Open Joint Stock Company Chelyabinsk Pipe-Rolling Plant

Consolidated Financial Statements for the Year Ended 31 December 2011

OPEN JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of Open Joint Stock Company Chelyabinsk Pipe-Rolling Plant and its subsidiaries (the "Group") at 31 December 2011, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2011 were approved by management on 28 June 2012:

On behalf of the management:

Yaroslav Zdan	**Andrey Chaykov**
Chief Executive Officer	Head of finance department

Moscow, Russia
28 June 2012

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Chelyabinsk Tube-Rolling Plant and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position at 31 December 2011, and the consolidated statements of comprehensive income and loss, cash flows and changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory Notes 1 to 34.

Management's responsibility for the consolidated financial statements

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

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 on whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for qualified opinion

The Group's investment in CJSC "TechnoInvest Alliance", acquired during 2011, is carried at cost in the amount of Russian Roubles 3,212,875 thousand on the consolidated statement of financial position at 31 December 2011. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of Group's investment in CJSC "TechnoInvest Alliance" at 31 December 2011. Consequently, we were unable to determine whether any adjustment to this amount was necessary.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group at 31 December 2011, and the results of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of matter

We also draw attention to Note 2 to the accompanying consolidated financial statements which indicate that at 31 December 2011 current liabilities exceeded current assets by Russian Roubles 64,483,310 thousand (31 December 2010: Russian Roubles 21,542,039 thousand), and also at that date there is a shareholders deficit of Russian Roubles 9,885,071 thousand (31 December 2010: surplus Russian Roubles 4,719,156 thousand). These conditions, along with other matters set forth in Note 2, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Deloitte & Touche

Moscow, Russia
28 June 2012

OPEN JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2011
(thousands of Russian Roubles)

	Notes	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	9	62,912,152	56,622,221
Advances for capital construction		1,601,430	2,589,488
Goodwill	11	6,306,384	5,928,844
Intangible assets	10	946,021	684,375
Investments in associates	12	36,628	697,617
Other financial assets	12	3,212,875	–
Deferred tax assets	29	309,318	360,697
Other non-current assets		146,208	123,473
Total non-current assets		**75,471,016**	**67,006,715**
Current assets			
Inventory	13	24,024,444	18,856,621
Trade and other receivables	15	17,971,419	20,428,125
Current income tax prepayment		831,774	382,557
Promissory notes and loans receivable	14	790,622	1,588,537
Cash and cash equivalents	16	2,458,435	3,622,684
Other current assets	17	1,094,564	1,006,055
Total current assets		**47,171,258**	**45,884,579**
TOTAL ASSETS		**122,642,274**	**112,891,294**
(EQUITY DEFICIT)/EQUITY AND LIABILITIES			
Share capital	18	2,498,261	2,498,261
Legal reserve	18	70,857	70,857
Translation reserve		71,462	11,947
Treasury shares	18	(17,795,009)	(2,513,715)
Retained earnings		4,848,256	4,347,792
(Equity deficit)/equity attributable to owners of the Company		**(10,306,173)**	**4,415,142**
Non-controlling interests	11	421,102	304,014
Total (equity deficit)/equity		**(9,885,071)**	**4,719,156**
Non-current liabilities			
Preferred shares		147,682	221,860
Borrowings	19	19,484,253	39,421,684
Retirement benefit obligations	20	516,363	411,596
Deferred tax liabilities	29	724,479	690,380
Total non-current liabilities		**20,872,777**	**40,745,520**
Current liabilities			
Borrowings	19	93,709,546	46,487,974
Accounts payable and accrued expenses	22	12,558,850	16,709,258
Advances from customers		3,735,064	3,315,892
Taxes payable	21	1,651,108	913,494
Total current liabilities		**111,654,568**	**67,426,618**
Total liabilities		**132,527,345**	**108,172,138**
TOTAL EQUITY AND LIABILITIES		**122,642,274**	**112,891,294**

OPEN JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

(thousands of Russian Roubles)

	Notes	2011	2010
Revenue	23	113,970,886	85,400,715
Cost of sales	24	(87,140,825)	(59,096,802)
Gross profit		**26,830,061**	**26,303,913**
Distribution costs	25	(6,741,694)	(6,498,205)
General and administrative expenses	26	(8,077,615)	(5,990,292)
Loss on disposal of property, plant and equipment		(252,265)	(174,093)
(Impairment)/reversal of impairment of assets	27	(863,392)	354,144
Operating profit		**10,895,095**	**13,995,467**
Finance income	28	708,555	1,220,376
Finance costs	28	(10,726,224)	(9,070,326)
Foreign exchange gain, net		1,656	856,954
Share of loss of associates	12	(1,070)	(111,320)
Excess of the Group's share in provisional value of net assets acquired over the cost of acquisition		201,851	–
Gain/(loss) on disposal of subsidiary	7	8,246	(166,690)
Profit before income tax		**1,088,109**	**6,724,461**
Income tax	29	(618,985)	(1,997,128)
Profit for the year		**469,124**	**4,727,333**
Exchange differences on translating of foreign operations		59,515	15,261
Total comprehensive income for the year		**528,639**	**4,742,594**
Profit/(loss) for the year attributable to:			
Owners of the Company		496,411	4,784,055
Non-controlling interests		(27,287)	(56,722)
		469,124	**4,727,333**
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		555,926	4,799,316
Non-controlling interests		(27,287)	(56,722)
		528,639	**4,742,594**
Earnings per share attributable to owners of the Company, basic and diluted (Russian Roubles per share)	30	1.12	10.52

OPEN JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2011
(thousands of Russian Roubles)

	Notes	2011	2010
Operating activities			
Profit before income tax		1,088,109	6,724,461
Adjustments for:			
Depreciation and amortisation	24, 25, 26	5,767,685	3,065,648
Changes in pension and payroll accruals		164,082	33,640
Changes in inventory allowance	24	181,926	(403,699)
Impairment/(reversal of impairment) of assets	27	863,392	(354,144)
Loss on disposals of property, plant and equipment		252,265	174,093
Share of loss of associates		1,070	111,320
(Gain)/loss on disposal of subsidiary		(8,246)	166,690
Finance income	28	(708,555)	(1,220,376)
Finance costs	28	10,726,224	9,070,326
Provisions for uncertain tax positions		–	(340,850)
Excess of the Group's share in fair value of net assets acquired over the cost of acquisition		(201,851)	–
Foreign exchange differences on non-operating items		202,409	(782,337)
Other non-cash movements		(38,693)	62,623
Operating cash flows before working capital changes		**18,289,817**	**16,307,395**
Movements in working capital			
Increase in accounts receivable and prepayments		(709,214)	(7,178,209)
Increase in inventories		(5,070,441)	(7,697,043)
Decrease in trade and other payables		(2,102,587)	(639,913)
Cash generated from operations		**10,407,575**	**792,230**
Income tax paid		(1,119,451)	(1,683,186)
Interest paid		(10,615,699)	(9,104,666)
Interest received		2,349,802	152,981
Net cash generated from/(used in) operating activities		**1,022,227**	**(9,842,641)**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(12,290,470)	(11,312,238)
Proceeds from sale of property, plant and equipment		693,348	232,793
Loans given		(407,460)	(446,977)
Proceeds from loans repaid		1,148,746	6,393,174
Net cash outflow on acquisition of subsidiaries		(737,314)	(7,486,913)
Cash disposed with sale of subsidiary	7	(7,130)	(4,298)
Purchase of other financial assets	12	(3,212,875)	–
Dividends received		536,415	–
Net cash used in investing activities		**(14,276,740)**	**(12,624,459)**
Financing activities			
Proceeds from borrowings		94,112,718	53,358,103
Repayment of borrowings		(66,824,836)	(30,782,155)
Payment of finance lease obligations		(146,634)	(126,656)
Cash paid to acquire treasury shares		(15,049,272)	(1,921)
Acquisition of non-controlling interests	11	(1,712)	(1,750)
Net cash generated from financing activities		**12,090,264**	**22,445,621**
Net decrease in cash and cash equivalents		**(1,164,249)**	**(21,479)**
Cash and cash equivalents at the beginning of the period	16	3,622,684	3,644,163
Cash and cash equivalents at the end of the period	16	**2,458,435**	**3,622,684**

OPEN JOINT STOCK COMPANY CHELYABINSK PIPE-ROLLING PLANT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011
(thousands of Russian Roubles)

	Attributable to owners of the Company							
	Share capital	Legal reserve	(Accumulated deficit)/ retained earnings	Treasury shares	Translation reserve	Total	Non-controlling interests	Total equity
Balance at 1 January 2010	**2,498,261**	**70,857**	**(435,691)**	**(320,315)**	**(2,007)**	**1,811,105**	**370,612**	**2,181,717**
Profit/(loss) for the year	–	–	4,784,055	–	–	4,784,055	(56,722)	4,727,333
Other comprehensive income	–	–	–	–	15,261	15,261	–	15,261
Total comprehensive income/(loss) for the year	–	–	**4,784,055**	–	**15,261**	**4,799,316**	**(56,722)**	**4,742,594**
Additions of treasury shares	–	–	–	(2,193,400)	–	(2,193,400)	–	(2,193,400)
Business combinations	–	–	–	–	(1,307)	(1,307)	(8,700)	(10,007)
Purchase of non-controlling interests	–	–	(572)	–	–	(572)	(1,176)	(1,748)
Balance at 31 December 2010	**2,498,261**	**70,857**	**4,347,792**	**(2,513,715)**	**11,947**	**4,415,142**	**304,014**	**4,719,156**
Profit/(loss) for the year	–	–	496,411	–	–	496,411	(27,287)	469,124
Other comprehensive income	–	–	–	–	59,515	59,515	–	59,515
Total comprehensive income/(loss) for the year	–	–	**496,411**	–	**59,515**	**555,926**	**(27,287)**	**528,639**
Additions of treasury shares	–	–	–	(15,281,294)	–	(15,281,294)	–	(15,281,294)
Purchase of non-controlling interests	–	–	4,053	–	–	4,053	(43,957)	(39,904)
Business combinations	–	–	–	–	–	–	188,332	188,332
Balance at 31 December 2011	**2,498,261**	**70,857**	**4,848,256**	**(17,795,009)**	**71,462**	**(10,306,173)**	**421,102**	**(9,885,071)**

1. GENERAL INFORMATION

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

The immediate parent of the Company is Mountrise Limited, a company incorporated under the laws of Cyprus, which owns 52.41% of the Company’s issued share capital. Mr. A.I. Komarov is the ultimate controlling party of the Group.

On 24 January 2011, the Group increased its interest in several associate companies. As a result of this operation, the associate companies became subsidiaries (Note 7). On 24 June 2011, the Group acquired 100% of share capital of LLC Noyabrskaya centralnaya trubnaya baza (“NCTB”).

On 31 May 2010, the Group acquired 100% of share capital of CJSC Pipe Bend Plant (“SOT”) and OJSC Magnitogorsk Mechanical Assembly Plant (“MZMZ”). On 25 August 2010, the Group acquired 100% of the share capital of MSA a.s. (“MSA”) with its subsidiaries and associates.

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

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

The Company’s principal subsidiaries are disclosed in Note 6. All companies of the Group are incorporated under the laws of the Russian Federation, except ARKLEY (UK) LIMITED, which is incorporated under the laws of the United Kingdom and MSA a.s. and its subsidiaries, which are incorporated in the Czech Republic.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), which include Standards and Interpretations issued by the International Accounting Standards Board (“IASB”), including International Accounting Standards (“IAS”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The accounting policies set out below have been applied in preparing the consolidated financial statements for the year ended 31 December 2011, and the comparative information presented in these financial statements, except for the impact of the adoption of new standards, amendments to standards or interpretations as described in Note 4.

Financial condition and going concern

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

The Group continues to respond and deal with the difficult business environment in Russia that arose following the global economic crisis in 2008 – 2009. The liquidity position of the Group, as well as its operating performance, were negatively affected at that time by economic and industry conditions and by other financial and business factors, many of which were beyond the control of the Group. Whilst trading conditions have improved considerably during 2010 and 2011 with the Group returning to profitability and generating positive operating cash flow in 2011, its financial position continues to be challenging in view of a very high burden of debt. At 31 December 2011, the Group’s current liabilities exceeded its current assets in the amount of RUB 64,483,310 thousand (31 December 2010: RUB 21,542,039 thousand). A contributing factor to this deficit is the Group’s non-compliance at 31 December 2011 with certain financial covenants contained in lending agreements with Sberbank, Bank Paribas and Unicredit Bank (see also Note 19). As a result of these breaches, the long term portion of these borrowings in the amount of RUB 37,168,627 thousand has been reclassified as a current obligation at 31 December 2011. Additionally during the year the group acquired shares from minorities in a subsidiary in the amount of RUB 15,281,294 thousand giving rise to a shareholders deficit at year end of RUB 9,885,072 thousand. A waiver from Unicredit Bank to non-compliance with its covenants was obtained subsequent to the reporting date.

Since the onset of the global financial crisis the group has had in place a recovery plan focused on returning the group to profitability primarily through cost cutting and productivity gains. The Group has also during 2011 successfully renegotiated the majority of its borrowings, obtaining in the process more favourable terms and in some cases less restrictive financial covenants. As at the reporting date, the Group has available and unused credit facilities of RUB 8,901,046 thousand.

During 2012, the Group is considering the following actions to continue to improve its trading performance and financial position.

- Forming a strategic alliance with a key raw material supplier with the objective of reducing raw material input costs;
- Continued focus on cost optimization, in particular raw material costs and product mix and a reduction of investment in working capital;
- Introduction of new services and products;
- Optimization of labour compensation costs;
- Reduction of total debt from approximately RUB 109 billion to RUB 94 billion;
- Agreeing a restructuring of borrowings due for repayment in 2012;
- Obtain government guarantees with regard to the repayment of certain of its borrowings.

The Group also expects to generate significant new revenues as a result of its participation in a new pipeline project planned by OJSC Gazprom.

The successful outcome of the above actions and plans is uncertain at this time.

The continued weakness of the Group’s financial position reflecting negative working capital and a shareholder’s deficit at 31 December 2011 indicate the existence of a material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern. Were the Group unable to continue as a going concern, adjustments would have to be made to the classification and carrying value of assets and liabilities and accruals would be made for other liabilities that might arise. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Presentation and functional currency

All amounts in these consolidated financial statements are presented in thousands of Russian Roubles (“RUB”), unless otherwise stated.

The functional currency of the Company’s subsidiaries located in the Russian Federation is the Russian Rouble. The functional currency of ARKLEY (UK) LIMITED located in the United Kingdom is the US Dollar (“USD”). The functional currency of MSA a.s. located in Czech Republic is the Czech Koruna. At the reporting date, the assets and liabilities of the subsidiaries with a functional currency other than Russian Rouble are translated into the presentation currency at the rate of exchange ruling at the reporting date, and their statements of comprehensive income are translated at the weighted average exchange rates for the year, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. The exchange differences arising on translation are taken directly to a separate component of comprehensive income and accumulated in equity. On disposal of a subsidiary with a functional currency other than Russian Rouble, the deferred cumulative amount recognised in other comprehensive income relating to that particular subsidiary is recognised in profit or loss.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the reporting period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. Identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 “Income Taxes” and IAS 19 “Employee Benefits” respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 “Share-based Payment” at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” are measured in accordance with that Standard.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interest is initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets/liabilities. The choice of measurement basis is made on a transaction-by-transaction basis. Non-controlling interests form a separate component of the Group's equity and may have a deficit balance.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), or IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see above) less accumulated impairment losses, if any.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Step acquisitions and changes in the Group's ownership interests in existing subsidiaries

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in retained earnings and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate.

Revenue recognition

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

Oilfield service revenue represents amounts chargeable to clients for professional services provided during the year. Services provided to clients that at the reporting date have not been billed to clients, are recognised as revenue. Revenue recognised in this manner is based on an assessment of the cost of the services provided at the reporting date as a proportion of the total estimated cost of the engagement plus the Group’s estimated margin on the specific contract. Revenue is only recognised where the Group has a contractual right to receive consideration for work undertaken.

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

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any recognised impairment loss. Cost for qualifying assets includes borrowing costs incurred to finance construction of property, plant and equipment in accordance with the Group’s policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

Gains and losses on disposals are determined by comparing the net disposal proceeds with the carrying amount and are recognised in profit or loss.

Depreciation

Land is not depreciated. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their deemed cost less estimated residual value over their estimated useful lives as follows:

	Useful lives in years
Buildings and infrastructure	20 to 50
Plant and equipment	10 to 30
Other	5 to 15

Other property, plant and equipment represent fixed assets such as equipment and vehicles.

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

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 per cent of the voting rights.

Investments in associates are accounted for under the equity method of accounting and carried at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment. The carrying amount of investments includes goodwill identified on acquisition, which represents any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate acquired. The goodwill is assessed for impairment as part of the impairment test of the investment, which is performed at least annually. If the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities is in excess of the cost of acquisition the difference, after reassessment, is recognised immediately in profit or loss.

The Group's share of the post-acquisition profits or losses of investments in associates is recorded in the consolidated statement of comprehensive income. 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 legal or constructive 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.

Research and development costs

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

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

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

Capitalised development costs are tested for impairment at least annually.

Other intangible assets (excluding goodwill and development costs)

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

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring them to use. Such costs are amortised using the straight-line method over their useful lives, but not exceeding 5 years.

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

Lease rights recognised as part of a business combination are amortised using straight-line method over the lease period not exceeding 50 years. They are stated at cost less accumulated amortisation and impairment losses.

Other intangible assets mainly represent licenses for production of tubes and engineering.

Impairment of intangible assets (excluding goodwill)

Where an indication of impairment exists, the recoverable amount of any intangible asset is assessed. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount is estimated to be less than the carrying amount of the asset, an impairment loss is recognised immediately in profit and loss. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments – key measurement terms

Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

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

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

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

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

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

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

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

Initial recognition of financial instruments

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

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

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.

Financial assets carried at amortised cost

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

Trade and other receivables

Trade and other receivables are carried at amortised cost using the effective interest method. An allowance 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 allowance 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 allowance is recognised in the consolidated statement of comprehensive income.

The Group recognises an allowance for doubtful debts of 100% against all receivables over 180 days based on historical experience of irrecoverability of receivables that are past due beyond 180 days. Allowance of 50% for doubtful debts is recognised against receivables between 90 days and 180 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty and an analysis of the counterparty's current financial position.

The Group considers the following other principal criteria also used to determine whether there is objective evidence that an impairment loss has occurred:

- The counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- The counterparty is considering bankruptcy or a financial reorganisation;
- There is an adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; and
- The value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

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

Loans receivable

Loans receivable initially are recognised at fair value plus transaction costs and subsequently are carried at amortised cost using the effective interest rate method less any impairment. Interest income is recognised by applying the effective interest rate.

An allowance for impairment of loans receivable 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 loans receivable. The amount of the allowance 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 allowance is recognised in the consolidated statement of comprehensive income.

Liabilities carried at amortised cost

Fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted using the effective interest rate method. Refer to Note 19 for the estimated fair values of borrowings.

Borrowings

Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense only if they are not related to qualifying assets in accordance with IAS 23 "Borrowing costs" and calculated based on a time proportion using the effective interest method.

Trade and other payables

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

Compound instruments

The component parts of compound instruments (convertible preferred shares) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion.

The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Advances paid

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

Income tax

Income tax has been provided in the consolidated financial statements in accordance with local legislation enacted or substantively enacted by the reporting date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of comprehensive income unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods.

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

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

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

Inventories

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

Cash and cash equivalents

Cash and cash equivalents include cash on hand, demand deposits held at call with banks, short-term promissory notes and other short-term highly liquid investments with original maturities of 3 months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method, which approximates their current fair value.

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.

Treasury shares

Where any Group company purchases the Company's shares, the consideration paid, including any directly attributable incremental costs (net of income tax) is deducted from equity attributable to the Company's owners 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 owners. Any difference between the price of treasury shares sold and the price at which they were purchased is recognised through retained earnings. Treasury shares are accounted for on a weighted average basis.

Dividends

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

Value added tax

Value added taxes ("VAT") related to sales are payable to the tax authorities in the quarter in which the Group (a) receives an advance on sales or (b) records sales revenue. The VAT liability is paid in the quarter following accrual of the liability. VAT incurred for purchases may be reclaimed, subject to certain restrictions against VAT related to sales. Unclaimed VAT related to purchase transactions that is validly reclaimable as of the reporting date is recorded as value added tax recoverable in the consolidated financial statements.

VAT and other taxes recoverable are reviewed for impairment at each reporting date.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

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

On operating leases, the total lease payments, are charged to profit or loss on a straight-line basis over the period of the lease.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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 if a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each reporting date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the remaining commitment at the reporting date.

Foreign currency translation

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

Monetary assets and liabilities of Russian-based entities’ are translated functional currency at the official exchange rate of the Central Bank of the Russian Federation (“CBRF”) at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of 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.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Russian Roubles using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

At 31 December 2011, the official USD to RUB exchange rate, as determined by CBRF, was US Dollar ("USD") 1 = RUB 32.1961 (31 December 2010: USD 1 = RUB 30.4769). The official Euro to RUB exchange rate at 31 December 2011, as determined by CBRF, was Euro 1 = RUB 41.6714 (31 December 2010: Euro 1 = RUB 40.3331).

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 represent an implicit cost of employing production workers and administrative workers and, accordingly, have been charged to the consolidated statement of comprehensive income as cost of sales, distribution expenses or general and administrative expenses depending on the nature of work performed by the employee.

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

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

Pension plan liabilities under defined benefit plans are included in line "Retirement benefit obligations" in the consolidated statement of financial position. The Group did not have pension plan assets at the reporting date.

Earnings per share

Basic and diluted earnings per share are determined by dividing the profit or loss attributable to owners of the Company by the weighted average number of voting shares outstanding during the reporting year.

Operating profit

Operating profit is stated after charging impairment of assets but before the share of results of associates, foreign exchange profit/(loss) on non-operating transactions, interest income and interest expenses.

(thousands of Russian Roubles)

Changes in presentation

Where necessary, corresponding figures of 2010 have been adjusted to conform with changes in the presentation in 2011.

The effects of changes in the consolidated statement of comprehensive income for 2011 were as follows:

	As originally presented	Representation	Effect of restatement	As adjusted
General and administrative expenses	5,700,402	297,449	7,558	5,990,292
Other operating expenses (Note 26)	464,139	(464,139)	–	–
Loss on disposal of subsidiary	–	166,690	–	166,690

The adjustments are due to the following:

- In 2010, other operating expenses of RUB 464,139 thousand consisted primarily of financial aid to employees and war veterans, donations to a health resort for employees and their families, donation to child day-care centres, football and hockey teams sponsorship. In 2011, this line was reclassified in general and administrative expenses line and comparative consolidated statement of comprehensive income was restated;
- In 2010, loss on disposal of subsidiary of RUB 166,690 thousand was presented as a part of general and administrative expenses. In 2011, this item was reclassified to a separate line and comparative consolidated statement of comprehensive income was restated;
- Other effect on general and administrative expenses is related to finalized valuation of acquisition of MSA.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

Fair value of assets acquired and liabilities assumed in business combinations

During the last several years, as described in Note 7, the Group has made certain business combinations. According to IFRS 3 "Business combinations" (Revised), the Group is required to allocate the cost of the acquired entity to the assets acquired and liabilities assumed based on their fair value estimated on the date of acquisition. Any difference between the cost of the acquired entity and the fair value of the assets acquired, liabilities assumed is recorded as goodwill. The Group exercises significant judgment in the process of identifying tangible and intangible assets and liabilities, valuing these assets and liabilities, and estimating their remaining useful lives. The valuation of these assets and liabilities is based on assumptions and criteria that, in some cases, include estimates of future cash flow discounted at appropriate rates. The use of valuation assumptions includes discounted cash flow estimates or discount rates and may result in estimated values that are different from actual value of the assets acquired and liabilities assumed.

If actual results are not consistent with estimates and assumptions considered, the Group may be exposed to losses that could be material.

Impairment of goodwill

The Group tests goodwill for impairment at least annually, at the cash-generating units ("CGU") level using value-in-use calculations.

The value-in-use calculation is based on projections for expected discounted cash flows and taking into consideration the following assumptions: cost of capital, growth rate and adjustments used for perpetual cash flows, methodology for determining working capital, investment plans, and long-term economic-financial forecasts.

Goodwill was allocated to the following CGUs: Pipe, Meta, OFS and TPS. All CGUs were tested for impairment at 31 December 2011. The tests carried out did not identify any impairment to the Group's goodwill (Note 11).

Impairment of tangible assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management is required to make assumptions in estimating the value of the assets, including the timing and value of cash flows to be generated from the assets. The cash flow projections are based on reasonable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and are based on the most recent financial plan that management has approved. Due to its subjective nature, these estimates will likely differ from future actual results of operations and cash flows, any such difference may result in impairment in future periods.

Deferred taxes

The Group is primarily subject to income taxes in the Russian Federation. Russian tax, currency and customs legislation is subject to varying interpretations. The Group recognises liabilities for anticipated additional tax assessments as a result of tax audits based on estimates of whether it is probable that additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions in the period in which such determinations are made.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

Various factors are considered in assessing the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. Based on a change in estimate, the Group recognised at December 31, 2011 a deferred tax asset in the amount of RUB 47,657 thousand in respect of tax losses from prior years, which the Group now believes it will be able to offset against future profits.

Related party transactions

In the normal course of business the Group enters into transactions with related parties. Judgment is applied in determining which entities are related parties of the Group. In applying this judgment, management obtains listing of the majority shareholder's interests in other entities on a regular basis, it monitors the level of transactions with any individual entity, and commencing in 2012 will report its identified related parties to those charged with governance for their review and approval on an annual basis.

Accounts receivable

When receivables are recognised initially the Group measures them at a fair value. The fair value of long-term or short-term receivables from major customers that carries no interest is estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating. The difference between the fair value and the nominal amount of the consideration is recognised as a reduction of income. Subsequently receivables are measured at amortised cost using the effective interest method. Short-term receivables from other customers that carry no interest are measured at the original invoice amount if the effect of discounting is immaterial less allowance for impairment.

The Group creates allowance for doubtful debts to account for estimated losses resulting from the inability of customers to make the required payments. At 31 December 2011, the allowance for doubtful debts amounted to RUB 3,896,604 thousand (31 December 2010: RUB 3,367,231 thousand) as further specified in Note 15. When evaluating the adequacy of an allowance for doubtful debts, management bases its estimate on current overall economic conditions, ageing of the accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in consolidated financial statements.

Inventory obsolescence

The allowance for obsolete and slow-moving inventory reduces the cost of inventory to its net realisable value, defined as the estimated selling price in the ordinary course of business, less the cost of completion and costs to be incurred in marketing, selling and distribution. In determining net realisable value the Group considers, among other things, arm's length transactions in the period around the reporting date.

Useful life of property, plant and equipment

The Group's property, plant and equipment are depreciated using the straight-line method over their estimated useful lives which are based on management's business plans and operational estimates, related to those assets.

The factors that could affect the estimation of useful lives and residual values of the Group's assets include the following:

- Changes in asset utilisation rates;
- Changes in regulations and legislation;
- Changes in the Group's business plans; and
- Unforeseen operational issues.

Any of the above could affect prospective depreciation of property, plant and equipment and their carrying and residual values.

Management periodically reviews the appropriateness of assets' useful economic lives. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefits to the Group.

Employee benefits/pensions

The Group contributes to certain defined benefit plans. The liability recognised in the consolidated statement of financial position in respect of such plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. This method involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.), as well as financial assumptions (discount rate, future salary and benefits levels, expected rate of return on plan assets, etc.). The most critical assumptions are the discount rate and future salary and benefits levels. The discount rate is determined by reference to market yields at the reporting date on high-quality corporate bonds or, if there is no active market for such bonds, the market yields on government bonds. A lower discount rate increases the present value of the pension liability and the annual pension cost. Deviations may arise from other assumptions such as actual inflation levels and salary adjustments deviating from the Group's assumptions. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be materially affected (Note 20).

4. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

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

- IFRS 3 (2008) "Business Combinations" – amendment;
- IFRS 7 "Financial Instruments: Disclosures" – amendment;
- IAS 1 "Presentation of Financial Statements" – amendment;
- IAS 24 "Related Party Disclosures" – revision;
- IAS 27 "Consolidated and Separate Financial Statements" – amendment;
- IAS 32 "Financial Instruments: Presentation" – amendment;
- IAS 34 "Interim Financial Reporting" – amendment;
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments".

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

(thousands of Russian Roubles)

5. NEW ACCOUNTING PRONOUNCEMENTS

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

	Effective for annual periods beginning on or after
IFRS 7 "Financial Instruments: Disclosures"	
- amendments enhancing disclosures about the transfer of financial assets	1 July 2011
- amendments enhancing disclosures about offsetting of financial assets and financial liabilities	1 January 2013
- amendments requiring disclosures about the initial application of IFRS 9	1 January 2015
IFRS 9 "Financial Instruments"	1 January 2013
IFRS 10 "Consolidated Financial Statements" – new standard published in May 2011	1 January 2013
IFRS 11 "Joint Arrangements" – new standard published in May 2011	1 January 2013
IFRS 12 "Disclosure of Interests in Other Entities" – new standard published in May 2011	1 January 2013
IFRS 13 "Fair Value Measurement" – new standard published in May 2011	1 January 2013
IAS 1 "Presentation of Financial Statements" – amendment to revise the presentation of other comprehensive income	1 July 2012
IAS 12 "Income Taxes" – limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 19 "Employee Benefits" – amendment regarding post-employment and termination benefits	1 July 2013
IAS 27 "Consolidated and Separate Financial Statements" – Amendments to modify the consolidation principles in accordance with IFRS 10	1 January 2013
IAS 28 "Investments in Associates" – Amendment to reissue as "Investments in Associates and Joint Ventures"	1 January 2013
IAS 32 "Financial Instruments: Presentation" – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014

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

(thousands of Russian Roubles)

6. SUBSIDIARIES

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

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

*CJSC CHTPZ-KTS merged with CJSC Rimera
*OJSC "Magnitogorsk Mechanical Assembly Plant" merged with CJSC "Pipe Bend Plant"
*LLC "Alnas-N" merged with LLC "Rimera-Service"
*Tomskneftegazgeofizika Ltd. merged with Uganskneftegazgeofizika Ltd

(thousands of Russian Roubles)

7. BUSINESS COMBINATIONS AND DISPOSALS

2011 acquisitions

Acquisitions of Izhneftemash group of companies

On 24 January 2011, the Group acquired 88.86% of the share capital of LLC “Izhneftemash-101” and 50.48% of the share capital of the associate company CJSC “Kompaniya Izhneftemash” from a third party and also increased interest in the associate companies: LLC “Region-Metall”, LLC “Izhneftemashenergosnab”, LLC Trade house “Izhneftemash”. As a result of this operation, the associate companies became subsidiaries. LLC “Region-metall”, LLC Trading house “Izhneftemash”, LLC Trading house “Neftyanoe oborudovanie”, LLC “Izhneftemash-Instrument”, LLC “Reskont”, LLC “Nefteprommarket” merged in LLC “Izhneftemashenergosnab”.

Purchase consideration comprised redemption of loan receivable in the amount of RUB 166,251 thousand and fair value of previously-held interest in the amount of RUB 659,898 thousand, less deferred tax in the amount of RUB 105,209 thousand and non-controlling interest in the amount of RUB 275,015 thousand. The Group provisionally measured the separately recognisable identifiable assets acquired and the liabilities assumed, as well as provisionally remeasured its previously held equity interest at its acquisition date value. The excess of the Group’s share in provisional value of net assets acquired over the cost of acquisition on this acquisition resulted from the fact that the Group was the only leaseholder of the acquirees’ equipment and the former owners of the acquired companies considered it expedient to dispose of their interests at the proposed price.

	Notes	Attributed fair value
Property, plant and equipment	9	1,121,492
Trade and other accounts receivable		330,494
Loans receivable		135,227
Cash and cash equivalents		2,900
Inventories		2,629
Other non-current assets		881
Deferred tax liabilities		(206,956)
Trade and other payables		(134,654)
Borrowings		(121,050)
Interest payable		(16,777)
Provisional value of net assets of subsidiaries		**1,114,186**
Non-controlling interests	11	(467,687)
Provisional value of acquired interest in net assets of subsidiaries		**646,499**
Excess of the Group's share in provisional value of net assets acquired over the cost of acquisition		200,574
Total purchase consideration		**445,925**
Net inflow of cash and cash equivalents on acquisition		**2,900**

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

The consolidation of the acquired subsidiaries resulted in an increase in the Group’s consolidated revenue by RUB 29,283 thousand and a decrease in profit of RUB 33,409 thousand for 2011. Effect on revenue and profits if the acquisition had occurred on 1 January 2011 is not material.

(thousands of Russian Roubles)

NCTB

On 24 June 2011, the Group acquired 100% of NCTB from a third party for total consideration of RUB 749,790 thousand payable in cash. NCTB renders tubing pipes and bucket rods services, casing pipes preparation, provides storage services. The consideration was fully paid during the reporting period. The Group finalised the determination of the fair value of the assets and liabilities acquired. The following represents the allocations of the purchase price based on fair value.

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

	Notes	Provisional value	Attributed fair value*
Property, plant and equipment	9	215,858	429,155
Trade and other accounts receivable		146,576	143,979
Inventories		35,045	35,045
Intangible assets	10	–	30,110
Cash and cash equivalents		8,278	8,278
Other non-current assets		3,358	3,358
Trade and other payables		(138,180)	(138,180)
Taxes payable		(63,530)	(63,529)
Deferred tax liabilities, net		(3,164)	(51,326)
Net assets of subsidiary		**204,241**	**396,890**
Goodwill arising from the acquisition	11	545,549	352,900
Consideration paid in cash		**749,790**	**749,790**
Less cash and cash equivalents of subsidiary acquired		8,278	8,278
Net outflow of cash and cash equivalents on acquisition		**741,512**	**741,512**

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

Provisional values represent carrying amounts based on statutory accounting records.

The acquired subsidiary contributed revenue of RUB 821,395 thousand and a profit of RUB 29,522 thousand to the Group in 2011. If the acquisition had occurred on 1 January 2011, consolidated revenue of the Group for the year month ended 31 December 2011 would have increased by RUB 641,562 thousand and consolidated profit would have decreased by RUB 60,927 thousand.

Trade and other accounts receivable resulting from this acquisition with a fair value of RUB 143,979 thousand had equal gross contractual cash flows which are considered fully collectible by the Group.

During 2011, the Group has acquired other not material entities which resulted in additional excess of the Group’s share in value of net assets acquired over the cost of acquisition in amount of RUB 1,277 thousand.

(thousands of Russian Roubles)

2010 acquisitions

Acquisitions of TPS operating segment companies

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

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

SOT and MZMZ

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

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

	Notes	Provisional value	Attributed fair value*
Property, plant and equipment		1,190,929	1,190,929
Trade and other accounts receivable		1,074,401	1,074,401
Inventories		440,100	440,100
Loans receivable		416,000	416,000
Cash and cash equivalents		264,742	264,742
Deferred tax assets, net		35,872	35,872
Trade and other payables		(435,502)	(435,502)
Taxes payable		(72,234)	(72,234)
Net assets of subsidiaries		**2,914,308**	**2,914,308**
Goodwill arising from the acquisition	11	3,248,811	3,248,811
Total purchase consideration		**6,163,119**	**6,163,119**
Less cash and cash equivalents of subsidiaries acquired		(264,742)	(264,742)
Foreign exchange differences		(95,759)	(95,759)
Net outflow of cash and cash equivalents on acquisition		**5,802,618**	**5,802,618**

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

Provisional values represent carrying amounts based on statutory accounting records.

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

(thousands of Russian Roubles)

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

MSA

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

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

	Notes	Provisional value	Attributed fair value*
Property, plant and equipment		1,382,361	939,094
Inventories		252,823	252,823
Trade and other accounts receivable		240,531	240,531
Cash and cash equivalents		60,665	60,665
Other non-current assets		43,498	43,498
Intangible assets		1,333	1,333
Trade and other payables		(698,708)	(698,708)
Borrowings		(544,194)	(544,194)
Finance lease liabilities	19	–	(78,073)
Deferred tax liabilities, net		(113,044)	(13,989)
Taxes payable		(9,683)	(9,683)
Net assets of subsidiary		**615,582**	**193,297**
Goodwill arising from the acquisition	11	1,135,782	1,558,067
Total purchase consideration		**1,751,364**	**1,751,364**
Less cash and cash equivalents of subsidiary acquired		(60,665)	(60,665)
Foreign exchange differences		(6,403)	(6,403)
Net outflow of cash and cash equivalents on acquisition		**(1,684,296)**	**(1,684,296)**

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

Provisional values represent carrying amounts based on statutory accounting records.

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

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

(thousands of Russian Roubles)

2011 disposals

Disposal of a number of non-performing subsidiaries of CJSC "Rimera"

In May and December 2011, the Group finalised disposals to related and third parties of its full controlling interests in a number of non-performing subsidiaries of CJSC "Rimera", as follows: LLC "Usinsk-Alnas-service", LLC "Alnas-K", LLC "Armada", CJSC "Nyaganneftemash".
The carrying amounts of the major classes of disposed assets and liabilities were as follows:

	Note	Carrying value at the date of disposal
Accounts receivable		64,576
Cash and cash equivalents		8,253
Deferred tax assets	29	2,251
Inventories		974
Property, plant and equipment	9	66
Intangible assets	10	18
Borrowings		(303,313)
Trade and other payables		(94,486)
Net liabilities disposed of		**(321,661)**
Non-controlling interest disposed of	11	(4,342)
Receivables from disposed subsidiaries	14,15	318,880
Consideration received in cash		(1,123)
Gain on disposal		**(8,246)**
Consideration received in cash		1,123
Less cash and cash equivalents of subsidiary disposed of		(8,253)
Net outflow of cash and cash equivalents on disposal		**(7,130)**

2010 disposals

Disposal of RNGG group of companies

During the course of 2010, the Group discontinued its exploratory drilling operations, resulting in the disposal on 30 December 2010 of 100% of OJSC "Regional Oil and Gas Wells Contractors Association" ("RNGG"), 100% of CJSC "Taymyrnefterazvedka" and 82.86% of LLC "Taymyrtransgruz" to a third party for total consideration of RUB 100 thousand. As part of the disposal of RNGG, the Group impaired trade and other receivables of RUB 181,799 thousand (Note 15) and loans receivable of RUB 439,916 thousand (Note 14) due from RNGG, which were previously eliminated on consolidation. This has resulted in an overall loss on disposal.

	Note	30 December 2010
Inventories		340,711
Property, plant and equipment	9	240,534
Trade and other accounts receivable		129,181
Loans receivable		10,013
Other non-current assets		5,471
Cash and cash equivalents		4,094
Intangible assets	10	29
Trade and other payables		(666,300)
Borrowings		(444,216)
Deffered tax liabilities	29	(16,057)
Net liabilities disposed of		**(396,540)**
Non-controlling interest disposed of	11	(8,700)
Consideration received in cash		(100)
Offset of receivables from disposed subsidiaries		621,715
Loss on disposal		**216,375**

(thousands of Russian Roubles)

Disposal of Alnas+

In April 2010, the Group disposed of 100% of Alnas+ to third parties for total consideration of RUB 10 thousand.

	Note	26 April 2010
Inventories		6,225
Trade and other accounts receivable		4,403
Property, plant and equipment	9	544
Cash and cash equivalents		314
Borrowings		(29,759)
Trade and other payables		(31,402)
Net liabilities disposed of		**(49,675)**
Consideration received in cash		(10)
Gain on disposal		**(49,685)**

8. SEGMENT REPORTING

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

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

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

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

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

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

(thousands of Russian Roubles)

Segment information related to the Group's consolidated statement of comprehensive income for the year ended 31 December 2011 is as follows:

	SPP (as reviewed by CODM)	OFS (as reviewed by CODM)	TPS (as reviewed by CODM)	Adjustments	Eliminations	Total (as per IFRS consolidated financial statements)
Revenue from external customers	97,811,516	8,913,183	7,142,615	103,572	—	113,970,886
Inter-segment revenue	462,124	2,450	41,648	—	(506,222)	—
Cost of sales	(74,031,584)	(7,632,335)	(5,163,550)	(827,710)	514,354	(87,140,825)
Distribution costs	(5,807,662)	(180,440)	(444,011)	(315,398)	5,817	(6,741,694)
General and administrative expenses	(6,270,715)	(1,530,719)	(470,998)	208,766	(13,949)	(8,077,615)
(Impairment)/reversal of impairment of assets	(330,608)	251,226	161,556	(945,566)	—	(863,392)
Gain/(loss) on disposal of property, plant and equipment	51,161	26,631	20,744	(350,801)	—	(252,265)
Dividend income	562,350	—	—	—	—	562,350
Foreign exchange (loss)/gain, net	(31,470)	1,582	29,647	1,897	—	1,656
Share of loss of associates	—	—	—	(1,070)	—	(1,070)
Other (expense)/income, net	(239,730)	—	—	239,730	—	—
Less: depreciation and amortisation	3,305,146	1,130,348	136,719	1,195,472	—	5,767,685
Segment EBITDA	**15,480,528**	**981,926**	**1,454,370**	**(691,108)**	—	**17,225,716**
Depreciation and amortisation	(3,305,146)	(1,130,348)	(136,719)	(1,195,472)	—	(5,767,685)
Interest income	483,849	100,795	86,191	126,062	(650,692)	146,205
Interest expense	(10,177,609)	(1,237,184)	(43,291)	81,168	650,692	(10,726,224)
Excess of the Group's share in provisional value of net assets acquired over the cost of acquisition	—	—	—	201,851	—	201,851
Gain on disposal of subsidiary	—	—	—	8,246	—	8,246
Income tax	(796,267)	339,250	(146,213)	(15,755)	—	(618,985)
Profit/(loss) for the year	**1,685,355**	**(945,561)**	**1,214,338**	**(1,485,008)**	—	**469,124**

Segment information related to the Group's consolidated statement of financial position at 31 December 2011:

	SPP (as reviewed by CODM)	OFS (as reviewed by CODM)	TPS (as reviewed by CODM)	Adjustments	Total (as per IFRS consolidated financial statements)
Current assets	58,639,256	4,253,579	4,101,873	(19,823,450)	47,171,258
Non-current assets	118,188,793	7,716,985	1,688,391	(52,123,153)	75,471,016
Total assets	**176,828,049**	**11,970,564**	**5,790,264**	**(71,946,603)**	**122,642,274**
Current liabilities	87,303,584	3,025,705	1,243,363	20,081,916	111,654,568
Non-current liabilities	54,915,746	5,370,453	175,162	(39,588,584)	20,872,777
Total liabilities	**142,219,330**	**8,396,158**	**1,418,525**	**(19,506,668)**	**132,527,345**

The information analysed by the CODM is reconciled to the IFRS consolidated financial statements at 31 December 2011 as follows:

	Current assets	Non-current assets	Current liabilities	Non-current liabilities
As reviewed by CODM	**66,994,708**	**127,594,169**	**91,572,652**	**60,461,361**
Scope of consolidation	(140,640)	(437,762)	(29,738)	42,975
Reclassifications	(18,734,559)	(1,707,327)	8,089,831	(28,531,715)
Other adjustments	(948,251)	(49,978,064)	12,021,823	(11,099,844)
As per IFRS consolidated financial statements	**47,171,258**	**75,471,016**	**111,654,568**	**20,872,777**

(thousands of Russian Roubles)

Segment information related to the Group's consolidated statement of comprehensive income for the year ended 31 December 2010 is as follows:

	SPP (as reviewed by CODM)	OFS (as reviewed by CODM)	TPS (as reviewed by CODM)	Adjustments	Eliminations	Total (as per IFRS consolidated financial statements)
Revenue from external customers	75,251,798	7,924,222	2,815,850	(591,155)	–	85,400,715
Inter-segment revenue	284,600	15,898	6,674	–	(307,172)	–
Cost of sales	(51,189,386)	(7,138,993)	(2,052,162)	967,758	315,981	(59,096,802)
Distribution costs	(5,923,968)	(254,987)	(270,017)	(50,306)	1,073	(6,498,205)
General and administrative expenses	(4,551,497)	(1,277,394)	(306,772)	155,253	(9,882)	(5,990,292)
Gain/(loss) on disposal of property, plant and equipment	3,699	(101,692)	2,640	(78,740)	–	(174,093)
(Impairment)/reversal of impairment of assets	(48,195)	(152,831)	(313,166)	868,336	–	354,144
Foreign exchange gain/(loss), net	876,769	(24,949)	6,557	(1,423)	–	856,954
Share of loss of associates	–	(111,320)	–	–	–	(111,320)
Other (expenses)/income, net	(151,759)	(97,918)	(5,271)	254,948	–	–
Less: depreciation and amortisation	1,937,142	896,787	102,513	129,206	–	3,065,648
Segment EBITDA	**16,489,203**	**(323,177)**	**(13,154)**	**1,653,877**	**–**	**17,806,749**
Depreciation and amortisation	(1,937,142)	(896,787)	(102,513)	(129,206)	–	(3,065,648)
Finance income	2,495,062	108,381	48,223	(454,948)	(976,342)	1,220,376
Finance costs	(8,933,488)	(1,460,186)	(20,052)	367,058	976,342	(9,070,326)
Gain on disposal of a subsidiary	–	–	–	(166,690)	–	(166,690)
Income tax	(2,682,167)	207,862	(71,618)	548,795	–	(1,997,128)
Profit/(loss) for the year	**5,431,468**	**(2,363,907)**	**(159,114)**	**1,818,886**	**–**	**4,727,333**

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

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

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

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

(thousands of Russian Roubles)

Geographical information

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

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

Revenue for the year ended 31 December	Russian Federation	Other states in CIS	Other	Total
2011	104,385,769	4,472,097	5,113,020	113,970,886
2010	80,149,408	2,107,203	3,144,104	85,400,715

Major customers

The Group's sales to major customers for the year ended 31 December 2011 and 2010 are set out in the table below:

	2011	2010
Customer 1	26,891,334	17,643,077
Customer 2	9,421,150	4,298,232
Customer 3	4,066,217	3,271,336
Total revenue (all attributable to steel pipe production)	**40,378,701**	**25,212,645**

(thousands of Russian Roubles)

9. PROPERTY, PLANT AND EQUIPMENT

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

	Notes	Land	Buildings	Infrastructure	Plant and equipment	Other	Construction in progress	Total
Cost or valuation at 31 December 2009		385,205	12,928,537	1,961,782	27,223,306	2,052,180	26,306,103	70,857,113
Accumulated depreciation at 31 December 2009		–	(6,883,777)	(1,348,276)	(14,692,063)	(940,653)	–	(23,864,769)
Accumulated impairment at 31 December 2009		–	(100,065)	(40,587)	(280,624)	(4,112)	(377,976)	(803,364)
Carrying amount at 31 December 2009		**385,205**	**5,944,695**	**572,919**	**12,250,619**	**1,107,415**	**25,928,127**	**46,188,980**
Additions and transfers		13,737	4,732,363	508,485	11,070,304	267,766	(3,806,218)	12,786,437
Acquired in a business combination		88,195	1,326,769	–	654,151	70,406	23,818	2,163,339
Disposals (cost)		(1,582)	(239,665)	(22,188)	(437,855)	(107,640)	(207,271)	(1,016,201)
Effect of foreign currency exchange differences (cost)		295	6,044	–	5,103	515	(178)	11,779
Disposals (accumulated depreciation)		–	26,678	5,645	318,062	51,660	–	402,045
Disposals (accumulated impairment)		–	–	–	13,218	–	151	13,369
Depreciation charge		–	(305,454)	(55,365)	(2,418,028)	(219,336)	–	(2,998,183)
Effect of foreign currency exchange differences (depreciation)		–	404	–	2,052	605	–	3,061
Impairment recognised	26	–	–	–	–	–	(48,156)	(48,156)
Impairment reversed	26	–	–	–	4,015	–	205,459	209,474
Disposals of subsidiaries (cost)	7	–	(178,241)	–	(80,633)	(15,528)	(27,812)	(302,214)
Disposals of subsidiaries (accumulated depreciation)	7	–	16,088	–	33,503	11,545	–	61,136
Transfers to current assets		–	–	–	–	–	(852,645)	(852,645)
Cost or valuation at 31 December 2010		485,850	18,575,807	2,448,079	38,434,376	2,267,699	21,435,797	83,647,608
Accumulated depreciation at 31 December 2010		–	(7,146,061)	(1,397,996)	(16,756,474)	(1,096,179)	–	(26,396,710)
Accumulated impairment at 31 December 2010		–	(100,065)	(40,587)	(263,391)	(4,112)	(220,522)	(628,677)
Carrying amount at 31 December 2010		**485,850**	**11,329,681**	**1,009,496**	**21,414,511**	**1,167,408**	**21,215,275**	**56,622,221**
Additions and transfers		7,065	8,211,456	2,333,725	15,801,130	1,333,004	(16,099,988)	11,586,392
Acquired in a business combination	7	3,236	1,278,023	–	247,549	10,665	11,174	1,550,647
Disposals (cost)		(9,210)	(422,781)	(13,654)	(901,781)	(296,735)	(215,612)	(1,859,773)
Effect of foreign currency exchange differences (cost)		(3,663)	12,792	–	6,287	(1,699)	(504)	13,213
Disposals (accumulated depreciation)		–	89,288	4,587	463,748	140,929	–	698,552
Disposals (accumulated impairment)		–	23,737	–	32,882	7,197	53,636	117,452
Depreciation charge		–	(606,793)	(260,082)	(4,487,244)	(262,900)	–	(5,617,019)
Effect of foreign currency exchange differences (depreciation)		–	2,853	–	(22,708)	454	–	(19,401)
Impairment recognised	26	–	(66,674)	(3,066)	(216,069)	(7,415)	(24,279)	(317,503)
Impairment reversed	26	–	71,054	–	57,250	185	8,948	137,437
Disposals of subsidiaries (cost)	7	–	–	–	(76)	(144)	(56)	(276)
Disposals of subsidiaries (accumulated depreciation)	7	–	–	–	76	134	–	210
Cost or valuation at 31 December 2011		483,278	27,655,297	4,768,150	53,587,485	3,312,790	5,130,811	94,937,811
Accumulated depreciation at 31 December 2011		–	(7,660,713)	(1,653,491)	(20,802,602)	(1,217,562)	–	(31,334,368)
Accumulated impairment at 31 December 2011		–	(71,948)	(43,653)	(389,328)	(4,145)	(182,217)	(691,291)
Carrying amount at 31 December 2011		**483,278**	**19,922,636**	**3,071,006**	**32,395,555**	**2,091,083**	**4,948,594**	**62,912,152**

At 31 December 2011, a number of capital works-in-progress that in management's opinion will not be continued in the foreseeable future are shown net of an impairment provision in amount of RUB 182,217 thousand (31 December 2010: RUB 220,522 thousand). In 2011, the Group recognised an impairment reversal in the amount of RUB 38,304 thousand (2010: RUB 157,453 thousand).

At 31 December 2011, bank borrowings were secured on property, plant and equipment with carrying value of RUB 21,241,091 thousand (31 December 2010: RUB 11,374,600 thousand) (Note 32).

Additionally, at 31 December 2011, the Group has RUB 487,214 thousand of plant and equipment under finance leases (31 December 2010: RUB 316,711 thousand). The entire amount guarantees the related finance lease obligation as discussed in Note 19.

During 2010, the Group transferred capitalised expenses related to construction of gas station in the amount of RUB 852,645 thousand from construction in progress to other current assets as the Group now intends to sell it (Note 17).

(thousands of Russian Roubles)

10. INTANGIBLE ASSETS

	Notes	Software	Lease rights	Customer lists	Development cost capitalised	Other	Total
Cost at 31 December 2009		319,597	121,283	267,579	181,970	192,536	1,082,965
Accumulated amortisation at 31 December 2009		(237,424)	(7,712)	(85,303)	–	(52,721)	(383,160)
Accumulated impairment at 31 December 2009		(18,800)	(78,485)	–	–	–	(97,285)
Carrying amount at 31 December 2009		**63,373**	**35,086**	**182,276**	**181,970**	**139,815**	**602,520**
Additions and transfers		120,481	–	–	115,886	49,966	286,333
Disposals (cost)		(213,275)	–	–	(48,347)	(7,038)	(268,660)
Disposals (accumulated amortisation)		207,783	–	–	–	7,038	214,821
Disposals (accumulated impairment)		5,800	–	–	–	–	5,800
Amortisation charge		(76,519)	(764)	(46,953)	(1,525)	(31,981)	(157,742)
Acquired in a business combination		1,332	–	–	–	–	1,332
Disposal of subsidiaries (cost)	7	(55)	–	(11,925)	–	–	(11,980)
Disposal of subsidiaries (accumulated amortisation)	7	26	–	11,925	–	–	11,951
Cost at 31 December 2010		228,080	121,283	255,654	249,509	235,464	1,089,990
Accumulated amortisation at 31 December 2010		(106,134)	(8,476)	(120,331)	(1,525)	(77,664)	(314,130)
Accumulated impairment at 31 December 2010		(13,000)	(78,485)	–	–	–	(91,485)
Carrying amount at 31 December 2010		**108,946**	**34,322**	**135,323**	**247,984**	**157,800**	**684,375**
Additions and transfers		64,215	–	–	138,023	220,852	423,090
Disposals (cost)		(27,885)	–	–	(7,219)	(17,434)	(52,538)
Effect of foreign currency exchange differences (cost)		13	–	–	–	–	13
Effect of foreign currency exchange differences (depreciation)		(6)	–	–	–	–	(6)
Disposals (accumulated amortisation)		23,173	–	–	1,525	15,717	40,415
Disposals (accumulated impairment)		4,753	–	–	–	–	4,753
Amortisation charge		(61,088)	(637)	(50,128)	–	(72,320)	(184,173)
Acquired in a business combination	7	2,543	–	27,563	–	4	30,110
Disposals in business combination (cost)	7	(114)	–	(1,344)	–	(18)	(1,476)
Disposals in business combination (accumulated amortisation)	7	106	–	1,344	–	8	1,458
Cost at 31 December 2011		266,852	121,283	281,873	380,313	438,868	1,489,189
Accumulated amortisation at 31 December 2011		(143,949)	(9,113)	(169,115)	–	(134,259)	(456,436)
Accumulated impairment at 31 December 2011		(8,247)	(78,485)	–	–	–	(86,732)
Carrying amount at 31 December 2011		**114,656**	**33,685**	**112,758**	**380,313**	**304,609**	**946,021**

(thousands of Russian Roubles)

11. GOODWILL AND NON-CONTROLLING INTERESTS

Movements of goodwill allocated by CGUs and non-controlling interests in 2011 and 2010 are presented in the table below:

	2011		2010	
	Goodwill	**Non-controlling interests**	**Goodwill**	**Non-controlling interests**
At 1 January	**5,928,844**	**(304,014)**	1,105,295	(370,612)
Cost	16,052,547	(304,014)	11,228,998	(370,612)
Accumulated impairment	(10,123,703)	–	(10,123,703)	–
Loss attributable to non-controlling interests	–	**27,287**	–	**56,722**
Increase in participation interest				
BasaMetalloProdukcyi (CGU Pipe)	–	5,760	–	–
Other (CGU OFS)	–	38,197	–	–
UTS (CGU Pipe)	–	–	–	1,176
Acquired in business combination				
SOT and MZMZ (CGU TPS)	–	–	3,248,811	–
MSA (CGU TPS)	–	–	1,558,067	–
NCTB (CGU OFS)	352,900		–	–
INM (CGU OFS)	–	(192,674)	–	–
Decrease due to disposal				
NyaganNefteMash (CGU OFS)	–	1,833	–	–
UsinskAlnasService (CGU OFS)	–	2,509	–	–
Taimyrtransgruz (CGU OFS)	–	–	–	8,700
Effect of foreign currency exchange differences (cost)				
MSA (CGU TPS)	24,640	–	16,671	–
At 31 December	**6,306,384**	**(421,102)**	**5,928,844**	**(304,014)**
Cost	16,430,087	(421,102)	16,052,547	(304,014)
Accumulated impairment	(10,123,703)	–	(10,123,703)	–

Goodwill acquired is allocated to the Group's cash-generating units, which are Pipe, Meta, OFS and TPS (former Rimera).

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

	31 December 2011	**31 December 2010**
TPS	4,848,188	4,823,548
Meta	732,557	732,557
OFS	725,639	372,739
Total carrying value of goodwill	**6,306,384**	**5,928,844**

In 2011, the Group acquired 30% of BasaMetalloProdukcyi from third party for a consideration of RUB 1,712 thousand increasing its participation to 100%. As a result of this transaction non-controlling interest decreased by RUB 5,760 thousand.

(thousands of Russian Roubles)

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 2011, the Group tested goodwill for impairment using following key assumptions for value-in-use calculations:

	OFS	TPS	Meta
Excess of recoverable amounts over carrying values of CGU	5,066,952	3,151,049	2,872,485
Used key assumptions			
EBITDA margin	6%-31%	8%-26%	5%-6%
Pre tax discount rate	2%-4%	18%	22%
Terminal growth rate	2.5%	2.5%	2.0%

The recoverable amount of the OFS CGU would be equal to its carrying value if the EBITDA margin decrease by 2.3 percentage point or used discount rate would be higher by 2.3 percentage points. Any reasonably possible changes in the terminal growth rates would not lead to goodwill impairment.

The recoverable amount of the TPS CGU would be equal to its carrying value if the EBITDA margin decrease by 0.9 percentage point or used discount rate would be higher by 1.1 percentage points or the used terminal growth rate would be lower be 1.6 percentage point.

The recoverable amount of Meta CGU would be equal to its carrying value if the EBITDA margin decreases by 2.6 percentage point. Any reasonably possible changes in the discount rate and the terminal growth rate used would not lead to goodwill impairment.

(thousands of Russian Roubles)

12. INVESTMENTS IN ASSOCIATES

Summarised financial information in respect of the Group's associates is set out below.

	31 December 2011	31 December 2010
Total assets	105,123	2,057,812
Total liabilities	(32,429)	(585,483)
Net assets	72,694	1,472,329
Group's share of net assets of associates	**36,628**	**697,617**

	2011	2010
Total revenue	149,643	1,412,740
Total loss for the year	(2,140)	(199,578)
Group's share of loss of associates	**(1,070)**	**(111,320)**

In 2011, the Group acquired 30% stake in CJSC "TechnoInvest Aliance" from a third party for a cash consideration of RUB 3,212,875 thousand. The entity is not considered to be an associate as no operating activity exists and its only asset is a mineral resource license. The Group classified such investment as a financial asset held for sale and included it in the separate line "Other financial assets" in the consolidated statement of financial position. Management believes this amount to be fully recoverable and unimpaired.

13. INVENTORY

	31 December 2011	31 December 2010
Raw materials	17,336,479	12,786,751
Finished goods and goods for resale	4,454,349	4,197,748
Work in progress	3,424,785	3,003,069
Allowance for obsolete and slow-moving inventory	(1,191,169)	(1,130,947)
Total inventory	**24,024,444**	**18,856,621**

At 31 December 2011, bank borrowings were secured on inventory with carrying value of RUB 2,467,510 thousand (31 December 2010: RUB 2,590,881 thousand) (Note 32).

14. LOANS RECEIVABLE

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

	31 December 2011	31 December 2010
Non-current loans receivable		
Loans receivable from related parties at interest rates as follows		
- Interest free	28,916	12,993
- 1% p.a.	–	11,542
- 6.5% to 11% p.a.	52,159	–
- 10% to 13% p.a.	111,299	945,510
- 17% p.a.	–	120,400
Loans receivable from third parties at interest rates as follows		
- Interest free	78,961	86,278
- Mosprime 1M + 5.7% p. a.	422,436	359,335
- 5% to 13% p. a.	788,886	496,449
- 13% to 20% p. a.	8,900	54,840
Allowance for impairment of loans receivable	(700,935)	(498,810)
Total loans receivable	**790,622**	**1,588,537**

(thousands of Russian Roubles)

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

	2011	2010
At 1 January	**(498,810)**	**(271,514)**
Allowance recorded (Note 27)	(4,785)	(70,268)
Allowance reversed (Note 27)	57,700	3,500
Impairment of loans receivable disposed in a subsidiary	(255,040)	(439,916)
Loans receivable written-off during the year as uncollectible	–	282,988
Other	–	(3,600)
At 31 December	**(700,935)**	**(498,810)**

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

15. TRADE AND OTHER RECEIVABLES

	31 December 2011	31 December 2010
Trade receivables	16,324,949	11,626,468
Interest receivables	340,904	2,512,847
Other receivables	648,940	799,104
Allowance for impairment of trade, interest and other receivables	(3,695,544)	(2,993,629)
Total financial assets	**13,619,249**	**11,944,790**
VAT and other taxes recoverable	3,602,527	2,606,783
Allowance for impairment of VAT and other taxes receivable	(323,301)	(293,921)
Advances and prepayments	1,274,004	6,544,075
Allowance for impairment of advances and prepayments	(201,060)	(373,602)
Total non-financial assets	**4,352,170**	**8,483,335**
Total trade and other receivables	**17,971,419**	**20,428,125**

Management believes that the fair value of accounts receivable does not differ significantly from their carrying amounts due to their short-term nature. No accounts receivable were renegotiated during 2011 (2010: nil). The Group's receivables denominated in foreign currencies are disclosed in Note 33.

In 2010 and 2011, the Group made advance payments to foreign suppliers for high quality steel strips for newly commissioned large diameter pipe (LDP) facility “Vysota 239”. At 31 December 2010, advances and prepayments included such payments in the amount of RUB 4,573,730 thousand. Due to temporary decrease in demand for LDP in the fourth quarter of 2011 the Group cancelled the contracts and the suppliers paid back all the amounts received in advance without penalties.

The Group usually provides customers with an average of 25-60 days credit period. For major customers the Group can provide an average credit period of 90-120 days. The ageing analysis of unimpaired trade, interest and other receivables (except advances and prepayments), based on maturity date is as follows:

	31 December 2011	31 December 2010
Less than 3 months	13,294,297	9,270,263
3-6 months	42,542	356,411
More than 6 months	212,904	2,271,975
Trade, interest and other receivables not impaired	**13,549,743**	**11,898,649**

(thousands of Russian Roubles)

The Group identified trade, interest and other receivables of RUB 3,765,051 thousand (31 December 2010: RUB 3,039,769 thousand) that were subject to individual impairment reviews. Of this amount, the Group has recognised allowance of RUB 3,695,544 thousand at 31 December 2011 (31 December 2010: RUB 2,993,629 thousand).

Individually impaired receivables are identified for customers that are in unexpectedly difficult economic situations or to balances with long periods of settlement. The ageing of these receivables identified for individual impairment, based on maturity date is as follows:

	31 December 2011	31 December 2010
Less than 3 months	–	24,998
3-6 months	139,015	94,819
More than 6 months	3,626,036	2,919,952
Total gross amount of fully and partially impaired trade, interest and other receivables	**3,765,051**	**3,039,769**

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

	Trade and other receivables		Advances and prepayments	
	2011	2010	2011	2010
At 1 January	**(2,993,629)**	**(2,843,511)**	**(373,602)**	**(353,947)**
Acquired in a business combination	(3,841)	(327,972)	(213)	(8,363)
Expense recorded (Note 27)	(1,055,778)	(210,354)	(147,595)	(132,404)
Allowance reversed (Note 27)	315,658	502,468	187,279	90,912
Expense of foreign currency exchange differences	(2,619)	(3,696)	–	–
Impairment of receivables from disposed subsidiaries	(63,840)	(181,799)	–	–
Receivables written-off during the year as uncollectible	100,811	39,881	7,613	16,484
Disposal of subsidiaries	7,694	31,354	125,458	13,716
At 31 December	**(3,695,544)**	**(2,993,629)**	**(201,060)**	**(373,602)**

In July 2011, the Group individually impaired the trade receivables of a number of Group companies engaged in scrap procurement business totalling RUB 781,409 thousand previously due from a related party who ceased to be such at that time.

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

At 31 December 2011, bank borrowings were secured on accounts receivables with carrying value of RUB 3,091,278 thousand (31 December 2010: nil) (Note 32).

(thousands of Russian Roubles)

16. CASH AND CASH EQUIVALENTS

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

	31 December 2011	31 December 2010
Cash on hand and balances with banks, RUB	1,688,173	2,142,498
Term deposits in RUB (interest rate: 4.2% to 7.95% p.a.)	368,247	1,132,078
Cash balances with banks, USD	205,768	33,478
Cash balances with bank, Euro, CHF, GBP	100,428	56,254
Term promissory note	54,287	32,884
Term deposits in USD, EUR (interest rate: 0.5% to 1.0% p.a.)	41,532	225,492
Total cash and cash equivalents	**2,458,435**	**3,622,684**

17. OTHER CURRENT ASSETS

In 2008, the Group commenced construction of an industrial gas station, which it intended to use internally at its operational facilities. During 2010, the Group concluded it was not in the business of operating and producing gas and in December 2010, entered into an agreement with a third party to sell the industrial gas station upon completion of its construction. At that time, the Group will purchase its gas requirements from this third party. Management expected that its subcontractor would complete the construction of this asset by the end of 2011. The Group has therefore reclassified its construction cost at 31 December 2010 of RUB 852,645 thousand from property, plant and equipment to other current assets. During 2011, the Group incurred additional construction cost of RUB 77,511 thousand. The remaining balance of RUB 164,408 thousand represents other assets related to the planned sale of this gas station. Due to delays caused by the subcontractor, the Group postponed completion of construction till the third quarter of 2012.

18. EQUITY

At 31 December 2011, the total authorised number of ordinary shares is 944,765,760 (2010: 944,765,760 shares) with a par value of RUB 1 per share of which 472,382,880 ordinary shares are issued and fully paid. Each ordinary share carries one vote. During the year ended 31 December 2010, the Company authorised an additional 472,382,880 of ordinary shares, none of which have been issued at 31 December 2010 and 31 December 2011.

At 1 January 2010, the Group held 3,340,540 treasury shares for a total amount of RUB 320,315 thousand.

In 2008, the Group sold 24,172,111 treasury shares to a third party for cash consideration of RUB 2,426,390 thousand. The terms of the sale deferred the third party’s payment until 20 February 2010. In February 2010, the third party breached the terms of the contract after not meeting the agreed upon payment terms. Consequently, the Group commenced pursuing legal transfer of its shares. The Group successfully obtained legal transfer of 21,810,197 of these shares in 2010 and 2,361,914 in 2011 back from the third party.

At 31 December 2010, the Group held 25,150,737 treasury shares for a total amount of RUB 2,513,715 thousand.

In 2011, the Group purchased an additional 15,263,051 treasury shares for total cash consideration of RUB 1,859,619 thousand from third parties. In December 2011, the Group also purchased 112,805,031 of treasury shares for total cash consideration of RUB 13,189,653 thousand from Mountrise Limited, its parent company.

(thousands of Russian Roubles)

According to the Company's charter, the Company is required to establish a legal reserve through the allocation of 5 percent of net profit as computed under Russian accounting regulations. The total amount of the reserve is limited to 15 percent of the nominal registered amount of the Company's issued share capital. The legal reserve may only be used to offset losses of the Company and cannot be distributed to shareholders. At 31 December 2011 and 2010, the legal reserve is RUB 70,857 thousand.

In 2011 and 2010, the Company did not declare or pay dividends.

19. BORROWINGS

	31 December 2011	31 December 2010
Non-current		
Term loans with fixed rates	5,900,369	3,012,431
Term loans with floating rates	725,141	11,244,082
Credit lines with fixed rates	12,634,628	20,312,310
Credit lines with floating rates	–	4,599,600
Promissory notes issued	4,203	3,817
Finance lease liabilities	219,912	249,444
Total non-current borrowings	**19,484,253**	**39,421,684**
Current		
Term loans with fixed rates	6,998,518	10,153,651
Term loans with floating rates	13,339,304	12,532,844
Credit lines with fixed rates	45,960,365	13,840,844
Credit lines with floating rates	25,982,870	5,578,549
Term loans due to related parties	21,000	44,913
Bonds payable	1,289,467	4,170,172
Promissory notes issued	2,612	42,358
Finance lease liabilities	115,410	124,643
Total current borrowings	**93,709,546**	**46,487,974**
Total borrowings	**113,193,799**	**85,909,658**

Bonds payable

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

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

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

In December 2009, the Company issued 5 million bonds BO 01 at par value of RUB 1 thousand each. The bonds contain a buy-back option commencing 8 December 2011. The bonds are repayable beginning 4 December 2012, the 1,092-th day following the date of placement. The interest yield amounts to 12.5% p.a. In 2009, the Company repurchased 1,257,634 bonds for RUB 1,257,634 thousand. During the year ended 31 December 2010, the Group sold 418,149 bonds to third parties for RUB 428,606 thousand. During the year ended 31 December 2011, the Group sold 820,986 bonds to third parties for RUB 835,418 thousand. In December 2011, during buy-back option 3,713,499 bonds were redeemed at 100% face-value. The carrying value of the BO 01 at 31 December 2011 was RUB 1,286,258 thousand (31 December 2010: RUB 4,166,963 thousand).

(thousands of Russian Roubles)

Term loans and credit lines

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

During the period, the Group entered into additional borrowing facilities totalling RUB 54,456,812 thousand which comprised term loans of RUB 12,378,073 thousand and credit lines of RUB 42,078,739 thousand, including the following:

- Various credit lines totalling RUB 42,078,739 thousand fully drawn at period end are repayable from May 2012 to December 2014;
- Term loans from various banks denominated in Russian Roubles totalling RUB 11,129,406 thousand are each repayable on dates from March 2012 to April 2016;
- Term loan denominated in EUR totalling RUB 120,207 thousand is repayable in full in June 2014;
- Term loan denominated in Czech koruna totalling RUB 60,000 thousand is repayable in full in January 2012;
- Term loan denominated in USD totalling RUB 1,068,460 thousand is repayable in full in April 2012.

The above borrowing facilities bear interest at rates varying between 7.2% and 13% and were used to retire debts and fund working capital.

In addition, at 31 December 2011, the Group had available undrawn amounts under credit lines totalling RUB 8,901,046 thousand, of which the RUB 8,191,673 thousand is denominated in Russian Roubles and the rest is in Euro and US Dollars.

The nominal interest rates at 31 December 2011 were as follows:

	RUB	USD	Euro
Term loans with fixed rates	7.2%-15%	5%	–
Term loans with floating rates	MOSPRIME3M + from 2.5% to 5.5%; Libor6m JPY+5.2%; 10%-12%	–	EURIBOR + 1%
Credit lines with fixed rates	8.5%-13%	–	–
Credit lines with floating rates	MOSPRIME + from 5.0% to 7.0%, Refinancing rate+5.5%	LIBOR +6.75%	EURIBOR +1%
Bonds payable	12.50%	–	–
Term loans due to related parties	10%	–	–

At 31 December 2010:

	RUB	USD	Euro
Term loans with fixed rates	9%-16%	5%-11%	–
Term loans with floating rates	MOSPRIME + from 2.5% to 5.5%, 10%-12%	LIBOR + 6.75%	EURIBOR + from 1.0% to 3.1%
Credit lines with fixed rates	7.5%-17%	–	–
Credit lines with floating rates	MOSPRIME + from 5% to 6.0%, CBRF rate* + 6.5%, 10%-15.1%	LIBOR + 5.7%	
Bonds payable	8%-16.5%	–	–
Term loans due to related parties	10%	–	–

* CBRF refinancing rate

(thousands of Russian Roubles)

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

	31 December 2011	31 December 2010
1 to 2 years	12,248,947	15,508,897
2 to 3 years	7,011,191	12,448,975
3 to 4 years	–	8,574,311
4 to 5 years	–	1,953,955
Beyond 5 years	4,203	686,102
Total non-current borrowings	**19,264,341**	**39,172,240**

Certain of the loan agreements contain debt covenants that impose restrictions on the purposes for which the loans may be utilised, covenants with respect to disposal of assets, incurring of additional liabilities, issuance of loans or guarantees, obligations under any future reorganisation procedures or bankruptcy of borrowers and also require that the respective Group entities maintain pledged assets. In addition, these agreements contain financial covenants which include compliance with several financial ratios and clauses regarding the acceleration of payment upon default, including cross-default provisions.

At 31 December 2011, the Group was not in compliance with certain financial covenants contained in lending agreements with OJSC Sberbank, BNP Paribas S.A., OJSC Bank of Moscow, OJSC Nomos bank, OJSC Alfa-bank and CJSC Unicredit bank. The borrowings in amount of RUB 49,548,083 thousand were in breach as at 31 December 2011. As a result of these breaches, the long term portion of these borrowings in the amount of RUB 37,168,627 thousand was reclassified as a current obligation at 31 December 2011.

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

	31 December 2011	31 December 2010
1 to 2 years	8,458,197	6,180,651
2 to 3 years	21,075,433	1,569,728
3 to 4 years	3,202,840	491,870
4 to 5 years	1,706,436	494,510
More than 5 years	2,725,721	2,510,987
Total long-term portion of breached borrowings	**37,168,627**	**11,247,746**

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

	Minimum lease payments		Present value of minimum lease payments	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Due in 1 year	167,918	184,087	115,410	124,643
Due between 1 and 5 years	284,643	331,653	219,912	249,444
Total	**452,561**	**515,740**	**335,322**	**374,087**

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

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

(thousands of Russian Roubles)

20. RETIREMENT BENEFIT OBLIGATIONS

Retirement benefit obligations consist of the following:

	2011	2010
Present value of unfunded obligations at 1 January	503,751	445,393
Unrecognised past service cost at 1 January	(92,155)	(107,515)
At 1 January	**411,596**	**337,878**
Current service cost	25,281	22,240
Interest cost (Note 28)	38,604	40,077
Past service cost	17,980	15,360
Actuarial losses	64,891	2,946
Settlements	(41,989)	(6,905)
Present value of unfunded obligations at 31 December	590,538	503,751
Unrecognised past service cost at 31 December	(74,175)	(92,155)
At 31 December	**516,363**	**411,596**

Expense recognised in the consolidated statement of comprehensive income and loss:

	2011	2010
Current service cost	25,281	22,240
Interest cost (Note 28)	38,604	40,077
Past service cost	17,980	15,360
Actuarial losses	64,891	2,946
Total expense	**146,756**	**80,623**

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

	31 December 2011	31 December 2010
Discount rate	8.0%-8.5%	7.5%-8.0%
Inflation rate	6.0%-8.0%	6.0%-8.0%
Future salary increases	6.0%-8.0%	6.0%-8.0%
Future pension increases	6.0%-8.0%	6.0%-8.0%
Withdrawal rate	Depending on years of service	Depending on years of service

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

Sensitivity analysis for pension plan obligations is as follows:

	31 December	Discount rate		Salary rate		Withdrawal rate	
	2011	0.75%	-0.75%	0.75%	-0.75%	1.5%	-1.5%
Chelpipe	218,375	207,403	230,713	230,622	207,331	195,343	243,178
PNTZ	263,633	253,135	275,270	275,187	253,064	241,186	290,005
Alnas	108,530	100,911	123,131	123,372	100,596	106,334	116,832
Total	**590,538**	**561,449**	**629,114**	**629,181**	**560,991**	**542,863**	**650,015**

(thousands of Russian Roubles)

21. TAXES PAYABLE

Current taxes payable consist of the following:

	31 December 2011	31 December 2010
Value added tax	900,432	298,065
Social contributions	383,802	283,893
Property tax	180,412	137,594
Personal income tax	107,169	89,110
Other taxes	43,067	84,780
Income tax	36,226	20,052
Total taxes payable	**1,651,108**	**913,494**

22. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31 December 2011	31 December 2010
Trade payables	10,853,165	15,195,556
Interest payable	212,145	196,856
Accrued liabilities and other creditors	283,149	410,855
Total financial liabilities	**11,348,459**	**15,803,267**
Wages and salaries payable*	1,210,391	905,991
Total accounts payable and accrued expenses	**12,558,850**	**16,709,258**

*Non-financial liabilities

The Group's payables denominated in foreign currencies are disclosed in Note 33.

23. REVENUE

	2011	2010
Domestic sales of pipes	83,763,935	63,728,545
Domestic sales of oilfield services	14,257,452	11,374,632
Domestic sales of scrap	6,017,614	4,690,969
Domestic sales of other goods	346,769	355,762
Export of pipes	7,902,985	4,456,952
Export of oilfield services	1,682,131	793,855
Total revenue	**113,970,886**	**85,400,715**

24. COST OF SALES

	2011	2010
Raw materials	62,649,710	43,513,039
Salaries and salary taxes	9,508,325	6,579,829
Deprecation and amortisation	5,241,699	2,447,794
Production overheads and repairs	4,618,462	2,942,973
Energy and utilities	3,844,125	2,643,089
Cost of goods for resale	2,020,301	3,665,694
Changes in inventory allowance	181,926	(403,699)
Changes in balances of work in progress and finished goods	(923,723)	(2,291,917)
Total cost of sales	**87,140,825**	**59,096,802**

(thousands of Russian Roubles)

25. DISTRIBUTION COSTS

	2011	2010
Transportation and customs expenses	3,962,882	4,570,089
Salaries and salary taxes	1,173,400	897,506
Packing, storage and handling	602,484	305,394
Advertising and marketing expenses	315,649	46,612
Office expenditure	162,375	160,854
Commission	148,579	248,107
Operating lease expenses	143,536	120,780
Depreciation and amortisation	67,935	75,437
Other	164,854	73,426
Total distribution expenses	**6,741,694**	**6,498,205**

26. GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
Salaries and salary taxes	2,737,044	1,991,785
Non-production overheads and repairs	2,251,850	1,278,668
Taxes other than income tax	1,080,200	818,965
Depreciation and amortisation	458,051	542,417
Insurance	376,053	243,112
Consultancy, audit and legal services	345,490	229,116
Operating lease expense	164,290	20,503
Auxiliary materials	138,562	40,325
Management services	–	468,280
Provisions for VAT and other taxes (other than income tax) fines and penalties	–	(340,850)
Other	526,075	697,971
Total general and administrative expenses	**8,077,615**	**5,990,292**

In the year ended 31 December 2010, other operating expenses of RUB 464,139 thousand consisted primarily of financial aid to employees and war veterans, donations to a health resort for employees and their families, donation to child day-care centres, football and hockey team sponsorship. In 2011, this line was reclassified in general and administrative expenses line and comparative statement of comprehensive income was restated.

In 2011, total staff cost in cost of sales, distribution costs and general and administrative expenses amounted to RUB 13,418,769 thousand (2010: RUB 9,469,120 thousand).

27. IMPAIRMENT/(REVERSAL OF IMPAIRMENT) OF ASSETS

	2011	2010
Trade and other receivables (Note 15)	700,436	(250,621)
Property, plant and equipment (Note 9)	180,066	(161,318)
VAT recoverable allowance	35,805	(8,973)
Loans receivable (Note 14)	(52,915)	66,768
Total impairment/(reversal of impairment) of assets	**863,392**	**(354,144)**

(thousands of Russian Roubles)

28. FINANCE INCOME AND COSTS

	2011	2010
Interest income on loans receivable	146,205	1,186,086
Dividend income	562,350	–
Unwinding of discount on accounts receivables	–	34,290
Total finance income	**708,555**	**1,220,376**
Interest cost on borrowings	10,610,017	8,991,880
Finance charges under finance lease	77,603	38,369
Interest on employee benefits liabilities	38,604	40,077
Total finance costs	**10,726,224**	**9,070,326**

29. INCOME TAX

Income taxes comprise the following:

	2011	2010
Current tax	686,408	1,542,791
Deferred tax	(67,423)	454,337
Income tax expense	**618,985**	**1,997,128**

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

	2011	2010
Income before income tax	(1,088,109)	(6,724,461)
Theoretical tax at statutory rate	219,212	1,344,851
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Excess of share in net assets acquired in a subsidiary over purchase consideration	(40,014)	–
- Other non-deductible expenses	95,866	59,919
- Interest expenses	24,796	46,294
- Foreign exchange	–	3,245
- Change in measurement of inventory balances	16,888	21,660
- Receivables and loans written-off during the year as uncollectible	37,877	102,165
- Unrecognised deferred tax assets	264,360	418,994
Income tax expense	**618,985**	**1,997,128**

(thousands of Russian Roubles)

Differences between IFRS and Russian and Czech Republic tax principles give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% for Russia and 19% for Czech Republic:

	31 December 2009	(Charged)/ credited to profit or loss	Acquired in business combinations	Disposal of subsidiaries (Note 7)	31 December 2010	(Charged)/ credited to profit and loss	Acquired in business combinations	Disposal of subsidiaries (Note 7)	Translation differences	31 December 2011
Tax effects of deductible temporary differences:										
Accounts receivable	712,805	(96,508)	37,170	(16)	653,451	108,673	441	(44)	499	763,020
Accounts payable and accruals	140,647	95,432	513	(341)	236,251	25,911	–	–	(190)	261,972
Treasury shares	6,858	(6,858)	–	–	–	–	–	–	–	–
Other deductible temporary differences	58,910	11,527	432	–	70,869	(797)	108,552	(2,108)	–	176,516
Inventories	(4,309)	10,085	69,050	(2,190)	72,636	142,801	87	(99)	1,562	216,987
Losses carried forward	73,131	(40,259)	18,157	–	51,029	(1,812)	(1,560)	–	–	47,657
Total deductible temporary differences	**988,042**	**(26,581)**	**125,322**	**(2,547)**	**1,084,236**	**274,776**	**107,520**	**(2,251)**	**1,871**	**1,466,152**
Set off of tax	(373,242)				(723,539)					(1,156,834)
Deferred tax assets	**614,800**				**360,697**					**309,318**
Tax effects of taxable temporary differences:										
Investment in associates	(127,979)	22,770	–	–	(105,209)	–	105,209	–	–	–
Property, plant and equipment and intangible asset	(652,512)	(294,716)	99,055	18,604	(829,569)	(189,097)	(362,758)	–	(2,492)	(1,383,916)
Borrowings and loans	(96,011)	(142,424)	–	–	(238,435)	(22,613)	–	–	–	(261,048)
Other taxable temporary differences	(24,828)	(13,386)	(202,492)	–	(240,706)	4,357	–	–	–	(236,349)
Total taxable temporary differences	**(901,330)**	**(427,756)**	**(103,437)**	**18,604**	**(1,413,919)**	**(207,353)**	**(257,549)**	**–**	**(2,492)**	**(1,881,313)**
Set off of tax	373,242				723,539					1,156,834
Deferred tax liability	**(528,088)**				**(690,380)**					**(724,479)**

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to do so and intends to settle on a net basis.

(thousands of Russian Roubles)

30. EARNINGS PER SHARE

For the year ended 31 December 2011, basic earnings per share is calculated by dividing the profit attributable to shareholders of the parent company in the amount of RUB 496,411 thousand (year ended 31 December 2010: profit RUB 4,784,055 thousand) by the weighted average number of ordinary shares outstanding during the year ended 31 December 2011, excluding treasury shares, which comprised 443,743,709 shares (year ended 31 December 2010: 454,705,728 shares).

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

31. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

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

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

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2011 are detailed below:

	Entities controlled by the Group's controlling shareholder	**Entities under significant influence of the Group's controlling shareholder**
Gross amount of trade and other receivables	170,660	46,348
Originated loans and promissory notes receivable	88,363	104,011
Trade and other payables	(157,635)	(5,953)
Loans payable	–	(21,000)

During the year ended 31 December 2011, the Group transferred debts of third parties to related parties at fair value of RUB 4,800 thousand under cession agreements (year ended 31 December 2010: RUB 189,918 thousand).

Income and expense items with related parties as well as purchases in year ended 31 December 2011 were as follows:

	Associates	**Entities controlled by the Group's controlling shareholder**	**Entities under significant influence of the Group's controlling shareholder**
Revenue	(875)	117,335	4
Purchases	–	(1,243,980)	(30)
Distribution expenses	–	(3,981)	–
General and administrative expenses	–	(330,150)	(1,008)
Finance income and expenses, net	–	1,546	62,709

At 31 December 2011, no guarantees were issued/received by the Group on behalf of related parties.

(thousands of Russian Roubles)

Transactional cash flows with related parties in year ended 31 December 2011 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	555	(1,308,765)	1,978,403
Financing activities	–	(13,189,653)	-
Investing activities	–	(52,219)	844,020

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

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

Income and expense items with related parties over year ended 31 December 2010 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Revenue	(1,225,100)	2,509,886	152,373
Purchases	19,033	(995,352)	1,183,599
Distribution expenses	–	(218,903)	24,484
General and administrative expenses	27,732	(393,355)	78,971
Finance income and expenses, net	(16,746)	(54,635)	1,028,060

Transactional cash flows with related parties in year ended 31 December 2010 were as follows:

	Associates	Entities controlled by the Group's controlling shareholder	Entities under significant influence of the Group's controlling shareholder
Operating activities	1,458,950	(6,512,638)	(1,367,520)
Financing activities	(21,132)	(503,145)	(481,875)
Investing activities	(120,400)	126,231	6,045,391

Directors' and key management remuneration

At 31 December 2011, the Board of Directors comprised 7 directors (31 December 2010: 7 directors). During the year ended 31 December 2011, compensation of the Board amounted to RUB 25,588 thousand and was included in general and administrative expenses (year ended 31 December 2010: 15,718).

Bonuses to executives are discretionary and can be accrued based on annual results, but the Group does not have any legal or constructive obligation to do so. During 2011, aggregate remuneration amounting to RUB 116,951 thousand were accrued and paid to executives of the Group (2010: RUB 84,564 thousand).

Non-controlling interest

At 31 December 2011, RUB 50,003 thousand of a non-controlling interest of 21.8% of the net assets of Izhneftemash group of companies was attributable to an entity controlled by the Group's key management personnel (31 December 2010: RUB 188,568 thousand).

32. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

Legal proceedings

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

Tax legislation

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 submission of tax declaration. Under certain circumstances reviews may cover longer periods.

At 31 December 2011, 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.

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

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

In addition to the matters above, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RUB 208,216 thousand at 31 December 2011 (31 December 2010: RUB 533,543 thousand) which relate primarily to VAT and corporate profit tax. There is no liability recorded for this exposure as management does not believe payment is probable.

Capital expenditure commitments

At 31 December 2011, the Group had contractual capital expenditure commitments to acquire equipment and works of capital nature totaling RUB 2,519,698 thousand (31 December 2010: RUB 3,641,192 thousand).

(thousands of Russian Roubles)

Assets pledged and restricted

At 31 December 2011, the Group has the following assets pledged as collateral:

	Notes	31 December 2011 Asset pledged, carrying value	31 December 2011 Related liability	31 December 2010 Asset pledged, carrying value	31 December 2010 Related liability
CJSC Raiffeisenbank	19	450,613	6,057,617	854,995	5,131,782
UniCredit Bank AG (Munich)	19	3,393,014	2,674,315	2,735,572	2,942,400
OJSC Sberbank	19	3,842,810	10,366,881	3,280,755	11,497,665
OJSC Bank of Moscow	19	1,296,805	5,455,987	962,146	8,442,541
CJSC UniCredit Bank (Moscow)	19	421,453	286,495	421,453	476,850
OJSC Gazprombank	19	924,899	9,148,019	1,087,284	9,856,613
BNP Paribas S.A.	19	6,485,512	5,565,285	–	–
OJSC Alfa-bank	19	1,093,589	3,100,406	1,040,430	673,000
OJSC Nordea Bank	19	–	–	145,401	349,840
OJSC Nomos bank	19	3,245,837	1,346,582	108,830	1,290,000
OJSC Bank Soyuz	19	–	–	651,175	500,000
OJSC Akibank	19	86,559	56,900	86,559	30,000
Property, plant and equipment	**9**	**21,241,091**	**44,058,487**	**11,374,600**	**41,190,691**
OJSC Sberbank	19	2,117,510	5,799,684	2,240,881	4,989,636
CJSC UniCredit Bank (Moscow)	19	350,000	237,923	350,000	396,005
Inventory	**13**	**2,467,510**	**6,037,607**	**2,590,881**	**5,385,641**
OJSC Sberbank	19	236	700	–	–
OJSC Bank of Moscow	19	2,099,253	9,405,694	–	–
OJSC Uralsky bank of Reconstruction and Development	19	991,789	985,000	–	–
Accounts receivables	**15**	**3,091,278**	**10,391,394**	–	–
Total		**26,799,879**	**60,487,488**	**13,965,481**	**46,576,332**

At 31 December 2011, the total loan indebtedness due to OJSC Sberbank and OJSC Nomos bank in the amount of RUB 957,158 thousand is secured by a pledge of SOT and LLC “Ulyanovsk Alnas Service” future revenue proceeds in amount of RUB 3,637,540 thousand (31 December 2010: RUB 1,050,000 thousand of loan indebtedness is secured by pledge in amount of RUB 3,671,201 thousand).

Guarantees, provided by OJSC Bank of Moscow to pipeline construction companies on behalf of the Group, were secured by pledge of property, plant and equipment in amount of RUB 755,896 thousand at 31 December 2011 (31 December 2010: pledge of the of property, plant and equipment in amount of RUB 317,782 thousand and inventories in amount of RUB 424,144 thousand).

Shares pledged and restricted

At 31 December 2011, the following Group’s shares were pledged as collateral:

Pledger	Company	Pledgee	Year	Percent of share capital
Group's shareholders	ChelPipe	OJSC Gazprombank	2010	50% + 1 share
Group's shareholders	ChelPipe	OJSC Bank of Moscow	2009	2.41%
The Group	ChelPipe	OJSC Sberbank	2010	20.00%
The Group	ChelPipe	OJSC Bank of Moscow	2009	9.70%
The Group	PNTZ	OJSC Sberbank	2010	50% + 1 share
The Group	PNTZ	CJSC Raiffeisenbank	2009	20.00%
The Group	UTS	OJSC Bank of Moscow	2009	99.00%
The Group	CJSC SKS “Metris”	OJSC Bank of Moscow	2009	100.00%
The Group	SOT	OJSC Sberbank	2010	50% + 1 share
Poweredge Holdings Ltd	ChelPipe	OJSC Bank of Moscow	2011	4.30%
The Group	SOT	OJSC Bank of Moscow	2011	0.08%
The Group	OJSC “Alnas”	CJSC Raiffeisenbank	2008	95% + 1 share

Insurance policies

Under bank loan covenants the Group is to insure its assets during the loan period. The Group has insured all its manufacturing property, plant and equipment during the year ended 31 December 2011 for a maximum of RUB 47,714,770 thousand (deductible of RUB 73,370 thousand) (2010: for a maximum of RUB 19,013,444 thousand (deductible of RUB 2,907 thousand). However, the insurance does not cover the risks of damage to third parties and losses from temporary suspension in the production process. Management does not believe exposure to those risks is significant.

33. FINANCIAL RISK MANAGEMENT

33.1 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 formalised risk management programs, its overall risk management procedures focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group’s financial performance and exposures. The Group does not use derivative financial instruments to hedge its risk exposures.

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

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and USD.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency other than the Group’s functional currency. Group companies do not have a formal policy to manage their foreign exchange risk against their functional currency. Management of the Group minimises cash held with banks to reduce or eliminate foreign exchange risk exposure on its cash balances.

At 31 December 2011, if the Russian Rouble had weakened/strengthened by 20% (31 December 2010: 20%) against the USD with all other variables held constant, the Group’s post-tax profit for the year would have been 428,939 thousand lower/higher (31 December 2010: post-tax loss for the year would have been RUB 894,577 thousand higher/lower), mainly as a result of foreign exchange losses/gains on translation of USD denominated receivables and borrowings denominated in USD.

At 31 December 2011, if the Russian Rouble had weakened/strengthened by 20% (31 December 2010: 20%) against the Euro with all other variables held constant, the Group’s post-tax profit for the year would have been RUB 1,426,440 thousand lower/higher (31 December 2010: post-tax loss for the year would have been RUB 1,746,298 thousand higher/lower), mainly as a result of foreign exchange losses/gains on translation of Euro-denominated borrowings and accounts payable.

(thousands of Russian Roubles)

Analysis by currency is as follows:

	31 December 2011			31 December 2010		
	RUB	**USD**	**Euro**	**RUB**	**USD**	**Euro**
Monetary financial assets	**16,084,362**	**463,325**	**320,619**	**16,451,361**	**309,798**	**394,850**
Trade accounts receivables	12,579,467	193,510	181,665	8,576,546	62,126	316,499
Other accounts receivables	323,665	38	–	473,444	3,326	–
Loans receivable	731,164	59,458	–	1,581,250	7,287	–
Interests receivable	339,358	1,546	–	2,510,960	1,887	–
Cash	2,110,708	208,773	138,954	3,309,161	235,172	78,351
Monetary financial liabilities	**(112,162,191)**	**(3,144,195)**	**(9,235,871)**	**(84,430,149)**	**(5,900,904)**	**(11,309,210)**
Borrowings	(101,641,661)	(2,969,645)	(8,240,355)	(72,759,445)	(4,707,252)	(8,022,698)
Promissory notes and loans payable	(6,815)	–	–	(46,174)	–	–
Trade accounts payable	(9,785,263)	(163,814)	(904,089)	(10,767,939)	(1,185,256)	(3,242,361)
Other accounts payable	(193,384)	(6,208)	(83,555)	(404,812)	(6,043)	–
Finance lease payments	(331,255)	–	(4,067)	(260,431)	–	(40,996)
Interests payable	(203,813)	(4,528)	(3,805)	(191,348)	(2,353)	(3,155)
Total, net	**(96,077,829)**	**(2,680,870)**	**(8,915,252)**	**(67,978,788)**	**(5,591,106)**	**(10,914,360)**

(ii) Price risk

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

(iii) Cash flow and fair value interest rate risk

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

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

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal, existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent major interest-bearing positions and include all type of loan agreements with floating and fixed rates. During year ended 31 December 2011, based on the simulations performed, the impact on post-tax profit of a 100 basis points shift in interest rate would be an increase/decrease of RUB 804,977 thousand (2010: the impact on post-tax loss would have been a decrease/increase of RUB 598,840 thousand).

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

(thousands of Russian Roubles)

(b) Credit risk

Credit risk is managed at the level of individual Group companies. The maximum exposure to credit risk at the reporting date was equal to RUB 16,868,306 thousand (31 December 2010: RUB 17,156,010 thousand) and approximates the fair value of each class of receivables, promissory notes and loans receivable, deposits with banks and financial institutions and cash and cash equivalents.

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 major balances with banks at the reporting date.

	Agency	Rating	31 December 2011	31 December 2010
OJSC Gazprombank	Moody's	Baa3	738,516	–
OJSC Sberbank	Moody's	Baa1	449,916	1,178,420
OJSC Bank of Moscow	Moody's	Ba2	385,511	913,480
OJSC Bank Avangard	Moody's	B2	–	542,725
Total risk concentrations within cash and cash equivalent			**1,573,943**	**2,634,625**

The tables below show the balances of the three major counteragents for trade receivables and promissory notes and loans receivable, at the reporting date:

	31 December 2011	31 December 2010
Counteragent 1	5,323,004	1,685,294
Counteragent 2	1,018,159	1,412,852
Counteragent 3	134,893	892,633
Total risk concentrations within trade receivables	**6,476,056**	**3,990,779**
Counteragent 1	422,436	834,224
Counteragent 2	104,000	422,437
Counteragent 3	68,283	104,000
Total risk concentrations within loans receivable	**594,719**	**1,360,661**

At 31 December 2011, cash and cash equivalents (Note 16) comprise RUB 2,458,435 thousand (31 December 2010: RUB 3,622,684 thousand). Out of this amount cash on hand and balances with banks are RUB 1,994,370 thousand (31 December 2010: RUB 2,232,230 thousand) and term deposits and bank promissory notes account for RUB 464,065 thousand (31 December 2010: RUB 1,390,454 thousand). All deposits were withdrawn shortly after the reporting date. For banks and financial institutions, only the top 20 Russian banks by capital are used by the Group. The Group does not hold any collateral as security for these financial assets.

At 31 December 2011, trade receivables and other receivables (Note 15) comprise RUB 13,287,345 thousand (31 December 2010: RUB 9,431,943 thousand). Balances due from third parties account for RUB 13,061,337 thousand and from related parties account for RUB 217,008 thousand of this amount (31 December 2010: RUB 6,183,243 thousand and RUB 3,248,700 thousand respectively). Management of the Group believes that credit risks on trade and other receivables balances are limited to specific customers because a majority of their customers have good payment history due to their long business relationships with the Group.

At 31 December 2011, balances due from overseas customers comprise RUB 427,764 thousand (31 December 2010: RUB 288,918 thousand).

(thousands of Russian Roubles)

Key customers of the Group are mainly represented by state-owned companies and/or large oil and gas companies and/or large companies engaged in construction of pipelines with which the Group has a long history of doing business.

At 31 December 2011, balances of promissory notes, loans and interest receivable comprise RUB 1,131,526 thousand (31 December 2010: RUB 4,101,384 thousand) and include balances due from related parties of RUB 192,374 thousand (31 December 2010: RUB 1,090,445 thousand).

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

(c) Liquidity risk

The Group believes prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. As disclosed in Note 2, the Group was significantly impacted by the economic downturn and has been taking steps to improve its liquidity. Management is actively focused on obtaining additional financing, managing its available working capital and as needed, modifying its debt agreements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest. Borrowings are presented without effect of reclassification due to breach of covenants. Balances due within 12 months approximate their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years
At 31 December 2011				
Trade and other payables	12,346,705	–	–	–
Promissory notes payable	2,612	–	–	31,495
Borrowings	61,366,563	22,183,988	33,311,150	2,736,903
Finance lease liabilities	167,918	123,381	161,262	–
At 31 December 2010				
Trade and other payables	16,512,402	–	–	–
Promissory notes payable	42,359	–	–	31,495
Borrowings	50,319,603	27,448,187	29,733,697	3,464,603
Finance lease liabilities	160,558	280,270	–	–

At 31 December 2011, current liabilities of the Group exceed its current assets. Management of the Group believes that its temporary liquidity gap can be covered by unused credit line facilities and re-financing of bank borrowings (Note 2).

33.2 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 other companies in the industry, the Group monitors capital on the basis of portion of net debt in total net equity and net debt. This measure is calculated as net debt divided by total capital.

Net debt is calculated as total debt (including long- and short-term borrowings (Note 19) and preferred shares, as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as net equity plus net debt. Net equity is calculated as equity (as shown in the consolidated statement of financial position) less treasury shares.

(thousands of Russian Roubles)

The Group's ability to issue new shares or otherwise modify share capital and to pay dividends is not limited by debt covenants but is subject to approval from banks.

Measures of net debt to total equity and debt at 31 December 2011 and 2010 were as follows:

	31 December 2011	**31 December 2010**
Total debt	113,341,481	86,131,518
Less: cash and cash equivalents	(2,458,435)	(3,622,684)
Net debt	**110,883,046**	**82,508,834**
Total (equity deficit)/equity	(9,885,071)	4,719,156
Less: treasury shares	17,795,009	2,513,715
Net equity	**7,909,938**	**7,232,871**
Total net equity and net debt	118,792,984	89,741,705
Gearing ratio	**93%**	**92%**

34. EVENTS AFTER THE REPORTING PERIOD

In March-April 2012, the Group signed loan agreements to finance operating activities with OJSC Uralsky Bank of Reconstruction and Development, OJSC Bank Otkritie and OJSC Promsvyazbank in the total amount of RUB 4,985,000 thousand with interest rates of 11-13.7% and maturing 2015.