issued in May 2010 and effective for the Group from 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010). The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments will not have any impact on the Group's financial statements.

5 New Accounting Pronouncements (continued)

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. The Group does not expect the amended interpretation to have an effect on its financial statements.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7, *Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. The amendment is not expected to have any impact on the Group's financial statements.

Disclosures—Transfers of Financial Assets – Amendments to IFRS 7 (issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group is currently assessing the impact of the amended standard on disclosures in its financial statements.

Unless otherwise described above, the new standards and interpretations are not expected to significantly affect the Group’s consolidated financial statements.

6 Subsidiaries

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

Subsidiary	Country of incorporation	Activities	31 December 2008 % share	31 December 2007 % share
SKS Metris	Russia	Tube distribution	100.00%	100.00%
Basa MTS	Russia	Tube distribution	98.19%	98.19%
PNTZ	Russia	Tube manufacturing	100.00%	61.53%
Tirus	Russia	Tube distribution	0.00%	97.00%
Basa MP	Russia	Tube distribution	70.00%	67.90%
Logistik Krasnoyarsk	Russia	Tube distribution	100.00%	97.00%
Logistik SPB	Russia	Tube distribution	100.00%	97.00%
Meta Invest	Russia	Rent of property	100.00%	99.99%
Zhilevskaya Metallobasa	Russia	Tube distribution	100.00%	100.00%
UTS	Russia	Tube distribution	99.00%	99.00%
UNP Vtorchermet	Russia	Metal scrap procuring	100.00%	-
Arkley UK	United Kingdom	Tube distribution	100.00%	-
Rimera	Russia	Oilfield service	99.9%	-
InvestFinanceGroup*	Russia	Oilfield service	100.00%	-
Alnas*	Russia	Oilfield service	75.05%	-
BENZ*	Russia	Oilfield service	56.51%	-
Alnas N*	Russia	Oilfield service	100.00%	-
IzhNefteMash*	Russia	Oilfield service	50.20%	-
TaymyrNefteRazvedka*	Russia	Oilfield service	100.00%	-
TomskNefteGazGeofizika*	Russia	Oilfield service	100.00%	-
UganskNefteGazGeofizika*	Russia	Oilfield service	99.00%	-

Rimera is a parent company of a group including 28 legal entities, none of which is individually material except the entities marked by *.

In 2007 Tirus was represented group of 27 legal entities (including Basa MP, Logistik Krasnoyarsk, Logistik SPB) none of which was individually material. In 2008 as a result of a business disposal (Note 7) only three legal entities – Basa MP, Logistik Krasnoyarsk and Logistik SPB formerly included in Tirus are remained to be the subsidiaries of the Company.

7 Business Combinations and Disposals

Acquisitions

Vtorchermet

On 10 January 2008 the Group acquired 100% of OJSC UNP Vtorchermet ("Vtorchermet"), a company engaged in procuring of ferrous and non-ferrous metal scrap, for a cash consideration of RR 223.3 million. The amount was prepaid in December 2007. The acquired subsidiary contributed revenue of RR 821 million and loss of RR 37 million. If the acquisition had occurred on 1 January 2008, consolidated revenue and net profit of the Group would not have changed significantly.

In thousands of Russian Roubles	Note	Acquiree's carrying amount	Attributed fair value*
Accounts receivable		99,999	99,999
Inventories		32,723	29,642
Cash and cash equivalents		5,448	5,448
Property, plant and equipment	10	32,715	148,753
Other assets		5,750	4,364
Borrowings		(44,796)	(44,796)
Trade and other payables		(81,459)	(83,390)
Deferred tax liabilities	28	-	(25,179)
Fair value of net assets of subsidiary			**134,841**
Fair value of acquired interest in net assets of subsidiary			**134,841**
Goodwill arising from the acquisition	12		88,416
Total purchase consideration			**223,257**
Less cash and cash equivalents of subsidiary acquired			(5,448)
Less amount prepaid in 2007			(223,257)
Net inflow of cash and cash equivalents on acquisition			**5,448**

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

Arkley UK

On 13 March 2008 Group acquired 100% of Arkley UK for a cash consideration of RR 131.8 million. Consideration of RR 131.8 million was paid in 2008. Since Arkley UK had already acted as a distributor of the products of the Group abroad, its acquisition did not contribute any material amount of revenue and profit to the Group. If the acquisition had occurred on 1 January 2008, consolidated profit of the Group would not have changed significantly.

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

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

Rimera

On 8 May 2008 the Group acquired 68% of ZAO Rimera with its subsidiaries engaged in oilfield services and equipment manufacturing for a cash consideration of RR 1.4 million. Consideration was fully paid in 2008. The acquired subsidiary contributed revenue of RR 6,614 million and a loss of RR 4,166 million. If the acquisition had occurred on 1 January 2008, consolidated revenue of the Group for the year ended 31 December 2008 would have increased by RR 3,730 million and consolidated loss - increased by RR 98 million.

7 Business Combinations and Disposals (continued)

Acquisitions (continued)

Rimera (continued)

In thousands of Russian Roubles	Note	Acquiree's carrying amount	Attributed fair value*
Accounts receivable		3,438,318	3,438,318
Cash and cash equivalents		121,539	121,539
Property, plant and equipment	10	2,975,254	3,062,406
Intangible assets	11	39,512	207,689
Inventories		1,107,924	1,107,924
Treasury shares		508,216	508,216
Loans receivable		2,816,100	2,816,100
Other assets		17,401	4,696
Deferred tax assets	28	181,574	97,307
Borrowings		(8,604,905)	(8,604,905)
Trade and other payables		(5,237,989)	(5,237,989)
Fair value of net assets of subsidiary		**(2,637,056)**	**(2,478,699)**
Minority interest			(994,866)
Fair value of acquired interest in net assets of subsidiary			**(3,473,565)**
Goodwill arising from the acquisition	12		3,474,925
Total purchase consideration			**1,360**
Less cash and cash equivalents of subsidiary acquired			(121,539)
Net inflow of cash and cash equivalents on acquisition			**120,179**

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

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

Invest Finance Group

On 22 May 2008 the Group acquired 100% of LLC Invest Finance Group with its subsidiaries engaged in oilfield services for a cash consideration of RR 1,558 million. Consideration was fully paid in 2008. The acquired subsidiary contributed revenue of RR 1,130 million and a profit of RR 93 million. If the acquisition had occurred on 1 January 2008, consolidated revenue of the Group for the year ended 31 December 2008 would have increased by RR 416 million and consolidated loss decreased by RR 68 million.

In thousands of Russian Roubles	Note	Acquiree's carrying amount	Attributed fair value*
Accounts receivable		376,211	375,744
Inventories		67,126	67,126
Cash and cash equivalents		13,356	13,357
Property, plant and equipment	10	232,006	288,616
Intangible assets	11	873	230,686
Investments		10,007	10,563
Deferred tax asset/(liability)	28	17,366	(53,491)
Borrowings		(58,206)	(58,206)
Trade and other payables		(309,702)	(309,702)
Fair value of net assets of subsidiary		**349,037**	**564,693**
Minority interest			(34,907)
Fair value of acquired interest in net assets of subsidiary			**529,786**
Goodwill arising from the acquisition	12		1,028,152
Total purchase consideration			**1,557,938**
Less cash and cash equivalents of subsidiary acquired			(13,357)
Net outflow of cash and cash equivalents on acquisition			**(1,544,581)**

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

7 Business Combinations and Disposals (continued)

Acquisitions (continued)

Regionalnoye Obedinenie Stroiteley Neftyanih i Gazovih Skvazhin

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

In thousands of Russian Roubles	Note	Acquiree's carrying amount	Attributed fair value*
Accounts receivable		230,457	230,457
Inventories		99,225	99,225
Cash and cash equivalents		12,291	12,291
Property, plant and equipment	10	59,195	356,535
Investments		2,776	2,776
Deferred tax asset/(liability)	28	10,352	(61,009)
Borrowings		(103,067)	(103,067)
Trade and other payables		(337,295)	(337,295)
Fair value of net assets of subsidiary		**(26,066)**	**199,913**
Minority interest			(13,467)
Fair value of acquired interest in net assets of subsidiary			**186,446**
Goodwill arising from the acquisition	12		23,867
Total purchase consideration			**210,313**
Less cash and cash equivalents of subsidiary acquired			(12,291)
Net outflow of cash and cash equivalents on acquisition			**(198,022)**

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

Izhneftemash

On 2 October 2008 Group acquired 50.2% of OJSC Izhneftemash. Consideration of RR 160 million was fully paid In 2008. The acquired subsidiary contributed revenue of RR 378 million and a profit of RR 223 million. If the acquisition had occurred on 1 January 2008, consolidated revenue of the Group for of the year ended 31 December 2008 would have increased by RR 895 million and consolidated loss decreased by RR 54 million.

In thousands of Russian Roubles	Note	Acquiree's carrying amount	Attributed fair value*
Cash and cash equivalents		6,994	6,994
Accounts receivable		412,732	412,732
Inventories		448,071	448,071
Property, plant and equipment	10	171,025	631,893
Intangible assets	11	10,087	74,584
Investment in associates		133,852	775,603
Deferred tax asset/(liability)	28	20,921	(261,544)
Preferred shares		(166,198)	(166,198)
Borrowings		(299,752)	(299,752)
Trade and other payables		(566,115)	(563,180)
Fair value of net assets of subsidiary		**171,617**	**1,059,203**
Minority interest			(519,747)
Fair value of acquired interest in net assets of subsidiary			**539,456**
Excess in share of net assets acquired in a subsidiary over purchase consideration	12		(105,522)
Income from associate			(273,712)
Total purchase consideration			**160,222**
Less cash and cash equivalents of subsidiary acquired			(6,994)
Net outflow of cash and cash equivalents on acquisition			**(153,228)**

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

7 Business Combinations and Disposals (continued)

Acquisitions (continued)

Zhilevskaya Metallobasa

On 20 February 2007 the Group acquired 100% of CJSC Zhilevskaya Metallobasa for a cash consideration of RR 611.3 million. The acquired subsidiary contributed revenue of RR 7.9 million and a loss of RR 1.9 million to the Group for the period from the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, consolidated revenue and consolidated profit of the Group would not have changed significantly.

In thousands of Russian Roubles	Note	Acquiree's carrying amount	Attributed fair value
Cash and cash equivalents		1,562	1,562
Property, plant and equipment	10	80,465	282,222
Intangible assets	11	-	83,840
Other assets		9,162	9,476
Deferred tax liability	28	-	(68,619)
Borrowings		(109,849)	(109,849)
Trade and other payables		(17,109)	(17,109)
Fair value of net assets of subsidiary			**181,523**
Fair value of acquired interest in net assets of subsidiary			**181,523**
Goodwill arising from the acquisition	12		429,747
Total purchase consideration			**611,270**
Less cash and cash equivalents of subsidiary acquired			(1,562)
Net outflow of cash and cash equivalents on acquisition			**(609,708)**

Consideration of RR 611.3 million was paid during the year ended 31 December 2007.

Fair values of assets acquired and liabilities assumed are based on a discounted cash flow model. The valuation of identifiable assets, liabilities and contingent liabilities was performed by an independent professional appraiser.

The goodwill which arose on acquisition of CJSC Zhilevskaya Metallobasa was allocated to CGU – CJSC Trade House Uraltrubostal which includes CJSC Zhilevskaya Metallobasa as a part of it.

The goodwill which arose on acquisition relates primarily to synergy effects from extension of the distribution network which the Group intends to obtain.

UTS

On 27 December 2007, the Group acquired from a related party a 99% interest in UTS for a consideration of RR 3.02 million. The acquired subsidiary did not contribute any significant revenue or profit to the Group for the period from the acquisition date through 31 December 2007.

If the acquisition had occurred on 1 January 2007, consolidated revenue and consolidated profit of the Group for 2007 would have increased by RR 1,651 million and RR 52 million, respectively.

In thousands of Russian Roubles	Note	Acquiree's carrying amount	Attributed fair value
Accounts receivable		9,145,715	8,997,323
Cash and cash equivalents		112,473	112,473
Property, plant and equipment	10	48,065	49,007
Intangible assets	11	-	44,749
Deferred tax asset	28	807	29,127
Other assets		224,055	195,373
Borrowings		(118,108)	(118,108)
Trade and other payables		(9,231,676)	(9,234,175)
Deferred tax liability	28	-	(1,926)
Fair value of net assets of subsidiary			**73,843**
Minority interest acquired			(738)
Fair value of acquired interest in net assets of subsidiary			**73,105**
Excess of share in net assets acquired over purchase consideration	25		(70,085)
Total purchase consideration			**3,020**
Less cash and cash equivalents of subsidiary acquired			(112,473)
Net inflow of cash and cash equivalents on acquisition			**109,453**

Consideration of RR 3.02 million was paid during 2007.

7 Business Combinations and Disposals (continued)

Acquisitions (continued)

UTS (continued)

Excess of share in net assets acquired over purchase consideration arising on the acquisition in the amount of RR 70,085 thousand was recognized in profit and loss statement as gain (Note 25).

Fair value of assets acquired and liabilities assumed are based on a discounted cash flow model. The valuation of identifiable assets, liabilities and contingent liabilities was performed by an independent professional appraiser.

Disposals

Tirus Snab

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

Net assets of Tirus Snab as of disposal date were negative and totalled RR 38 million. Details of the assets and liabilities disposed are as follows:

In thousands of Russian Roubles	**Note**	**1 January 2008**
Property, plant and equipment	10	258
Inventory		401
Accounts receivable		116,970
Cash and cash equivalents		8,802
Borrowings		(43,266)
Trade and other payables		(121,146)
Net assets		**(37,981)**

In thousands of Russian Roubles	**Year ended 31 December 2007**
Revenue	414,254
Cost of sales	(368,413)
Operating expenses	(70,086)
Operating loss	(24,245)
Finance costs, net	(57)
Loss before tax	(24,302)
Income tax	76
Net loss	(24,226)
Net cash used in operating activities	(397)
Net decrease in cash and cash equivalents	**(397)**

In 2008, the Group also disposed of two other subsidiaries, none of them individually material: TH Pervouralsktrubostal ("PTS") and Tirus Stainless. As at 1 January 2008 Tirus Stainless was a subsidiary of the Group engaged in the distribution of the Group's products to its final customers. Net assets of Tirus Stainless as of disposal date were negative and totalled RR 28,189 thousand. As at 1 January 2008 PTS was a subsidiary controlled through representation in the board of directors with all net assets attributed to minority interest. The Group ceases control in 2008. The effect of net assets disposed resulted in corresponding decrease in minority interest.

8 Segment Reporting

Business segments. Before the acquisition of ZAO Rimera and its subsidiaries in May 2008 the Group had only one business segment – tube production. Since the date when ZAO Rimera was acquired, the Group has been organised on the basis of two main business segments:

- Tube production – representing tubes, balloons and other related products;
- Oilfield services – representing integrated services and equipment manufacturing for oil and gas industrial sector such as oil-line pumps manufacturing, drilling, work over and technology services, formation evaluation services and other related products, works and services.

8 Segment Reporting (continued)

Transactions between the business segments are on normal commercial terms and conditions. Internal charges between segments have been reflected in the performance of each business segment. Other operations of the Group mainly comprise procuring metal scrap and other services, neither of which are of a sufficient size to be reported separately.

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

The chief operating decision maker assesses the performance of the operating segments based on a measure of EBITDA. Interest income and expenditure are allocated to segments.

The amounts provided to the chief operating decision maker with respect to total assets and total liabilities are measured in accordance with management accounting principles. These assets and liabilities are allocated based on the operations of the segment.

In the Group's consolidated interim financial statements for the six months ended 30 June 2008, the Group disclosed information that was based on IFRS. Upon further investigation of the reporting packs actually submitted and reviewed by the CODM, the information that is reviewed is a combination of statutory and management accounting. For the purposes of the consolidated financial statements for the year ended 31 December 2008, the Group has presented the information based on what is actually reviewed, including comparatives, and has provided reconciliations or narrative disclosure of the differences between this information and the information included in these consolidated financial statements. In its consolidated interim financial statements for the six months ended 30 June 2009, the Group will revise its 2008 disclosures to make the presentation basis consistent with the disclosures presented these financial statements.

Segment information for the main reportable business segments of the Group for the year ended 31 December 2008 and for the year ended 31 December 2007 is set out below:

As of 31 December 2008 and for the year then ended:

In thousands of Russian Roubles	**Tube production**	**Oilfield services**	**Other**	**Adjustments**	**Group**
Revenues from external customers	61,090,563	5,991,046	3,434,648	5,105,074	75,621,331
Inter-segment revenue	14,512	13,049	36	(27,597)	-
Total revenue	**61,105,075**	**6,004,095**	**3,434,684**	**5,077,477**	**75,621,331**
Depreciation and amortisation	(879,564)	(296,814)	(103,939)	(738,442)	(2,018,759)
Distribution costs	(2,598,456)	(120,140)	(312,362)	741,283	(2,289,675)
General and administrative costs*	(3,548,640)	(1,025,909)	(311,300)	(1,040,833)	(5,926,682)
Social costs	(419,602)	-	-	(238,603)	(658,205)
Interest expense, net	(2,483,830)	(768,639)	(18,428)	(367,933)	(3,638,830)
Foreign exchange losses less gains	(1,759,620)	-	1,928	209,502	(1,548,190)
Income tax expense	(803,346)	(115,505)	(8,773)	468,093	(459,531)
Profit/(loss) for the year	**1,816,232**	**(736,000)**	**(38,145)**	**(10,208,128)**	**(9,166,041)**
EBITDA	**5,982,972**	**444,958**	**92,995**	**(9,569,846)**	**(3,048,921)**
Adjustments:					
Depreciation and amortisation (Note 24, 25)	-	-	-	-	(2,018,759)
Interest expense, net (Note 27)	-	-	-	-	(3,638,830)
IFRS loss before tax	**-**	**-**	**-**	**-**	**(8,706,510)**

*Including relevant portion of depreciation and amortization expense.

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

In thousands of Russian Roubles	**Revenue**	**Distribution costs**	**General and administrative costs**
As reviewed by CODM	**70,543,854**	**(3,030,958)**	**(4,885,849)**
Scope of consolidation	1,743,721	(13,240)	(53,736)
Access of acquired share in net assets over consideration	-	-	(109,017)
Reclassifications	1,279,740	2,049,561	(828,848)
Railroad tariff	1,317,502	(1,317,502)	-
Other	736,514	22,464	(49,232)
As per IFRS financial statements	**75,621,331**	**(2,289,675)**	**(5,926,682)**

8 Segment Reporting (continued)

The difference in amortization and depreciation between the amounts reviewed by the CODM and IFRS financial information arose because the CODM reviews information based on statutory accounting, before adjustments arising from transformation to IFRS and as a result of purchase price adjustments on acquisitions.

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

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

In thousands of Russian Roubles	**Tube production**	**Oilfield services**	**Other**	**Adjustments**	**Group**
Current assets	39,710,743	6,523,000	2,528,889	(13,636,471)	35,126,161
Other segment assets	49,533,278	14,403,000	1,173,620	(22,381,154)	42,728,744
Total assets	**89,244,021**	**20,926,000**	**3,702,509**	**(36,017,625)**	**77,854,905**
Current liabilities	38,578,706	16,433,000	1,755,979	10,629,785	67,397,470
Other segment liabilities	23,563,854	484,000	858	(20,627,411)	3,421,301
Total liabilities	**62,142,560**	**16,917,000**	**1,756,837**	**(9,997,626)**	**70,818,771**
Capital expenditure	14,382,596	949,947	257,948	(3,200,648)	12,389,843
Impairment of assets	5,506,600	5,279,390	33,182	-	10,819,172

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

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

As of 31 December 2007 and for the year then ended:

In thousands of Russian Roubles	**Tube production**	**Other**	**Adjustments**	**Group**
Revenues from external customers	67,674,600	48,865	12,940,331	80,663,796
Inter-segment revenue	198,551	60	(198,611)	-
Total revenue	**67,873,151**	**48,925**	**12,741,720**	**80,663,796**
Depreciation and amortisation	(836,227)	(26,552)	(549,042)	(1,411,821)
Distribution costs	(2,256,527)	-	(417,676)	(2,674,203)
General and administrative costs*	(3,145,045)	(7,395)	(1,368,639)	(4,521,079)
Social costs	(376,772)	-	(79,373)	(456,145)
Interest expense, net	(517,945)	(454)	(755,272)	(1,273,671)
Foreign exchange losses less gains	17,896	(3,478)	(1,027)	13,391
Income tax expense	(2,906,666)	(1,743)	458,583	(2,449,826)
Profit/(loss) for the year	**9,411,639**	**5,285**	**(2,864,770)**	**6,552,154**
EBITDA	**13,672,477**	**34,034**	**(2,019,039)**	**11,687,472**
Adjustments:				
Depreciation and amortisation (Note 24,25)	-	-	-	(1,411,821)
Interest expense, net (Note 27)	-	-	-	(1,273,671)
IFRS profit before tax	**-**	**-**	**-**	**9,001,980**

*Including relevant portion of depreciation and amortization expense.

8 Segment Reporting (continued)

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

In thousands of Russian Roubles	Revenue	Distribution costs	General and administrative costs
As reviewed by CODM	**67,922,076**	**(2,256,527)**	**(3,152,440)**
Scope of consolidation	1,551,868	117,441	(324,707)
Gross-up of revenue for IFRS	12,429,860	-	-
Reclassifications	(2,981,824)	1,319,005	(401,101)
Railroad tariff	1,741,816	(1,741,816)	-
Other	-	(112,306)	(642,831)
As per IFRS financial statements	**80,663,796**	**(2,674,203)**	**(4,521,079)**

The difference in amortization and depreciation between the amounts reviewed by the CODM and IFRS financial information arose because the CODM reviews information based on statutory accounting, before adjustments arising from transformation to IFRS and as a result of purchase price adjustments on acquisitions.

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

Segment information related to the Group's financial position as at 31 December 2007:

In thousands of Russian Roubles	Tube production	Other	Adjustments	Group
Current assets	34,802,308	636,042	(9,082,813)	26,355,537
Other segment assets	19,786,613	731,261	3,262,688	23,780,562
Total assets	**54,588,921**	**1,367,303**	**(5,820,125)**	**50,136,099**
Current liabilities	18,663,926	22,985	5,675,784	24,362,695
Other segment liabilities	10,532,957	-	(5,206,235)	5,326,722
Total liabilities	**29,196,883**	**22,985**	**469,549**	**29,689,417**
Capital expenditure	7,796,080	683,903	237,866	8,717,849
Impairment of assets	457,123	-	-	457,123

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

In thousands of Russian Roubles	Current assets	Other assets	Current liabilities	Other liabilities
As reviewed by CODM	**35,438,350**	**20,517,874**	**18,686,911**	**10,532,957**
Consolidation procedure	-	(6,531,120)	-	-
Reclassifications	(7,304,634)	7,084,980	5,623,526	(5,843,179)
Impairment of assets	(824,531)	(545,338)	-	-
Revaluation of assets	-	2,658,842	-	-
Scope of consolidation	(174,219)	603,258	(7,224)	100,176
Difference in closing period accruals made in management accounts	(514,395)	194,132	(197,192)	(44)
Provisions	-	-	770,480	73,932
Deferred tax	-	(54,098)	(315,285)	553,728
Other	(265,034)	(147,968)	(198,521)	(90,848)
As per IFRS financial statements	**26,355,537**	**23,780,562**	**24,362,695**	**5,326,722**

Geographical information. The Group's operate in 3 main geographical areas. Sales are based on the country in which the customer is located, while total assets and capital expenditures are based on where the assets are located. All of the Group's assets and capital expenditures are located in Russia.

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

In thousands of Russian Roubles	Russian Federation	Commonwealth of Independent States	Other	Total
2008				
Revenue	65,274,658	5,762,036	4,584,637	75,621,331
2007				
Revenue	72,959,082	5,147,619	2,557,095	80,663,796

8 Segment Reporting (continued)

Major customers. The Group's sales to major customers for the year ended 31 December 2008 and for the year ended 31 December 2007 are set out in the table below:

In thousands of Russian Roubles	**Revenue attributable to Tube production**
2008	
OMK-Stal	4,195,281
Surgutneftegaz	2,198,921
Rosneft	1,926,627
Total	**8,320,829**
2007	
TH Uraltrubostal	58,393,000
ArmRosGasProm	1,495,766
Arkley UK	1,211,719
Total	**61,100,485**

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

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

9 Balances and Transactions with Related Parties

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

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2008 are detailed below. At 31 December 2008, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Associates**	**Entities controlled by the Group's controlling shareholder**	**Entity under significant influence of the Group's controlling shareholder**
Gross amount of trade and other receivables	190,105	630,859	362
Originated loans and promissory notes receivable (Note 15):			
- RR denominated, bearing interest of 9.1 - 13% p.a.	-	153,716	-
- US$ denominated, 13 - 16%	-	676,831	-
- RR denominated, bearing interest of 1% p.a.	-	280,570	-
Short-term lease receivable (Note 15)	-	14,108	-
Long-term lease receivable (Note 15)	-	58,450	-
Trade and other payable	(216,745)	(1,133,210)	(87,564)
Loans payable:			
- RR denominated , bearing interest of 9,1 - 16% p.a.	-	(2,526,269)	-
- RR denominated, bearing interest of 0,1% p.a.	(49,000)	-	-
Unamortised balance of fair value of originated financial guarantees	-	(1,603)	(16,000)

9 Balances and Transactions with Related Parties (continued)

The income and expense items with related parties for the year ended 31 December 2008 were as follows:

In thousands of Russian Roubles	Associates	Entities controlled by the Group's controlling shareholder	Entity under significant influence of the Group's controlling shareholder
Revenue	366,846	3,337,395	21,074
Purchases	(10,323)	(3,340,529)	(125,741)
Selling, general and administrative expenses	(269)	(740,621)	20,000
Finance income and expenses, net	(51)	225,465	68,075

The income and expense items with related parties for the period ended 31 December 2008 had the following structure:

	Associates	Entities controlled by the Group's controlling shareholder		Entity under significant influence of the Group's controlling shareholder	
	RR thousand	Thousand tons	RR thousand	Thousand tons	RR thousand
Sales of tubes	-	26.62	886,364	0.14	7,492
Sales of scrap metal	-	211.05	1,335,976	0.49	12,726
Sales of oilfield service and equipment	365,967	-	231,746	-	-
Other sales	879	-	883,309	-	856
Total revenues	**366,846**	**237.67**	**3,337,395**	**0.63**	**21,074**
Purchases of zinc	-	-	-	2.03	(121,239)
Purchases of scrap metal	-	134.51	(1,045,423)	-	-
Purchases of oilfield equipment for resale	(1,915)	-	(2,017,086)	-	-
Other purchases	(8,408)	-	(278,020)	-	(4,502)
Total purchases	**(10,323)**	**134.51**	**(3,340,529)**	**2.03**	**(125,741)**
Management services	-		(808,576)		-
Operating lease profit	-		223,962		-
Operating lease expenses	(269)		(265)		-
Information and consulting services	-		(210,803)		-
Other services	-		(6,437)		
Amortisation of fair value of originated financial guarantees	-		61,498		20,000
Total selling, general and administrative expenses	**(269)**		**(740,621)**		**20,000**

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

The cash flow items with related parties for the year ended 31 December 2008 were as follows:

In thousands of Russian Roubles	Associates	Entities controlled by the Group's controlling shareholder	Entity under significant influence of the Group's controlling shareholder
Operating activities	38,919	(2,810,684)	47,111
Financing activities	(59)	2,147,787	196,960
Investing activities	757	(1,384,109)	1,119,976

In 2008, the Group sold 80,457 Company's shares to related parties for a cash consideration of RR 3,621 thousand.

In 2008, the Group purchased 125,160 shares of PNTZ from related parties for a cash consideration of RR 90,991 thousand.

In 2008 the Group purchased 9.7% shares of Alnas from related parties for a cash consideration of RR 930,000 thousand (Note 12).

9 Balances and Transactions with Related Parties (continued)

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

In thousands of Russian Roubles	**Associates**	**Entity under significant influence of the Group's controlling shareholder**
Guarantees issued by the Group	-	6,956,049
Asset pledged by the Group	49,000	-

At 31 December 2007, the outstanding balances with related parties were as follows:

In thousands of Russian Roubles	**Entities controlled by the Group's controlling shareholder**	**Entity under significant influence of the Group's controlling shareholder**
Gross amount of trade and other receivables	419,272	60,002
Originated loans and promissory notes receivable (Note 15):		
- RR denominated, bearing interest of 11% p.a.	2,757,482	-
- RR denominated, bearing interest of 10% p.a.	111,574	-
- RR denominated, interest-free	234,909	-
- Euro denominated, 9.1%	-	1,196,576
- US$ denominated, 9.1%	490,925	-
Trade and other payables	(255,326)	(1,767)
Unamortised balance of fair value of originated financial guarantees	(62,299)	(36,000)

The income and expense items with related parties for the year ended 31 December 2007 were as follows:

In thousands of Russian Roubles	**Entities controlled by the Group's controlling shareholder**	**Entity under significant influence of the Group's controlling shareholder**
Revenue	61,784,430	26,821
Purchases	(6,953,296)	(207,802)
Selling, general and administrative expenses	(1,007,929)	-
Finance costs, net	57,606	(6,872)

The income and expense items with related parties for the year ended 31 December 2007 had the following structure:

	Entities controlled by the Group's controlling shareholder		**Entity under significant influence of the Group's controlling shareholder**	
	Thousand tons	RR thousand	Thousand tons	RR thousand
Sales of tubes	1,636.1	60,290,866	0.1	3,635
Sales of scrap metal	323.5	1,100,144	0.5	22,419
Other sales	-	393,420	-	767
Total revenues	**1,959.6**	**61,784,430**	**0.6**	**26,821**
Purchases of tubes	179.1	(5,824,352)	1.6	(51,128)
Purchases of zinc	2.0	(8,422)	2.1	(156,674)
Purchases of scrap metal	143.6	(764,178)	-	-
Purchases of coating materials	-	(26,340)	-	-
Other purchases	-	(330,004)	-	-
Total purchases	**324.7**	**(6,953,296)**	**3.7**	**(207,802)**
Management services		(854,114)		-
Operating lease income		104,249		-
Information and consulting services		(295,830)		-
Amortisation of fair value of originated financial guarantees		37,766		-
Total selling, general and administrative costs		**(1,007,929)**		**-**

9 Balances and Transactions with Related Parties (continued)

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

The cash flow items with related parties for the year ended 31 December 2007 were as follows:

In thousands of Russian Roubles	**Entities controlled by the Group's controlling shareholder**	**Entity under significant influence of the Group's controlling shareholder**
Operating activities	12,132,536	(253,291)
Financing activities	616,654	4,529,976
Investing activities	3,555,843	(1,116,710)

At 31 December 2007 the Group issued guarantees in favour of related parties – entities controlled by the Group's controlling shareholder in the amount of RR 6,604,209 thousand and RR 4,909,000 in the favor of related parties – entities under significant influence of the Group's controlling shareholder, which represent the maximum exposure for the guarantor.

In 2007, the Group sold 43,942,045 Company's shares representing 9.3% of the total authorized share capital to a party under significant influence of the Group's controlling shareholder for a cash consideration of RR 4,526,779 thousand (Note 18).

Transactions with Directors

As of 31 December 2008 The Board of Directors includes 6 directors (31 December 2007: 6 directors). In 2008 no compensation for benefit of the Board was accrued. In 2007 total compensation accrued and included in general and administrative expenses amounted to RR 370.3 million. As of 31 December 2008 this compensation was paid in full.

The Group abolished mechanism of calculation of the bonuses to its directors. The bonuses are discretionary and can be accrued based on the annual results, but the Group does not have any legal or constructive obligation to do so. No short-term employee benefits were accrued to executives of the Group (year ended 31 December 2007: no accruals).

Minority interest

As of 31 December 2008 RR 444,961 thousand of minority interest balance 21.36% of net assets of Alnas was attributable to related parties (31 December 2007: RR 3,271,608 thousand (34.6% of net assets of PNTZ)).

10 Property, Plant and Equipment

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

In thousands of Russian Roubles	Land	Buildings	Infrastructure	Plant and equipment	Other	Construction in progress	Total
Cost at 31 December 2006	**233,261**	**10,006,492**	**1,713,811**	**18,598,774**	**874,228**	**1,187,472**	**32,614,038**
Accumulated depreciation at 31 December 2006	**-**	**(6,367,180)**	**(1,204,481)**	**(11,048,837)**	**(519,729)**	-	**(19,140,227)**
Accumulated impairment at 31 December 2006	**-**	**(31,238)**	**(389)**	**(110,073)**	**(667)**	**(322,749)**	**(465,116)**
Carrying amount at 31 December 2006	**233,261**	**3,608,074**	**508,941**	**7,439,864**	**353,832**	**864,723**	**13,008,695**
Additions/Transfers	264	144,831	85,995	821,994	263,622	1,987,815	3,304,521
Acquired in a business combination (Note 7)	-	117,266	104,998	29,182	79,678	105	331,229
Disposals (cost)	-	(160,997)	(60,417)	(175,768)	(33,604)	(65,045)	(495,831)
Disposals (accumulated depreciation)	-	79,776	22,593	120,043	19,065	-	241,477
Depreciation charge (Note 24, 25)	-	(157,873)	(37,162)	(1,018,037)	(110,007)	-	(1,323,079)
Impairment accrued (Note 26)	-	(44,507)	(42,076)	(100,807)	(2,828)	(25,431)	(215,649)
Cost at 31 December 2007	**233,525**	**10,107,592**	**1,844,387**	**19,274,182**	**1,183,924**	**3,110,347**	**35,753,957**
Accumulated depreciation at 31 December 2007	**-**	**(6,445,277)**	**(1,219,050)**	**(11,946,831)**	**(610,671)**	**-**	**(20,221,829)**
Accumulated impairment at 31 December 2007	**-**	**(75,745)**	**(42,465)**	**(210,880)**	**(3,495)**	**(348,180)**	**(680,765)**
Carrying amount at 31 December 2007	**233,525**	**3,586,570**	**582,872**	**7,116,471**	**569,758**	**2,762,167**	**14,851,363**
Additions/Transfers	50,048	869,993	68,583	1,609,110	587,753	16,285,149	19,470,636
Acquired in a business combination (Note 7)	94,860	1,816,013	27,949	1,750,034	441,818	357,541	4,488,215
Disposals (cost)	(34)	(83,040)	(31,202)	(317,791)	(112,434)	(35,646)	(580,147)
Disposals (accumulated depreciation)	-	44,220	15,192	92,520	55,616	-	207,548
Depreciation charge (Note 24, 25)	-	(204,137)	(98,317)	(1,350,597)	(212,756)	-	(1,865,807)
Impairment accrued (Note 26)	-	(6,930)	-	(45,428)	(1,162)	(95,447)	(148,967)
Impairment reversed (Note 26)	-	17,178	1,528	82,430	-	-	101,136
Carrying amount at 31 December 2008	**378,399**	**6,039,867**	**566,605**	**8,936,749**	**1,328,593**	**19,273,764**	**36,523,977**
Cost at 31 December 2008	**378,399**	**12,710,558**	**1,909,717**	**22,315,535**	**2,101,061**	**19,717,391**	**59,132,661**
Accumulated depreciation at 31 December 2008	**-**	**(6,605,194)**	**(1,302,175)**	**(13,204,908)**	**(767,811)**	**-**	**(21,880,088)**
Accumulated impairment at 31 December 2008	**-**	**(65,497)**	**(40,937)**	**(173,878)**	**(4,657)**	**(443,627)**	**(728,596)**
Carrying amount at 31 December 2008	**378,399**	**6,039,867**	**566,605**	**8,936,749**	**1,328,593**	**19,273,764**	**36,523,977**

10 Property, Plant and Equipment (continued)

Bank borrowings were secured on property, plant and equipment with carrying value of RR 9,508 million (31 December 2007: RR 5,592 million) (Notes 19 and 30).

The Group uses 15.2 million square meters of land (2007: 10.0 million square meters). 58% of land plots are owned by the Group, 31% are rented from state authorities and 11% are occupied based on the existing land usage rights (2007: 79%, 3.8%,17.2% accordingly).

In 2008, 4.6 million square meters of land were acquired in a business combination with CGU Rimera.

As of 31 December 2008, assets under construction are shown net of an impairment provision for capitalized reconstruction of workshop No. 1, which was suspended in 1998, and a number of other capital construction that in the management's opinion will not be continued in the foreseeable future. At 31 December 2008, the amount of the provision comprises RR 443.6 million (31 December 2007: RR 348.2 million).

Included in plant and equipment are assets held under finance leases with a carrying value of RR 214,309 thousand (2007: none). Refer to Note 19.

11 Intangible Assets

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

In thousands of Russian Roubles	Software	Lease rights	Customer relationships	Development costs capitalised	Other	Total
Cost at 1 January 2007	**255,550**	**37,443**	**-**	**-**	**4,716**	**297,709**
Accumulated amortisation and impairment at 1 January 2007	**(141,743)**	**-**	**-**	**-**	**(4,274)**	**(146,017)**
Carrying amount at 1 January 2007	**113,807**	**37,443**	**-**	**-**	**442**	**151,692**
Additions	72,308	-	-	-	41,836	114,144
Acquired in a business combination (Note 7)	44,749	83,840	-	-	-	128,589
Amortisation charge	(73,748)	(2,358)	-	-	(12,636)	(88,742)
Carrying amount at 31 December 2007	**157,116**	**118,925**	**-**	**-**	**29,642**	**305,683**
Cost at 31 December 2007	**372,607**	**121,283**	**-**	**-**	**46,552**	**540,442**
Accumulated amortisation and impairment at 31 December 2007	**(215,491)**	**(2,358)**	**-**	**-**	**(16,910)**	**(234,759)**
Carrying amount at 31 December 2007	**157,116**	**118,925**	**-**	**-**	**29,642**	**305,683**
Additions	126,836	-	-	73,038	16,079	215,953
Disposals (cost)	(127,870)	-	-	-	(2,725)	(130,595)
Disposals (accumulated amortisation)	93,123	-	-	-	1,243	94,366
Amortisation charge	(124,949)	(2,600)	(34,245)	-	(12,603)	(174,397)
Impairment accrued (Note 26)	(18,800)	(78,485)	-	-	-	(97,285)
Acquired in business combination (Note 7)	21,809	-	267,577	154,473	69,100	512,959
Carrying amount at 31 December 2008	**127,265**	**37,840**	**233,332**	**227,511**	**100,736**	**726,684**
Cost at 31 December 2008	**393,382**	**121,283**	**267,577**	**227,511**	**129,006**	**1,138,759**
Accumulated amortisation and impairment at 31 December 2008	**(266,117)**	**(83,443)**	**(34,245)**	**-**	**(28,270)**	**(412,075)**
Carrying amount at 31 December 2008	**127,265**	**37,840**	**233,332**	**227,511**	**100,736**	**726,684**

12 Goodwill

Movements of goodwill allocated by cash generating units ("CGUs") and minority interest are presented in the table below:

	31 December 2008		31 December 2007	
In thousands of Russian Roubles	Goodwill	Minority interest	Goodwill	Minority interest
Balance at 1 January	**1,654,208**	**(4,647,100)**	**443,123**	**(3,836,942)**
Profit for the period	**-**	**(67,674)**	**-**	**(1,226,368)**
Increase of participation interest:				
Basa MTS (CGU UTS)	-	-	37,731	2,369
Meta-Invest (CGU Meta)	-	-	90,068	-
PNTZ (CGU PNTZ)	1,943,896	4,710,818	653,539	428,737
Alnas (CGU Rimera)	707,843	222,158	-	-
AIZ (CGU Rimera)	(3,495)	3,495	-	-
Acquired in business combination:				
Vtorchermet (CGU Meta)	88,416	-	-	-
UTS (CGU UTS)	-	-	(70,085)	(738)
Zhilevskaya Metallobasa (CGU UTS)	-	-	429,747	-
Arkley UK (CGU UTS)	114,620	-	-	-
Rimera (CGU Rimera)	3,474,925	(994,866)	-	-
IFG (CGU Rimera)	1,028,152	(34,907)	-	-
RNGG (CGU Rimera)	23,867	(13,467)	-	-
INM (CGU Rimera)	(105,522)	(519,747)	-	-
Decrease due to disposal:				
Tirus (CGU UTS)	-	682	-	-
PTS (CGU UTS)	-	109,571	-	-
Minority interest repurchased by subsidiaries:				
PNTZ (CGU PNTZ)	-	-	-	(14,157)
Alnas (CGU Rimera)	31,321	16,600	-	-
UNG (CGU Rimera)	16	4	-	-
UNGGF (CGU Rimera)	396	4	-	-
Excess in share of net assets acquired in a subsidiary over purchase consideration	**109,017**	**-**	**70,085**	**-**
Impairment of goodwill by CGU:				
PNTZ	(2,825,530)	-	-	-
UTS	(715,531)	-	-	-
Rimera	(4,893,782)	-	-	-
Balance at 31 December	**632,817**	**(1,214,429)**	**1,654,208**	**(4,647,100)**

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

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

In thousands of Russian Roubles	31 December 2008	31 December 2007
PNTZ	-	881,634
UTS	-	600,911
Meta-Invest	260,079	171,663
Rimera	372,738	-
Total carrying value of goodwill	**632,817**	**1,654,208**

UTS CGU encompasses all Group's distribution network and includes both the acquired in March 2008 Arkley UK Limited which presents the Group's distribution unit abroad (Note 7) and earlier identified UTS, Basa MTS, Tirus and Metris.

The goodwill which arose on acquisition of OJSC UNP Vtorchermet was allocated to CGU – Meta Invest. As a result of this transaction goodwill allocated on CGU – Meta Invest increased by RR 88 million (Note 7). The goodwill which arose on acquisition includes labour resources and potential synergy effect.

12 Goodwill (continued)

The goodwill which arose on acquisition of Arkley UK was allocated to CGU – UTS. As a result of this transaction goodwill allocated on CGU – UTS increased by RR 115 million (Note 7). At the reporting date it was fully impaired.

In May 2008 the Group acquired 68% stake of Rimera with its subsidiaries. Management considers it as a new CGU. As a result of this transaction goodwill in the amount of RR 3,475 million arose (Note 7). The goodwill which arose on acquisition relates to potential synergy effect from widening of range of rendered services and manufactured oilfield equipments for oil-producing industry.

In December 2008, the Group increased Rimera's charter capital by RR 4,700 million. As a result of this transaction the Group's share went up to 99.9%. Goodwill and minority interest haven't been changed.

In May 2008 the Group acquired 100% stake of IFG with its subsidiaries. As a result of this transaction goodwill in the amount of RR 1,028 million arose (Note 7). Management considers it as a part of CGU – Rimera. The goodwill which arose on acquisition relates to potential synergy effect from widening of range of rendered services and manufactured oilfield equipments for oil-producing industry.

In June 2008 the Group acquired 100% stake of RNGG with its subsidiaries. As a result of this transaction goodwill in the amount of RR 24 million arose (Note 7) and was allocated to Rimera – CGU. The goodwill which arose on acquisition relates to potential synergy effect from widening of range of rendered services and manufactured oilfield equipments for oil-producing industry.

In October 2008 the Group acquired 50.2% stake INM with its subsidiaries. As a result of this transaction negative goodwill in the amount of RR 106 million was recognised in the income statement.

In 2008 the Group acquired 38.47% of PNTZ for a consideration of RR 6,655 million increasing its participation to 100%. As a result of this transaction goodwill increased by RR 1,944 million and minority interest decreased by RR 4,711 million.

In 2008 Group acquired from related parties (Note 9) 9.7% Alnas for a consideration of RR 930 million increasing its participation to 75%. As a result of this transaction goodwill increased by RR 708 million and minority interest decreased by RR 222 million.

In 2008 Alnas acquired its shares that comprise 0.91% of its share capital for a consideration of RR 48 million. As a result of this transaction goodwill increased by RR 31 million and minority interest decreased by RR 17 million.

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

Goodwill impairment test

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

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

At 31 December 2008 the Group tested goodwill for impairment and determined following results using stated below key assumptions:

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

The recoverable amount of PNTZ CGU would be equal to its carrying value if the operating profit margin increase by 1.03% or used discount rate would be lower by 1.31% or terminal growth rate would be higher by 1.92%.

The recoverable amount of UTS CGU would be equal to its carrying value if the operating profit margin increase by 0.10% or used discount rate would be lower by 2.74% or terminal growth rate would be higher by 3.71%.

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

12 Goodwill (continued)

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

At 31 December 2007 the Group tested goodwill for impairment using following key assumptions for value-in-use calculations:

In thousands of Russian Roubles	PNTZ	UTS	Meta Invest
Excess of recoverable amounts over carrying values of CGU	17,675,885	4,159,219	1,124,479
Used key assumptions			
Operating profit margin	21.7% - 22.1%	21%	7% - 10%
Pre-tax discount rate	18.0%	17.4%	20.3%
Terminal growth rate	3%	3%	3%

13 Investment in Associates

In thousands of Russian Roubles	31 December 2008	31 December 2007
Carrying amount at 1 January	**-**	**-**
Fair value of net assets of associates acquired	797,934	-
Share of after tax results of associates	(1,967)	-
Carrying amount at 31 December	**795,967**	**-**

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

At 31 December 2008, the Group's interests in its associates and their summarized financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

In thousands of Russian Roubles	Total assets	Total liabilities	Revenue	Profit / (loss)	Effective interest held	Country of incorporation
Servis Podzemnogo Oborudovaniya	91,442	(29,143)	91,279	2,091	38%	Russia
TD Izhneftemash	403,179	(393,131)	339,922	(7,480)	32%	Russia
Companiya Izhneftemash	499,518	(103,091)	360	90	28%	Russia
Izhneftemash-Energosnab	1,504,831	(384,332)	1,986	786	28%	Russia
Region-Metall	3,593	(5,722)	-	(3)	32%	Russia
Total	**2,502,563**	**(915,419)**	**433,547**	**(4,516)**	**-**	**-**

14 Inventory

In thousands of Russian Roubles	31 December 2008	31 December 2007
Raw materials	8,272,681	5,644,337
Work in progress	2,201,007	1,310,233
Finished goods	4,145,046	2,898,399
Allowance for obsolete and slow-moving inventory	(1,806,340)	(107,858)
Total inventory	**12,812,394**	**9,745,111**

Inventories with a carrying value of RR 5,124 million were pledged as security for borrowings as at 31 December 2008 (31 December 2007: RR 3,774 million). Pledged inventory includes primarily raw materials (Notes 19 and 30).

15 Promissory Notes and Loans Receivable

In thousands of Russian Roubles	31 December 2008	31 December 2007
Present value of lease payments receivable (Note 9)	58,450	-
Non-current promissory notes and loans receivable	**58,450**	**-**
Promissory notes and loans to entities controlled by/under significant influence of the Group's shareholders at interest rate (Note 9)		
- Interest free	-	234,909
- 1% p.a.	280,570	-
- 6.5% to 11% p.a.	37,680	4,556,557
- 10% to 13% p.a.	792,867	-
Present value of lease payments receivable (Note 9)	14,108	-
Promissory notes and loans receivable from third parties at interest rate		
- Interest free, amount gross	277,850	238,988
- 9.1% to 12% p. a.	-	41,121
- 7.5% to 23% p. a.	1,515,965	-
Provision for impairment of promissory notes	(256,514)	(238,988)
Current promissory notes and loans receivable	**2,662,526**	**4,832,587**
Total promissory notes and loans receivable	**2,720,976**	**4,832,587**

All promissory notes and loans are denominated in Russian Roubles. As at 31 December 2008 promissory notes from third parties at gross value of RR 256,514 thousand were impaired in full (31 December 2007: RR 238,988 thousand). Fair value of the remaining promissory notes does not differ significantly from their carrying value.

Promissory notes and loans originated to entities controlled by the Group's shareholders were initially recognised at fair value and subsequently accounted at amortised cost with the effective interest of 15.2% p.a.

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

In thousands of Russian Roubles	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Finance lease payments receivable at 31 December 2008	**17,055**	**58,517**	**5,536**	**81,108**
Unearned finance income	(2,947)	(5,504)	(99)	(8,550)
Present value of lease payments receivable at 31 December 2008	**14,108**	**53,013**	**5,437**	**72,558**

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

In thousands of Russian Roubles	31 December 2008	31 December 2007
Finance lease receivables collateralised by:		
- equipment	962	-
- vehicles	71,596	-
Total finance lease receivables	**72,558**	**-**

As at 31 December 2008 the estimated fair value of finance lease receivables was RR 72,558 thousand. The carrying value was determined by discounting expected cash flows using interest rates from 0% p.a. to 1.33% p.a. calculated as implicit interest rate.

16 Trade and Other Receivables

In thousands of Russian Roubles	31 December 2008	31 December 2007
Trade receivables	11,046,544	8,045,599
Receivables for treasury shares sold	2,685,160	-
Interest receivable	295,841	32,035
Other receivables	250,271	250,655
Provision for impairment of trade receivables	(835,212)	(111,452)
Total financial assets	**13,442,604**	**8,216,837**
VAT and other taxes recoverable	2,752,460	1,123,949
Advances and prepayments	990,834	1,099,380
Advance for acquisition of subsidiary (Note 7)	-	223,257
Provision for impairment of advances and prepayments	(208,092)	(120,830)
Total non-financial assets	**3,535,202**	**2,325,756**
Total trade and other receivables	**16,977,806**	**10,542,593**

Management believes that fair value of accounts receivable does not differ significantly from their carrying amounts. No accounts receivable were renegotiated as of 31 December 2008 (31 December 2007: none).

The Group's receivables, denominated in currencies are disclosed in Note 31 (Foreign exchange risk).

As of 31 December 2008, trade receivables of RR 1,146,999 thousand (31 December 2007: RR 3,563,637 thousand) were individually impaired. The amount of the provision was RR 835,212 thousand as of 31 December 2008 (31 December 2007: RR 111,452 thousand). The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations or to balances with long periods of settlement. According to estimates, a portion of receivables is expected to be recovered. The ageing of these receivables is as follows:

In thousands of Russian Roubles	31 December 2008	31 December 2007
Below three months	1,995	3,161,256
3 to 6 months	623,575	264,398
Beyond 6 months	521,429	137,983
Total gross amount of impaired trade, other, interest accounts receivable	**1,146,999**	**3,563,637**

In 2007 the Group recognised revenue in the amount of notional invoice value, expecting that the invoice will be settled by the customer within contractual maturity. At year-end expected settlement date was estimated and impairment provision for overdue accounts receivable was accrued. As at 31 December 2007 the gross amount of impaired receivables where full cash collection is expected within the period exceeding contractual maturity comprised RR 3,161 million.

In 2008 the Group revised its estimate for revenue recognition and measured revenue at fair value of the invoices issued determined with reference to the expected collection period determined using historical fact pattern of payments from individual debtor, rather than contractual maturity. Upon receipt of notional cash amount of the invoice financial income is recognised as a difference between cash collected and fair value at the moment of revenue recognition. As of 31 December 2008 the accounts receivable recognised at fair value at inception were not included in the "impaired" category.

Change in estimates was treated prospectively from 1 January 2008.

The Group usually provides customers with average 25-60 days delay of payment. The ageing analysis of not impaired trade and other receivables, based on origination date is as follows:

In thousands of Russian Roubles	31 December 2008	31 December 2007
Below three months	5,096,258	4,759,600
3 to 6 months	2,027,186	2,364
Beyond 6 months	3,436,044	2,688
Trade accounts receivable not impaired	**10,559,488**	**4,764,652**

16 Trade and Other Receivables (continued)

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

In thousands of Russian Roubles	Trade and other receivables 2008	2007	Advances and prepayments 2008	2007
As of 1 January 2008	**(111,452)**	**(319,794)**	**(120,830)**	**(56,335)**
Provision accrued	(824,212)	(93,833)	(192,272)	(108,595)
Provision reversed	30,084	35,350	103,400	44,100
Reversed discount	-	91,570	-	-
Receivables written off during the year as uncollectible	27,947	175,255	1,610	-
Disposed in a subsidiary	42,421	-	-	-
As of 31 December 2008	**(835,212)**	**(111,452)**	**(208,092)**	**(120,830)**

The creation and release of provision for impaired receivables were included in the income statement (Note 26). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Other classes within trade and other receivables do not contain impaired assets.

17 Cash and Cash Equivalents

In thousands of Russian Roubles	31 December 2008	31 December 2007
Cash on hand and balances with banks, RR	1,352,292	641,681
Cash balances with banks, US$	28,291	40
Cash balances with banks, Euro, CHF, GBP	5,629	100
Term deposits in RR (interest rate: 5.5% - 8.0% p.a.)	112,000	-
Term deposits in Euro (interest rate: 1.8% p.a.)	10,796	-
Term deposits in US$ (interest rate: 4.25% - 4.5% p.a.)	-	40,078
Term promissory note	33,544	-
Total cash and cash equivalents	**1,542,552**	**681,899**

Balances with banks payable on demand except term deposit are non-interest bearing. The original maturity for term deposits is three months and less.

18 Share Capital

The nominal registered amount of the Company's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2008 is RR 472,383 thousand (31 December 2007: RR 472,383 thousand).

The total authorized number of ordinary shares is 472,382,880 shares (2007: 472,382,880 shares) with a par value of RR 1 per share (2007: RR 1 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

In 2007, the Group purchased 43,769,914 Company's shares representing 9.27% of the total authorized share capital for a cash consideration of RR 4,670,220 thousand and sold 43,942,045 Company's shares representing 9.3% of the total authorized share capital to a party under significant influence of the Group's controlling shareholder for a cash consideration of RR 4,526,779 thousand.

As of 31 December 2007, the Company held 80,457 treasury shares for a total of RR 8,207 thousand that comprise 0.02% of the total authorized share capital. At the date of Rimera acquisition along with other assets the Group acquired 5,133,500 Company's shares representing 1.1% of the total authorized share capital with fair value of RR 508,216 thousand (Note 7). In 2008, the Group purchased 24,298,694 Company's shares representing 5.1% of the total authorized share capital for a cash consideration of RR 2,358,820 thousand, and sold 24,252,568 Company's shares representing 5.1% of the total authorised share capital for a fair value of consideration receivable of RR 2,050,305 thousand, net of deferred tax of RR 75,569 thousand (Note 28). Accounts receivable for these shares mature in February 2010. As of 31 December 2008, the Company held 5,260,083 treasury shares for a total of RR 504,375 thousand which account for 1.11% of the total authorized share capital.

Share premium represents the excess of contributions received over the nominal value of shares issued. In 2008 the Group earned negative share premium of RR 244,994 thousand (2007: nil).

Legal reserve, accrued in accordance with Russian law and the Company's Charter, is RR 70,857 thousand as of 31 December 2008 (31 December 2007: RR 70,857 thousand).

18 Share Capital (continued)

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the net statutory profit as the basis for distribution. In 2008, the net statutory profit for the Company for the period as reported in the statutory reporting forms was RR 839.7 million (year ended 31 December 2007: RR 4,036.3 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount of the distributable reserves in these consolidated financial statements.

In 2008 and 2007, the Company did not declare or pay dividends.

19 Current and Non-Current Borrowings

In thousands of Russian Roubles	31 December 2008	31 December 2007
Non-current		
Term loans with fixed rates	13,723	2,151
Term loans with floating rates	-	1,572,218
Bonds payable	2,257,482	3,000,000
Promissory notes issued	3,145	2,855
Finance lease liabilities	68,967	-
Total non-current borrowings	**2,343,317**	**4,577,224**
Current		
Term loans with fixed rates	23,072,583	12,185,606
Term loans with floating rates	20,346,192	7,050,100
Term loans due to related parties (Note 9)	2,575,269	-
Bonds payable	6,607,779	-
Promissory notes issued	49,459	-
Finance lease liabilities	173,308	-
Total current borrowings	**52,824,590**	**19,235,706**
Total borrowings	**55,167,907**	**23,812,930**

In June 2005, the Company issued 3 million bonds at par value of RR 1 thousand each. The bonds are repayable starting from the 1820-th day following the date of placement. The interest yield is determined for each coupon and amounts to 9.5% p.a.

In April 2008, the Company issued 8 million bonds at par value of RR 1 thousand each. The bonds are short term as contain buy-back option starting from 27 October 2009. The bonds are repayable starting from the 2160-th day following the date of placement. The interest yield is determined for each coupon and amounts to 10.0% p.a. During the year ended 31 December 2008 the Company repurchased and sold bonds and as a result of these transactions the carrying amount of bonds payable as at 31 December 2008 comprised RR 6,607,779 thousand.

The Group's borrowings, denominated in currencies are disclosed in Note 31 (Foreign exchange risk).

The nominal interest rates at the balance sheet date were as follows:

In percent	RR	US$	EUR
Term loans with fixed rates	4.0 - 25.25	6.74 - 11.24	-
Term loans with floating rates	Mosprime + from 2.2 to 5.5 CBR RF+1,5	Libor + from 2.9 to 9.0	Euribor + from 0.225 to 3.1
Term loans due to related parties	0.1 - 16	-	-
Bonds payable	9.5 - 10.0	-	-

As of 31 December 2007 and for the year then ended:

In percent	RR	US$	EUR
Term loans with fixed rates	6.8 - 10.0	-	-
Term loans with floating rates	Mosprime + from 2.2 to 2.75 Mosibor + from 1.0 to 1.6	Libor + from 3.1 to 5.5	Euribor + from 0.29 to 3.1
Term loans due to related parties	-	-	-
Bonds payable	9.5	-	-

19 Current and Non-Current Borrowings (continued)

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

In thousands of Russian Roubles	31 December 2008	31 December 2007
1 to 2 years	2,271,205	350,946
2 to 3 years	-	3,349,108
3 to 4 years	-	349,450
4 to 5 years	-	349,715
Beyond 5 years	3,145	175,150
Total non-current borrowings	**2,274,350**	**4,574,369**

The Group did not comply with certain debt covenants for current bank borrowings denominated in Russian Roubles at 31 December 2008 in the amount of RR 18,375,832 thousand.

The Group failed to comply with certain debt covenants for non-current borrowings at 31 December 2008 in the amount of RR 15,410,354 thousand and they were reclassified to current debt (2007: RR 5,629,537 thousand). The original maturity of non-current loans with debt covenant in breach was as follows:

In thousands of Russian Roubles	31 December 2008	31 December 2007
Payable within one year	2,947,123	285,108
1 to 2 years	4,313,680	1,163,865
2 to 3 years	3,225,415	1,200,698
3 to 4 years	2,520,179	1,205,514
4 to 5 years	1,033,031	1,210,752
Beyond 5 years	1,370,926	563,600
Total non-current borrowings with debt covenants in breach	**15,410,354**	**5,629,537**

Borrowings and loans payable Related Parties were denominated in roubles at the fixed interest rate of 15.0% p.a. and mature in June 2009.

Difference between the effective interest rates from the nominal interest rates comprise 0.21 – 1.39%.

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

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

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

In thousands of Russian Roubles	Due in 1 year	Due between 1 and 5 years	Total
Finance lease payments at 31 December 2008	**190,738**	**74,507**	**265,245**
Less future finance charges on finance leases	(17,430)	(5,540)	(22,970)
Present value of lease payments at 31 December 2008	**173,308**	**68,967**	**242,275**

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

Finance lease liabilities collateralised by the leased assets as follows:

In thousands of Russian Roubles	31 December 2008
Finance lease liabilities collateralised by:	
- equipment	242,275
Total finance lease liabilities	**242,275**

As at 31 December 2008 the estimated fair value of finance lease liabilities was RR 242,275 thousand.

20 Taxes Payable

Current taxes payable are comprised of the following:

In thousands of Russian Roubles	**31 December 2008**	**31 December 2007**
Value added tax	161,675	198,466
Unified social tax	146,306	118,103
Personal income tax	56,090	53,584
Property tax	68,050	49,602
Income tax	58,536	2,339
Other taxes	50,490	42,906
Provisions for uncertain tax positions	45,148	-
Total taxes payable	**586,295**	**465,000**

21 Accounts Payable and Accrued Expenses

In thousands of Russian Roubles	**31 December 2008**	**31 December 2007**
Trade payables	11,332,450	2,213,328
Interest payable	457,727	72,637
Accrued liabilities and other creditors	381,200	190,048
Total financial liabilities	12,171,377	2,476,013
Wages and salaries payable*	783,536	882,906
Total accounts payable and accrued expenses	**12,954,913**	**3,358,919**

*Non-financial liabilities.

The Group's payable, denominated in currencies are disclosed in Note 31 (Foreign exchange risk).

22 Construction Contracts

The Group sales include revenues from construction contracts of RR 218,647 thousand. The status of contracts in progress at 31 December 2008 were as follows:

In thousands of Russian Roubles	**31 December 2008**	**31 December 2007**
The aggregate costs incurred	273,539	-
Recognised losses	(54,892)	-
Less: progress billings	(218,647)	-
Payable to customers for contract work	-	-

23 Revenues

In thousands of Russian Roubles	**2008**	**2007**
Domestic sales of tubes	53,931,413	69,343,319
Domestic sales of oilfield services	7,861,787	-
Domestic sales of other goods	3,481,458	3,616,639
Export of tubes	9,852,483	7,703,838
Export of oilfield services	494,190	-
Total revenue	**75,621,331**	**80,663,796**

24 Cost of Sales

In thousands of Russian Roubles	**2008**	**2007**
Raw materials	43,686,085	42,089,172
Salaries and salary taxes	5,645,500	4,257,342
Deprecation and amortization	1,426,928	1,200,853
Energy and utilities	2,210,478	1,859,257
Production overheads and repairs	2,340,402	2,255,684
Cost of goods for resale	5,447,861	10,640,739
Changes in balances of work in progress and finished goods	(1,211,402)	(106,825)
Total cost of sales	**59,545,852**	**62,196,222**

25 Distribution, General and Administrative Costs

In thousands of Russian Roubles	2008	2007
Transportation and customs expenses	1,761,956	2,491,227
Commission	323,302	68,291
Advertising and marketing expenses	204,417	114,685
Total distribution expenses	**2,289,675**	**2,674,203**
Taxes other than income tax	575,320	384,845
Insurance	236,897	249,243
Salaries and salary taxes	2,372,465	1,828,822
Amortisation of fair value adjustment of accounts receivable of a subsidiary acquired	(224,933)	-
Auxiliary materials	177,003	195,007
Non-production overheads and repairs	1,218,151	327,960
Management and professional services	972,574	1,370,540
Operating lease income	(251,628)	(37,005)
Deprecation and amortization	591,831	210,968
Gain on disposal of subsidiary	(67,365)	-
(Amortisation)/recognition of fair value of originated guarantees	(69,213)	8,059
Loss attributable to minority shareholders	-	3,658
Excess in share of net assets acquired in a subsidiary over purchase consideration	(109,017)	(70,085)
Other gains and losses – net	504,597	49,067
Total general and administrative expenses	**5,926,682**	**4,521,079**

Total depreciation, amortisation and staff cost in cost of sales and general and administrative expenses amounted to RR 2,019 million (year ended 31 December 2007: RR 1,412 million) and RR 8,018 million (year ended 31 December 2007: RR 6,086 million) respectively.

Social costs disclosed in income statement mainly consist of financial aid to employees and war veterans, donations to a health resort for employees and their families, donation to child day-care centres, football and hockey teams sponsorship.

26 Impairment of Assets

In thousands of Russian Roubles	Note	2008	2007
Accrual of impairment of goodwill	12	8,434,843	-
Accrual of impairment of intangible assets	11	97,285	-
Accrual of impairment of property, plant and equipment and construction in progress	10	47,831	215,649
Accrual/(reversal) of impairment of inventories	14	1,336,463	(28,922)
Accrual of impairment of trade and other receivables	16	883,000	31,408
Accrual of impairment of promissory notes receivables	15	19,750	238,988
Total impairment of assets		**10,819,172**	**457,123**

27 Finance Costs and Income

In thousands of Russian Roubles	2008	2007
Interest cost on borrowings	4,520,037	1,397,246
Finance charges under finance lease	31,769	-
Interest on employee benefits liabilities	21,366	-
Total finance costs	**4,573,172**	**1,397,246**
Interest income on loans receivable	665,853	123,575
Unwinding of the discount of accounts receivables	266,730	-
Finance income under finance lease	1,759	-
Total finance income	**934,342**	**123,575**

28 Income Tax

Income taxes comprise the following:

In thousands of Russian Roubles	**2008**	**2007**
Current tax charge	830,161	2,678,307
Deferred tax	(253,613)	(228,481)
Impact of change in Russian tax rate	(117,017)	-
Income tax expense for year ended 31 December 2008	**459,531**	**2,449,826**

During the year, as a result of the change in the Russian Corporation Tax rate from 24% to 20% that was substantively enacted on 26 November 2008 and that will be effective from 1 January 2009, deferred tax balances have been remeasured.

Reconciliation between the theoretical and actual income tax charge is provided below.

In thousands of Russian Roubles	**2008**	**2007**
IFRS (loss) / profit before income tax	**(8,706,510)**	**9,001,980**
Theoretical tax charge at statutory rate (2008: 24%; 2007: 24%)	(2,089,562)	2,160,475
Remeasurement of deferred tax – change in Russian tax rate	(117,017)	-
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Goodwill impairment	2,047,710	-
- Excess of share in net assets acquired in a subsidiary over purchase consideration	(26,164)	(16,821)
- Taxes, fines and penalties	58,823	4,728
- (Gain)/loss on disposal of investments and property, plant and equipment	(17,436)	(8,626)
- Social costs	118,053	82,116
- Non-deductible employee benefits	29,090	93,302
- Other non-deductible expenses	147,780	134,652
- (Gain)/loss on disposal subsidiary	(15,067)	-
- Change in measurement of inventory balances	51,403	-
- Unrecognised deferred tax assets	271,918	-
Income tax expense for year ended 31 December 2008	**459,531**	**2,449,826**

28 Income Tax (continued)

Differences between IFRS and Russian tax legislation give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2007: 24%).

In thousands of Russian Roubles	31 December 2006	(Charged) credited to profit or loss	Acquired in a business combination	31 December 2007	(Charged) credited to profit and loss	Acquired in a business combination	(Charged) credited to equity	31 December 2008 (24%)	Impact of change in Russian tax rate	31 December 2008 (20%)
Tax effects of deductible temporary differences:										
Tax effect of originated financial guarantees	21,548	(9,064)	-	12,484	(5,614)	-	-	6,870	(1,144)	5,726
Tax effect of accounts receivable	80,225	12,449	26,628	119,302	102,352	60,117	-	281,771	(46,962)	234,809
Tax effect of accounts payable and accruals	46,526	5,783	-	52,309	5,703	217,750	-	275,762	(45,960)	229,802
Tax effect of treasury shares	-	-	-	-	-	-	75,569	75,569	-	75,569
Tax effect of other deductible temporary differences	3,116	30,714	-	33,830	(17,516)	47,578	-	63,892	(10,649)	53,243
Losses carried forward	-	-	-	-	144,597	47,227	-	191,824	(31,971)	159,853
Tax effect of inventories	(41,718)	77,736	-	36,018	85,596	105,683	-	227,297	(37,883)	189,414
Deferred tax asset	**109,697**	**117,618**	**26,628**	**253,943**	**315,118**	**478,355**	**75,569**	**1,122,985**	**(174,569)**	**948,416**
Tax effects of taxable temporary differences:										
Tax effect of investment in associates	-	-	-	-	-	(154,020)	-	(154,020)	25,670	(128,350)
Tax effect of property, plant, equipment and intangible asset	(937,037)	127,491	(70,545)	(880,091)	209,239	(442,902)	-	(1,113,754)	185,626	(928,128)
Tax effect of borrowings and loans	(9,037)	(16,628)	-	(25,665)	(58,416)	-	-	(84,081)	14,013	(70,068)
Tax effect of other taxable temporary differences	-	-	-	-	59,590	(79,654)	-	(20,064)	3,341	(16,723)
Deferred tax liability	**(946,074)**	**110,863**	**(70,545)**	**(905,756)**	**210,413**	**(676,576)**	**-**	**(1,371,919)**	**228,650**	**(1,143,269)**
Unrecognised deferred tax assets	**-**	**-**	**-**	**-**	**(271,918)**	**(105,695)**	**-**	**(377,613)**	**62,936**	**(314,677)**
Total net deferred tax liability	**(836,377)**	**228,481**	**(43,917)**	**(651,813)**	**253,613**	**(303,916)**	**75,569**	**(626,547)**	**117,017**	**(509,530)**

As of 31 December 2008 the unrecognised deferred tax liability associated with investment in subsidiaries amounted to RR 670.4 million (31 December 2007: RR 437.7 million).

29 Earnings per Share

Basic earnings per share are calculated by dividing the loss attributable to equity holders of the Company in the amount of RR (9,233,715) thousand (2007: profit RR 5,325,786 thousand) by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares, which comprised 465,636,531 shares (2007: 455,168,975 shares).

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share.

30 Contingencies, Commitments and Operating Risks

***Legal proceedings*.** During years ended 31 December 2008 and 2007 the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated interim financial statements.

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

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

As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As of 31 December 2008 and 2007 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice in this respect is contradictory.

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

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

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

In addition to the matters above, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RR 970.5 million as at 31 December 2008 (31 December 2007: RR 497.6 million) which relate primarily to VAT and Corporate profit tax.

Capital expenditure commitments. At 31 December 2008 the Group had contractual capital expenditure commitments to acquire equipment and work of capital nature totalling RR 11,037 million (31 December 2007: RR 13,949 million).

30 Contingencies, Commitments and Operating Risks (continued)

Guarantees. Guarantees are irrevocable assurances that the Group will make payments in the event that the other party cannot meet its obligations.

The Group has guaranteed the following obligations.

At 31 December 2008, the Group recognized RR 111 million of financial guarantee provided to Sberbank expiring in January-July 2009 as security of a third party's credit commitments denominated in US$ in the equivalent of RR 111 million. Fair value of the financial guarantee issued was immaterial.

At 31 December 2008, the Group recognized RR 5,876 million (2007: RR 4,909 million) of financial guarantee provided to Bank of Moscow expiring in November 2009 as security of a credit commitments of a party under significant influence of the Group's controlling shareholder denominated in US$ in the equivalent of RR 5,876 million. Fair value of the financial guarantee issued was measured at RR 36 million and amortized to the amount of RR 16 million (2007: carrying value RR 36 million) (Note 9).

At 31 December 2008, the Group recognized RR 1,645 million of financial guarantee to Gazprombank expiring in May 2009 as an irrevocable assurance securing a related party's credit commitments with a maximum level of exposure for the Group at 31 December 2008 in the amount of RR 1,005 million. Fair value of the financial guarantee issued was measured at RR 0.9 million.

The Group has received the following guarantees.

At 31 December 2008 the Group received guarantees in the amount of RR 2,750 million to Unicreditbank guarantying Group's liabilities of compulsory repurchase of minority interest's shares of PNTZ. At 31 December the Group received guarantees in the amount of RR 2.5 million to Gazprombank guarantying Group's obligation to pay customs fees, and RR 8.5 million to Metallinvestbank guarantying Group's liabilities to administrators of tenders.

At 31 December 2008 the Group received guarantees totalling RR 1,740 million, which represents the maximum risk exposure to the guarantor. No guarantees were provided by the related parties. The guarantees were received primarily from the banks to underwrite the obligations of suppliers.

Assets pledged and restricted. The Group has the following assets pledged as collateral:

		31 December 2008		31 December 2007	
In thousands of Russian Roubles	**Note**	**Asset pledged, carrying value**	**Related liability**	**Asset pledged, carrying value**	**Related liability**
Raiffeisen Bank	19	532,659	2,072,612	325,754	-
HVB	19	3,037,180	2,031,159	-	-
EBRD	19	3,272,428	6,108,055	1,674,972	1,860,148
SBERBANK	19	2,574,050	1,912,038	3,023,205	1,775,000
Bank of Moscow	19	91,312	2,100,000	567,610	-
Property, plant and equipment	10	**9,507,629**	**14,223,864**	**5,591,541**	**3,635,148**
SBERBANK	19	3,035,981	2,533,254	3,180,096	1,185,000
Unicreditbank (MMB)	19	350,000	1,616,311	594,003	1,750,000
Svedbank	19	1,738,480	1,030,659	-	-
Inventory	14	**5,124,461**	**5,180,224**	**3,774,099**	**2,935,000**
Gazprombank	19	5,672	5,537	-	-
Promissory Notes	19	**5,672**	**5,537**	**-**	**-**
Total		**14,637,762**	**19,409,625**	**9,365,640**	**6,570,148**

At 31 December 2008 the loan indebtedness due to Raiffeisen Bank in amount of RR 273 million were secured by pledge of Alnas's future revenue proceeds.

The Group's shareholders pledged controlling interest in the Company to EBRD in 2007 and non-controlling interest to HVB in 2008. The Group pledged non-controlling interest in PNTZ to EBRD in 2007, controlling interest in PNTZ to HVB and controlling interest in Alnas to Raiffeisen bank in 2008.

The Group had pledged fixed assets at carrying value of RR 49 million as collateral of Sberbank's loan of RR 25 million raised by associate.

30 Contingencies, Commitments and Operating Risks (continued)

At 31 December 2008 the Group had promissory notes in amount of RR 113 million pledged as collateral of issued by Promsviazbank guarantees in favour of Group's liabilities to administrators of tenders.

Insurance policies. Under the bank loan covenants the Group is to insure its assets during the loan period. The Group has insured all its manufacturing property, plant and equipment during year ended 31 December 2008 for a maximum of RR 19,647 million (deductible of RR 10 million) (2007: for a maximum of RR 15,201 million (deductible of RR 24 million). However, the insurance does not cover the risks of damage to third parties and losses from temporary suspension in the production process. Management does not assess exposure to those risks as significant.

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

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in the Russian market significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RR) has depreciated significantly against some major currencies. The official US Dollar (US$) exchange rate of the Central Bank of the Russian Federation ("CBRF") increased from RR 25.37 at 1 October 2008 to RR 29.38 at 31 December 2008.

International reserves of the Russian Federation decreased from US$ 556,813,000 thousand at 30 September 2008 to US$ 438,200,000 thousand at 26 December 2008.

The commodities market was also impacted by the latest events on the financial markets. The spot Free On Board price per barrel of Urals oil decreased from US$ 91.15 at 29 September 2008 to US$ 41.83 at 31 December 2008.

A number of measures have been undertaken to support the Russian financial markets, including the following:

- In October 2008 the CBRF reduced the mandatory reserves ratio to 0.5% and raised the guarantee repayment of individual deposits under the state deposit insurance scheme to RR 700 thousand per individual in case of the withdrawal of a license of a bank or a CBRF-imposed moratorium on payments.
- The list of assets which can be pledged under repurchase agreements with the CBRF was significantly extended.

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

31 Financial Risks Management

31.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and US Dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

31 Financial Risks Management (continued)

31.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Foreign exchange risk (continued)

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency other than the Group's functional currency. The Group companies do not have a formal policy to manage their foreign exchange risk against their functional currency. Management of the Group aims at holding low cash balances with banks to minimize foreign exchange risk exposure on its cash balances.

At 31 December 2008, if the Russian Rouble had weakened/strengthened by 33% (31 December 2007: 5%, Note 3) against US Dollar with all other variables held constant, post-tax loss for the year would have been RR 379,467 thousand higher/(lower) (31 December 2007: post-tax profit would have been RR 51,267 thousand (lower)/higher), mainly as a result of foreign exchange losses/gains on translation of US$ denominated receivables and borrowings denominated in US$.

At 31 December 2008, if the Russian Rouble had weakened/strengthened by 27% (31 December 2007: 5%, Note 3) against Euro with all other variables held constant, post-tax loss for the year would have been RR 1,610,165 thousand higher/(lower) (31 December 2007: post-tax profit would have been RR 143,891 thousand (lower)/higher), mainly as a result of foreign exchange losses/gains on translation of Euro-denominated borrowings.

Profit is more sensitive to movement in RR exchange rates against US$ and Euro during the period of year ended 31 December 2008 than in 2007, whereby the contribution of Euro exchange risk increased significantly. The reason is the increase in Euro denominated borrowings. Since the Group does not hold any financial instruments revalued through equity, the effect of changes in exchange rate on equity would be the same as on post-tax profit.

Analysis by currency is as follows:

	31 December 2008			**31 December 2007**		
In thousands of Russian Roubles	Russian Roubles	US Dollars	Euros	Russian Roubles	US Dollars	Euros
Monetary financial assets	**11,254,319**	**6,361,743**	**56,526**	**11,350,012**	**1,122,905**	**1,258,406**
Trade accounts receivables	7,830,696	2,376,725	40,101	7,285,181	591,863	61,730
Other accounts receivables	214,081	2,685,160	-	246,028	-	-
Finance lease payments receivable	72,558	-	-	-	-	-
Promissory notes receivable	125,304	-	-	1,237,697	-	-
Loans receivable	1,251,547	1,271,567	-	1,907,390	490,924	1,196,576
Interests receivable	295,841	-	-	32,035	-	-
Cash	1,464,292	28,291	16,425	641,681	40,118	100
Monetary financial liabilities	**(51,618,856)**	**(7,817,095)**	**(7,903,333)**	**(20,549,306)**	**(1,939,685)**	**(3,799,952)**
Borrowings	(37,855,655)	(7,770,768)	(6,598,936)	(18,169,133)	(1,860,148)	(3,769,390)
Promissory notes payable	(52,604)	-	-	(2,855)	-	-
Loans payable	(2,647,669)	-	-	(11,404)	-	-
Trade accounts payable	(9,982,666)	(45,387)	(1,304,397)	(2,112,165)	(79,537)	(21,626)
Other accounts payable	(380,260)	(940)	-	(181,112)	-	(8,936)
Finance lease payments	(242,275)	-	-	-	-	-
Interests payable	(457,727)	-	-	(72,637)	-	-
Total	**(40,364,537)**	**(1,455,352)**	**(7,846,807)**	**(9,199,294)**	**(816,780)**	**(2,541,546)**

(ii) Price risk

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

31 Financial Risks Management (continued)

31.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk

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

The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Management of the Group minimizes exposure to fluctuations in interest rates by holding unused facilities both under fixed and variable interest rate loans. All loan agreements permit early redemption. Management of the Group is able to redeem and withdraw loans managing the exposure to the interest rate risk. In 2008 and the year ended 31 December 2007, the Group's borrowings at variable rate were denominated in RR, US$ and Euro.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal, existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent major interest-bearing positions and include all type of loan agreements with floated and fixed rates. Based on the simulations performed, the impact on post-tax loss of a 100 basis points shift in interest rate would be an increase/(decrease) of RR 279,900 thousand (2007: the impact on post-tax loss would have been (decrease)/increase RR 39,372 thousand).

(b) Credit risk

Credit risk is managed at the level of individual Group companies. The maximum exposure to credit risk at the reporting date was equal to RR 32.9 billion (31 December 2007: RR 37.5 billion) and approximates fair value of each class of receivables, amount of promissory notes and loans receivable, deposits with banks and financial institutions, cash and cash equivalents. The maximum exposure to credit risk also includes the guarantees issued by the Group totalling RR 7.6 billion (31 December 2007: RR 11.9 billion), Note 30.

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

The table below shows the balances of the six major counterparties at the balance sheet date.

In thousands of Russian Roubles	**Agency**	**Rating**	**31 December 2008**	**31 December 2007**
BSGV	Moody's Investors Service	Baa2	370,083	124
Orgresbank	Fitch Ratings	BBB+	455,425	-
UniCreditBank	Fitch Ratings	BBB+	255,202	18,124
Total for major counterparties within cash and cash equivalents			**1,080,710**	**18,248**
ARCH ENERGY LIMITED			1,612,378	-
Russmetall			635,967	-
Trubnaya promishlennost			387,307	-
Total for major counterparties within trade receivables			**2,635,652**	**-**

Cash and cash equivalents comprise RR 1,543 million (31 December 2007: RR 682 million). Out of this amount cash on hand and balances with banks are RR 1,386 million (31 December 2007: RR 642 million) and term deposits and bank promissory notes account for RR 157 million (31 December 2007: RR 40 million). For banks and financial institutions, only top 20 Russian banks by capital are accepted. The Group does not hold any collateral as security for these financial assets.

Trade and other receivables comprise RR 11,411 million (31 December 2007: RR 8,064 million). Balances due from third parties account for RR 10,776 million and from related parties account for RR 635 million out of this amount (31 December 2007: RR 7,635 million and RR 429 million respectively). Management of the Group believes that credit risks on trade and other receivables balances stands at a minimum level, because the customers are major oil and gas companies or pipeline construction companies for which the Group has a long history of relationships with.

Balances due from overseas buyers comprise RR 2,003 million (31 December 2007: RR 32.2 million). The buyers are mainly represented by state-owned companies and/or large oil and gas companies and/or large companies engaged in construction of pipelines which the Group has a long history of relationships with.

Balance due from buyer of treasury shares comprises RR 2,571 million (31 December 2007: nil). This receivable is due to February of 2010 year and Management of the Group is confident of payment.

31 Financial Risks Management (continued)

31.1 Financial risk factors (continued)

(b) Credit risk (continued)

The balance of promissory notes, loans and interest receivable comprise RR 2,944 million (31 December 2007: RR 4,865 million) and include balances due from related parties of RR 1,213 million (31 December 2007: RR 4,809 million). Management believes that the balances due from related parties do not bear significant credit risks. Management believes that the balances due from the unrelated companies are fully recoverable as the counterparties are represented by reliable business partners of the Group.

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

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group maintains flexibility in funding by maintaining availability under committed credit lines. At 31 December 2008, the amount of unused credit lines and committed credit facilities comprised RR 0.8 billion (31 December 2007: RR 15.0 billion).

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

In thousands of Russian Roubles	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
At 31 December 2008				
Trade and other payables	12,497,186	10,813	-	-
Finance lease liabilities	190,738	74,507	-	-
Promissory notes payable	52,605	-	-	28,350
Borrowings	56,522,995	3,281,001	-	-
At 31 December 2007				
Trade and other payables	3,358,919	-	-	-
Promissory notes payable	11,404	-	-	31,495
Borrowings	20,658,186	777,704	4,404,245	181,792

As of 31 December 2008 current liabilities of the Group exceeded its current assets, primarily due to classification of the non-current borrowings with debt covenants in breach to current liabilities and increase in current borrowings. Management of the Group believes that the temporary liquidity gap can be covered by unused credit line facilities, collection of the loans originated to the related parties and re-financing by the bank's borrowings (Note 2).

31.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Management understands the term 'capital' as a financial notion of capital defined as invested money or invested purchasing power.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The Group's ability to issue new shares or otherwise modify share capital and to pay dividends is limited by restrictions imposed by debt covenants of EBRD loans.

The gearing ratios At 31 December 2008 and 31 December 2007 were as follows:

In thousands of Russian Roubles	**31 December 2008**	**31 December 2007**
Total debt	68,289,018	27,171,849
Less: cash and cash equivalents (Note 17)	(1,542,552)	(681,899)
Net debt	66,746,466	26,489,950
Total equity	7,036,134	20,446,682
Total capital	73,782,599	46,936,632
Gearing ratio	**90%**	**56%**

32 Post Balance Sheet Events

Share pledges

In 2009 the Group's shareholders pledged 9.2% of the Company to Bank of Moscow and the Group pledged the Company's treasury shares of 0.7% to Bank of Moscow and 2.83% to Sberbank.

In 2009 the Group pledged:

- 100% of Metris, UTS and ChTPZ-Meta to Bank of Moscow;
- 95% + 1 share of Alnas to Raiffeisen Bank, 75% + 1 share of Rimera to Gazprombank and 50.3% share of INM to Orgresbank.

In 2010 the Group pledged:

- the controlling stake in the Company pledged as security for borrowings from EBRD was released and thereafter re-pledged as security for borrowings received from Gazprombank under a new facility to finance the Large Diameter Pipe capital project;
- 17.7% shares of the Company and 50% + 1 of shares of PNTZ pledged as security for borrowings from HVB were released and thereafter re-pledged as security for borrowings received from Sberbank under a new facility to finance Electron-Arc Furnace capital project.

In 2010 the Group fully repaid a loan drawn from EBRD in 2007 and released shares of PNTZ pledged as collateral.

Acquisitions

In 2009 the Group acquired:

- 99.9% stake in CJS CTRP-META (a company engaged in procuring ferrous and non-ferrous metal scrap) for RR 177 million from the related party. Fair value of acquired interest in the subsidiary was negative and comprised RR 296 million, and goodwill amounted to RR 472 million;
- 11.25% of Alnas from related parties for a consideration of RR 183 million and 13.7% from third parties for RR 203 million thus increasing its interest in Alnas to 100%. This transaction decreased minority interest by RR 478 million.

In 2010 the Group acquired:

- 100% of CJSC Soedinitelnie otvodi truboprovodov ("SOT") and OJSC Magnitogorskiy zavod mechanomontazhnikh zagotovok – Vostokmetallurgmontazh ("MZMZ") for RR 6,163 million from a related party. These companies engaged in production of trunk pipeline bends and other pipeline components. Based on the preliminary purchase price allocation performed by the Group, the fair value of the net assets acquired comprised RR 2,914 million and the goodwill which arose on the acquisition amounted to RR 3,249 million;
- 100% of MSA a.s. ("MSA") for RR 1,751 million from a related party. MSA is involved in manufacturing of valves. Based on the preliminary purchase price allocation performed by the Group, the fair value of the net assets acquired is insignificant, and the goodwill on acquisition amounted to RR 1,751 million;
- 99% of LLC META with its subsidiaries (companies engaged in scrap procurement engagement) for RR 0.5 million from a related party. Management plans to perform purchase price allocation within twelve months from the acquisition date.

Disposals

In 2009 the Group disposed its interest in BENZ for RR 100 million to a third party which resulted in a loss of RR 234 million.

In 2009 the Group disposed to related parties a number of subsidiaries of JSC CTRP-META for RR 17 million recognising gain of RR 338 million.

In 2010 the Group sold 100% of RNGG and its subsidiaries, which were engaged in the provision of exploratory stage oilfield services.

Treasury shares

In 2009 the Group sold 1,919,543 of the Company's treasury shares representing 0.41% of the total authorised share capital for a cash consideration of RR 86.4 million and earned negative share premium of RR 97.7 million.

In 2010 the receivables for treasury shares sold in 2008 were partially settled by return of the Company's shares in the amount of RR 2,192 million.

32 Post Balance Sheet Events (continued)

Borrowings and loans

In 2009 during the first buy-back option, 1,155,779 bonds were redeemed at 98% face-value and in December 2009 2,649,996 bonds were converted into exchange bonds (“BO 01”) for a higher interest rate.

In 2009 the Company issued 5 million BO 01 at par value of RR 1 thousand each. The bonds were long-term and contained a buy-back option commencing 8 December 2011. The bonds are repayable in December 2012. The interest yield is determined for each coupon and comprised 16.5%. In 2009 the Group repurchased 1,257,634 bonds at par value.

In 2010 the Group entered into additional borrowing facilities totalling RR 38,847 million which comprised term loans of RR 7,103 million and credit lines or RR 31,744 million including the following:

- Two credit lines each of RR 10,000 million repayable in quarterly instalments from 2011 through 2014;
- Various term loans totalling RR 6,103 million repayable from 2011 to June 2015;
- RR denominated credit line of RR 732 million repayable in full in November 2010;
- US$ denominated credit lines totalling RR 1,096 million repayable in full in February, April and August 2011;
- RR denominated term loan of RR 1,000 million repayable in full in April 2011;
- RR denominated credit lines totalling RR 7,857 million repayable from September 2010 to January 2015;
- Two RR denominated credit lines denominated totalling RR 2,059 million repayable in full in February 2012.

The above additional borrowing facilities bear interest at rates varying between 7.5% and 16.0% and were used to retire debts and fund working capital.

In 2010 the Group renegotiated terms of RR 6,654 million long-term loan from BNP Paribas originally received in 2008. The repayment period was extended from June 2010 - November 2017 to June 2011 - December 2020.

Other

In 2009 the Group issued a loan to a party under significant influence of Group's controlling shareholder in the amount of RR 7.1 billion at 19.76%. The loan was partly repaid during 2009 and 2010.

In 2009 the Group recognised impairment of the accounts receivable of RR 2,531 million. Significant portion of the impaired receivables was outstanding as of 31 December 2008.

In 2010 the Extraordinary General Meeting decided to increase share capital of the Company by issuing of additional 472,382,880 common shares with a par value of 1 RR per share.