

UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS
INTERPIPE LIMITED
FOR THE SIX MONTHS ENDED 30 JUNE 2007

JOINT STOCK COMPANY
“NIZHNEDNEPROVSKY TUBE ROLLING PLANT”
INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY
for the 30 June 2007 six months ended 30 June 2007

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INTERPIPE LIMITED
INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
As at 30 June 2007

(in thousands of Ukrainian hryvnia)

		30 June 2007 <i>Unaudited</i>	31 December 2006
	Notes		
ASSETS			
Non-current assets			
Property, plant and equipment	5	2,387,243	2,489,576
Intangible assets		9,587	6,404
Investments in associates		14,074	13,265
Other non-current assets		4,965	4,434
Deferred tax assets		49,841	14,806
		<u>2,465,710</u>	<u>2,528,485</u>
Current assets			
Inventories	6	1,258,890	778,282
Trade and other accounts receivable		1,329,390	863,814
Prepayments and other current assets	0	225,510	137,593
Current tax assets		59,711	112,084
Taxes receivable, other than income tax		420,968	350,935
Cash and bank deposits		343,284	489,692
		<u>3,637,753</u>	<u>2,732,400</u>
Non-current assets classified as held for sale	8	-	43,989
TOTAL ASSETS		<u>6,103,463</u>	<u>5,304,874</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		56	56
Share premium		1,823,509	1,823,509
Accumulated profits		1,044,324	1,043,884
Foreign currency translation reserve		2,587	203
		<u>2,870,476</u>	<u>2,867,652</u>
Minority interests		<u>391,278</u>	<u>510,984</u>
Total equity		<u>3,261,754</u>	<u>3,378,636</u>
Non-current liabilities			
Deferred tax liabilities		245,090	306,261
Borrowings	9	686,926	62,170
Provisions	10	60,040	46,356
		<u>992,056</u>	<u>414,787</u>
Current liabilities			
Trade and other accounts payable	11	480,448	267,672
Current tax liabilities		19,922	20,217
Taxes payable, other than income tax		21,721	13,741
Advances received and other liabilities	12	390,638	293,619
Borrowings	9	853,397	891,196
Provisions	10	83,527	25,006
		<u>1,849,653</u>	<u>1,511,451</u>
Total liabilities		<u>2,841,709</u>	<u>1,926,238</u>
TOTAL EQUITY AND LIABILITIES		<u>6,103,463</u>	<u>5,304,874</u>

Signed and authorised for issue by:

The Sole Director

M. Zangoulou

Myrianthi Zangoulou

22 September 2007



The accompanying notes form an integral part of these interim condensed consolidated financial statements

INTERPIPE LIMITED
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2007

(in thousands of Ukrainian hryvnia)

		For the six months ended 30 June	
		2007	2006
	Notes	Unaudited	
Revenue from sales		4,233,687	3,287,160
Cost of sales	14	(2,840,790)	(2,200,433)
Gross profit		1,392,897	1,086,727
Other operating income		31,113	14,601
Selling and distribution expenses	14	(262,501)	(282,865)
General and administrative expenses	14	(134,198)	(113,309)
Other operating expenses	14	(86,406)	(49,155)
Finance income		9,145	5,724
Finance costs		(43,005)	(9,823)
Share of profits of associates		809	1,617
Profit before tax		907,854	653,517
Income tax expense	15	(230,544)	(168,985)
Profit for the period		677,310	484,532
Attributable to:			
Equity holders of the parent		639,436	440,504
Minority interests		37,874	44,028
		677,310	484,532

The accompanying notes form an integral part of these interim condensed consolidated financial statements

INTERPIPE LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2007 and 2006

(in thousands of Ukrainian hryvnia)

	Attributable to equity holders of the parent				Total	Minority interests	Total equity
	Issued capital	Share premium	Accumulated profits	Foreign currency translation reserve			
At 1 January 2007	56	1,823,509	1,043,884	203	2,867,652	510,984	3,378,636
Foreign currency translation – Total income and expense for the year recognized directly in equity	-	-	-	2,384	2,384	-	2,384
Profit for the period	-	-	639,436	-	639,436	37,874	677,310
Total income and expense for the period	-	-	639,436	2,384	641,820	37,874	679,694
Dividends of parent	-	-	(636,300)	-	(636,300)	-	(636,300)
Dividends of subsidiaries	-	-	-	-	-	(59,276)	(59,276)
Acquisition of minority interests (Note 13)	-	-	(2,696)	-	(2,696)	(98,304)	(101,000)
At 30 June 2007 (unaudited)	56	1,823,509	1,044,324	2,587	2,870,476	391,278	3,261,754
At 1 January 2006	10	-	3,049,599	-	3,049,609	574,201	3,623,810
Foreign currency translation – Total income and expense for the year recognized directly in equity	-	-	-	(130)	(130)	-	(130)
Profit for the period	-	-	440,504	-	440,504	44,028	484,532
Total income and expense for the period	-	-	440,504	(130)	440,374	44,028	484,402
Capital restructuring	46	-	-	-	46	-	46
Dividends of subsidiaries	-	-	-	-	-	(2,570)	(2,570)
Acquisition of minority interests	-	-	34	-	34	(4,255)	(4,221)
At 30 June 2006 (unaudited)	56	-	3,490,137	(130)	3,490,063	611,404	4,101,467

The accompanying notes form an integral part of these interim condensed consolidated financial statements

INTERPIPE LIMITED
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 30 June 2007

(in thousands of Ukrainian hryvnia)

	For the six months ended 30 June	
	2007	2006
	<i>Unaudited</i>	
Cash flows from operating activities		
Profit before tax	907,854	653,517
Adjustments for:		
Depreciation, amortization and impairment	147,601	142,974
Change in provisions for pension and other obligations	72,205	18,070
Allowance for receivables impairment	(5,158)	(4,231)
Loss on disposal of property, plant and equipment and intangible assets	2,873	25,711
Finance costs	43,005	9,823
Finance income	(9,145)	(5,724)
Translation difference and foreign exchange difference	2,211	1,920
Share of profits of associates	(809)	(1,617)
Changes in operating assets and liabilities:		
Inventories	(475,607)	(154,616)
Trade and other accounts receivable	(458,037)	(601,145)
Prepayments and other assets	(43,542)	(196,794)
Taxes receivable, other than income tax	(70,033)	(103,618)
Trade and other accounts payable	111,776	(89,912)
Taxes payable, other than income tax	7,980	75,444
Advances and other current liabilities	91,541	(37,175)
Cash generated from operations	324,715	(267,373)
Interest paid	(41,059)	(9,823)
Income tax paid	(274,672)	(203,471)
Net cash inflows / (outflows) from operating activities	8,984	(480,667)
Cash flows from investing activities		
Purchases of property, plant and equipment and intangible assets	(60,122)	(39,872)
Proceeds from sale of property, plant and equipment	3,798	2,539
Proceeds from sale of investments	8,677	190,101
Acquisition of minority interests	-	(4,221)
Placement of guarantee deposits	(2,574)	-
Interest received	2,127	5,609
Net cash (outflows) / inflows from investing activities	(48,094)	154,156
Cash flows from financing activities		
Proceeds from borrowings	1,549,044	308,549
Repayments of borrowings	(964,360)	(306,175)
Dividends paid to equity holders of the parent	(636,300)	-
Dividends paid to minority shareholders	(53,798)	(2,570)
Net cash outflows from financing activities	(105,414)	(196)
Net change in cash and cash equivalents	(144,524)	(326,707)
Net foreign exchange difference	(1,884)	(2,047)
Cash and cash equivalents at 1 January	489,692	703,862
Cash and cash equivalents at 30 June	343,284	375,108

The accompanying notes form an integral part of these interim condensed consolidated financial statements

INTERPIPE LIMITED**SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****For the six months ended 30 June 2007****(in thousands of Ukrainian hryvnia)**

1. Corporate information

Principal activities of Interpipe Limited (referred to herein as the "Company") and its subsidiaries (together – the "Group") include design, manufacture and distribution of steel pipes and solid-rolled railway wheels. Interpipe Limited is a limited liability company incorporated and domiciled in Cyprus, which shares are not listed. The registered office and principal place of business of the Company is Florinis, 11, City Forum, 7th floor, P.C. 1065 Nicosia, Cyprus. The principal activity of the Company is the holding of ownership interests in its subsidiaries, their financing and management. The Group operates through a number of subsidiaries in various jurisdictions and has concentration of its business in Ukraine, where its production facilities are located.

The interim condensed consolidated financial statements of the Company for the six months ended 30 June 2007 were authorized for issue by the Sole Director of the Company on 22 September 2007.

2. Basis of preparation and accounting policies**Basis of preparation**

The interim condensed consolidated financial statements for the six months ended 30 June 2007 have been prepared in accordance with IAS 34 "Interim Financial Reporting".

The unaudited information furnished herein was taken from the books and records of the Group. However, such information reflects all adjustments which are, in the opinion of management, normal recurring adjustments necessary for the fair statement of the results for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for any future interim period or for the year.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual preliminary IFRS consolidated financial statements as at 31 December 2006 and for the year then ended.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual preliminary IFRS consolidated financial statements for the year ended 31 December 2006, which were prepared in the process of the Group's adoption of International Financial Reporting Standards.

3. Seasonality of operations

Due to the seasonal nature of the industry, higher revenues and operating profits are usually expected in the second and third quarters of a calendar year rather than in the first and fourth three months. Higher sales during the summer period are mainly attributed to the intensification of pipelines construction and oil extraction activities.

INTERPIPE LIMITED
SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
For the six months ended 30 June 2007
(in thousands of Ukrainian hryvnia)

4. Segment information

Business segments are the primary basis of segment reporting for the Group. The Group discloses its sales revenue and gross profit based on the main groups of products segregated into the following segments: pipes, solid-rolled railway wheels, unallocated.

There are no sales or other transactions between the business segments.

	<i>Pipes</i>	<i>Wheels</i>	<i>Unallocated</i>	<i>Total</i>
<i>Six months ended 30 June 2007</i>				
Revenue from sales	3,281,367	937,492	14,828	4,233,687
Gross profit	948,063	443,557	1,277	1,392,897
<i>Six months ended 30 June 2006</i>				
Revenue from sales	2,538,626	738,170	10,364	3,287,160
Gross profit	844,249	239,939	2,539	1,086,727

5. Property, plant and equipment

The movement of property, plant and equipment during the six months ended 30 June 2007 was as follows:

	Buildings and improvements	Machinery and equipment	Transport and motor vehicles	Fixtures and office equipment	Constru- ction-in- progress	Total
Cost						
Balance as at 31 December 2006 (audited)	402,884	2,250,856	53,196	19,291	90,085	2,816,312
Additions (unaudited)	-	151	782	26	54,317	55,276
Transfers (unaudited)	4,355	63,013	6,616	1,759	(75,743)	-
Disposals (unaudited)	(108)	(3,446)	(620)	(220)	(2,643)	(7,037)
Translation difference	-	-	5	40	-	45
Balance as at 30 June 2007 (unaudited)	407,131	2,310,574	59,979	20,896	66,016	2,864,596
Accumulated depreciation						
Balance as at 31 December 2006 (audited)	(60,717)	(250,351)	(11,647)	(4,021)	-	(326,736)
Charge for the period (unaudited)	(88,461)	(48,430)	(12,257)	(1,849)	-	(150,997)
Disposals (unaudited)	5	215	92	54	-	366
Translation difference	-	-	2	12	-	14
Balance as at 30 June 2007 (unaudited)	(149,173)	(298,566)	(23,810)	(5,804)	-	(477,353)
Net book value						
Balance as at 31 December 2006 (audited)	342,167	2,000,505	41,549	15,270	90,085	2,489,576
Balance as at 30 June 2007 (unaudited)	257,958	2,012,008	36,169	15,092	66,016	2,387,243

Estimated remaining useful lives of the assets are consistent with the estimates followed in the preparation of the Group's annual preliminary IFRS consolidated financial statements for the year ended 31 December 2006.

As at 30 June 2007, the Group pledged certain buildings as well as items of machinery and equipment with

INTERPIPE LIMITED
SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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For the six months ended 30 June 2007
(in thousands of Ukrainian hryvnia)

carrying values of UAH 919,338 thousand (31 December 2006: UAH 687,669 thousand) as collateral for credit facilities provided by the banks to the Group.

The movement of property, plant and equipment during the six months ended 30 June 2006 was as follows:

	Buildings and improve- ments	Machinery and equipment	Transport and motor vehicles	Fixtures and office equipment	Constru- ction-in- progress	Total
Gross book value						
Balance as at 1 January 2006 (audited)	396,462	2,198,217	51,801	12,713	48,693	2,707,886
Additions (unaudited)	-	1,306	157	617	35,468	37,548
Transfers (unaudited)	2,168	34,415	1,255	2,372	(40,210)	-
Disposals (unaudited)	(3,448)	(20,045)	(750)	(738)	(5,900)	(30,881)
Translation difference	-	-	7	46	-	53
Balance as at 30 June 2006 (unaudited)	395,182	2,213,893	52,470	15,010	38,051	2,714,606
Accumulated depreciation						
Balance as at 1 January 2006 (audited)	-	-	(364)	(125)	-	(489)
Charge for the period (unaudited)	(25,897)	(110,622)	(8,765)	(4,705)	-	(149,989)
Disposals (unaudited)	149	2,235	133	114	-	2,631
Translation difference	-	-	1	15	-	16
Balance as at 30 June 2006 (unaudited)	(25,748)	(108,387)	(8,995)	(4,701)	-	(147,831)
Net book value						
Balance as at 1 January 2006 (audited)	396,462	2,198,217	51,437	12,588	48,693	2,707,397
Balance as at 30 June 2006 (unaudited)	369,434	2,105,506	43,475	10,309	38,051	2,566,775

6. Inventories

Inventories consisted of the following:

	30 June 2007	31 December 2006
	<i>Unaudited</i>	
Raw materials at net realizable value	465,592	290,256
Work in process at cost	168,194	134,698
Finished goods at net realizable value	625,104	353,328
	1,258,890	778,282

The following summarizes the changes in the write-down of inventories to net realizable value:

At 31 December 2006	(24,676)
Increase in write-down	(183)
At 30 June 2007	(24,859)

As at 30 June 2007, the Company pledged raw materials and finished goods with carrying values of UAH 157,650 thousand (31 December 2006: UAH 158,147 thousand) were pledged as a security for the bank loans (Note 9).

INTERPIPE LIMITED
SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
For the six months ended 30 June 2007
(in thousands of Ukrainian hryvnia)

7. Prepayments and other current assets

Prepayments and other current assets consisted of the following:

	30 June 2007	31 December 2006
	<i>Unaudited</i>	
Prepayments to suppliers	133,556	46,133
Short-term non-interest bearing loans to a related party	73,723	73,723
Available reimbursement related to litigations	7,575	7,575
Prepaid insurance expense	4,087	5,886
Guarantee deposits	49	2,574
Other current assets	6,520	1,702
	225,510	137,593

8. Non-current assets classified as held for sale and associated liabilities

The following investments in equity instruments were classified as held for sale:

		30 June 2007	31 December 2006
		<i>Unaudited</i>	
"Credit-Dnepr" Bank associate previously accounted for under the equity method	25%	-	35,467
Other equity investments		-	8,522
		-	43,989

At 31 December 2006, the Group had firm purchase commitments from related parties to acquire the equity investments classified as held for sale. The ownership interest in "Credit-Dnepr" Bank was transferred to the acquiring party in June 2007 resulting in the gain of UAH 7,018 thousand included in finance income. In May 2007, the Group disposed of its share in another investee at price of UAH 8,522 thousand equaling the carrying value of this investment.

9. Borrowings

Long and short-term borrowings comprised the following:

	Maturity	30 June 2007	31 December 2006
Long-term borrowings:			
– interest bearing loans due to banks	2008-2011	686,926	62,170
		686,926	62,170
Short-term borrowings:			
– interest bearing loans due to banks	2007	848,755	878,088
– unsecured loans from related parties (Note 16)	2007	4,642	13,108
		853,397	891,196

A summary of the security pledged for loans due to banks is set out below:

Type of assets pledged as a security	30 June 2007	31 December 2006
Property, plant and equipment (Note 5)	919,338	687,669
Inventories (Note 6)	157,650	158,147
Trade accounts receivable	184,350	11,654

INTERPIPE LIMITED
SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
For the six months ended 30 June 2007
(in thousands of Ukrainian hryvnia)

10. Provisions

Current and non-current provisions comprised the following:

	<i>Defined benefit obligations</i>	<i>Provision for warranty and other claims</i>	<i>Total</i>
Current	9,248	74,279	83,527
Non-current	60,040	-	60,040
At 30 June 2007	69,288	74,279	143,567
Current	8,998	16,008	25,006
Non-current	46,356	-	46,356
At 31 December 2006	55,354	16,008	71,362

The increase in provision for warranty and other claims resulted from accrual for litigation with a customer (Note 17).

11. Trade and other accounts payable

Trade and other accounts payable consisted of the following:

	30 June 2007	31 December 2006
Payables to suppliers	448,194	244,754
Agent fees payable (Note 16)	19,020	91
Promissory notes payable	13,234	22,827
	480,448	267,672

12. Advances and other current liabilities

Advances and other current liabilities consisted of the following:

	30 June 2007	31 December 2006
Advances from customers	150,733	155,027
Payable to the related parties for the minority interests stake acquired (Notes 13 and 16)	101,000	-
Dividends payable	58,944	53,466
Accrued employee benefits	19,930	50,611
Other current liabilities	60,031	34,515
	390,638	293,619

As at 30 June 2007 other current liabilities include liabilities to related parties (Note 16) amounting to UAH 1,456 thousand (2006: UAH 1,121 thousand).

INTERPIPE LIMITED
SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
For the six months ended 30 June 2007
(in thousands of Ukrainian hryvnia)

13. Equity and changes in the Group's structure

Acquisitions of minority interests in subsidiaries

On 10 April 2007, the Company acquired an additional 4.81% of JSC "Interpipe Nizhnedneprovsky Tube Rolling Plant" shares for UAH 101,000 thousand. The Company's interest in the subsidiary increased to 91.84%. The excess of the consideration over carrying value of the minority interests, which amounted to UAH 2,696 thousand, was charged to accumulated profits.

Merger of the subsidiaries

On 15 June 2007, the Shareholders' Meetings of CJSC "Interpipe Nikopolsky seamless tubes plant "Niko Tube" and JSC "Interpipe Nikopol Tube Company" approved the merger of these companies by the end of 2007.

14. Income and expenses

Cost of sales

	For the six months ended	
	30 June	
	2007	2006
	<i>Unaudited</i>	<i>Unaudited</i>
Materials	2,199,469	1,631,498
Utilities, energy and other services	315,635	254,803
Payroll and related expenses	157,940	151,823
Depreciation	141,575	138,814
Insurance	26,171	23,495
	2,840,790	2,200,433

Selling and distribution expenses

	For the six months ended	
	30 June	
	2007	2006
	<i>Unaudited</i>	<i>Unaudited</i>
Forwarding and transportation services	165,112	130,371
Sales agency fees	38,114	73,505
Storage and packaging expenses	30,454	16,208
Insurance expense	14,222	52,415
Payroll and related expenses	7,347	6,493
Professional fees	4,146	4,878
Customs services	3,995	2,441
Advertising and promotion	2,717	2,282
Foreign exchange gains, net of losses	(980)	(3,704)
Change in allowance for accounts receivable impairment	(5,158)	(4,231)
Other selling costs	2,532	2,207
	262,501	282,865

INTERPIPE LIMITED
SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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For the six months ended 30 June 2007
(in thousands of Ukrainian hryvnia)

General and administrative expenses

	For the six months ended	
	30 June	
	2007	2006
	<i>Unaudited</i>	<i>Unaudited</i>
Payroll and related expenses	57,307	47,399
Professional fees	29,009	25,712
Bank fees	10,067	6,543
Repairs and maintenance	7,941	6,189
Business trips and transportation	7,403	4,350
Depreciation and amortization	5,778	3,740
Insurance expense	3,766	3,291
Taxes, other than income tax	2,410	1,517
Communication	2,389	2,573
Rent	1,493	1,504
Other general and administrative costs	6,635	10,491
	134,198	113,309

Other operating expenses

	For the six months ended	
	30 June	
	2007	2006
	<i>Unaudited</i>	<i>Unaudited</i>
Change in provision for legal claims (Note 17)	58,271	-
Maintenance of social assets	8,690	9,197
Loss on disposal of property, plant and equipment and intangible assets	2,873	25,711
Other expenses	16,572	14,247
	86,406	49,155

15. Income tax

The components of income tax expense were as follows:

	For the six months ended	
	30 June	
	2007	2006
	<i>Unaudited</i>	<i>Unaudited</i>
Current tax expense	326,750	224,468
Deferred tax benefit from origination and reversal of temporary differences	(96,206)	(55,483)
	230,544	168,985

INTERPIPE LIMITED
SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
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For the six months ended 30 June 2007
(in thousands of Ukrainian hryvnia)

16. Related party transactions

The Group's outstanding balances with its related parties consisted of the following:

	Notes	30 June 2007	31 December 2006
Trade and other accounts receivables			
— Entities under common control with the Group		34,274	82,828
— Entities associated with the Group		6,697	6,044
		40,971	88,872
Prepayments and other current assets	0		
— Entities under common control with the Group		73,723	73,723
— Entities associated with the Group		209	734
		73,932	74,457
Cash and bank deposits			
— Entities under common control with the Group		9,843	5,060
— Entities associated with the Group		-	129,000
		9,843	134,060
Trade and other accounts payable	11		
— Entities under common control with the Group		31,153	17,629
— Entities associated with the Group		6,698	6,128
		37,851	23,757
Advances and other current liabilities	0		
— Entities under common control with the Group		102,346	19
— Entities associated with the Group		110	1,102
		102,456	1,121
Short-term borrowings	9		
— Entities under common control with the Group		4,642	13,108
— Entities associated with the Group		-	545
		4,642	13,653

INTERPIPE LIMITED
SELECTED NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
For the six months ended 30 June 2007
(in thousands of Ukrainian hryvnia)

The Group's transactions with its related parties were as follows:

	Notes	For the six months ended 30 June	
		2007	2006
		<i>Unaudited</i>	<i>Unaudited</i>
Revenue from sales			
— Entities under common control with the Group		44,245	36,970
— Entities associated with the Group		12,390	16,940
		<u>56,635</u>	<u>53,910</u>
Purchases of inventories			
— Entities under common control with the Group		164,981	115,112
— Entities associated with the Group		7,824	11,533
		<u>172,805</u>	<u>126,645</u>
Purchases of services			
— Entities under common control with the Group		31,456	68,250
— Entities associated with the Group		4,342	3,454
		<u>35,798</u>	<u>71,704</u>
Purchases of equipment			
— Entities under common control with the Group		1,882	310
		<u>1,882</u>	<u>310</u>
Finance income			
— Entities under common control with the Group		1,530	1,116
— Entities associated with the Group		-	132
		<u>1,530</u>	<u>1,248</u>
Finance costs			
— Entities under common control with the Group		780	16
— Entities associated with the Group		-	2,358
		<u>780</u>	<u>2,374</u>

17. Commitments, contingencies, and operating risks

Operating environment in Ukraine, Russia, and Kazakhstan

The Group has significant operations in Ukraine, Russia, and Kazakhstan whose economies continue to display certain characteristics consistent with that of economies in transition. Whilst there have been improvements in the economic situation, such as an increase in gross domestic product and a reduced rate of inflation, these countries continue economic reforms and development of their legal, tax and regulatory frameworks as required by a market economy. Whereas in Russia the restrictive currency controls have been removed they still exist in Ukraine and Kazakhstan which cause the Ukrainian and Kazakhstani national currencies to be illiquid outside of the countries. The future stability of the economies is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by their governments.

Tax and other regulatory compliance in Ukraine, Russia, and Kazakhstan

Ukrainian, Russian, and Kazakhstani legislations and regulations regarding taxation and other operational matters, including currency exchange control, custom regulations and transfer pricing, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

Ukrainian transfer pricing rules apply to a wide range of situations involving cross-border and domestic transactions, most typically of intra-group nature and other related parties transactions. The Group's historical trading relationships could fall within these transfer pricing rules. Even among parties that are not related, prices may still be subject to the transfer pricing rules. No safe harbour is provided by the applicable Ukrainian corporate profits tax legislation if the sale price deviates from the arm's length price. In addition, currently there

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are no well-developed approaches to quantification of transfer pricing restrictions. However, if the tax authorities establish failure to comply with these rules, they may demand transfer pricing adjustments for tax purposes. If substantial transfer pricing adjustments were upheld by the relevant Ukrainian authorities and supported by the courts, and then implemented, the Group's financial results could be adversely affected.

At the same time there is a risk that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes with passage of time. It is not practical to determine the amount of any potential claims or the likelihood of any unfavourable outcome.

Litigation

In July 2005, JSC "Interpipe Nizhnedneprovsky Tube Rolling Plant" and "Klv-Wheelco" LLC filed notice of arbitration with statement of claim against a customer, seeking to terminate a sales agreement. The customer thereafter filed a counter-claim, alleging violation of certain terms of the agreement and seeking compensation of damages without stating any specific amount. In June 2006, the customer submitted further information about its alleged damages, which the customer claims are about USD 60 million (equivalent of UAH 303 million). As at 31 December 2006, the management believed that the customer's claim was without merit and no persuasive evidence could be produced to support this claim. The final hearings in the arbitration occurred in January 2007. At those hearings, the tribunal considered the parties' evidence and arguments concerning the claim and the customer's counterclaim, including the parties' position on any damages. On 26 June 2007, the International Centre for Dispute Resolution of the American Arbitration Association issued its final award and ordered the Group to pay USD 11.3 million (equivalent of UAH 57,065 thousand) plus expenses. Provision for the adverse consequences of this claim amounting to UAH 58,271 thousand (Notes 10 and 14) has been made in the accompanying financial statements for the six months ended 30 June 2007.

As at 30 June 2007, "North American Interpipe, Inc" LLC was defendant in several litigations relating to quality claims from the customers amounting to approximately UAH 103,414 thousand (31 December 2006: UAH 103,414 thousand). Provision for probable adverse consequences of the above cases amounting to UAH 14,140 thousand (31 December 2006: UAH 14,140 thousand) was included in provision for warranty and other claims in the accompanying financial statements for the six months ended 30 June 2007.

In addition to the specific cases mentioned above, in the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Guarantees issued

In January 2007, the Company transferred 60% of JSC "Interpipe Nizhnedneprovsky Tube Rolling Plant" shares to Saleks Investments Limited, its subsidiary. These shares and 100% ownership interest in Saleks Investments Limited were pledged as a security for obligations in favour of an international bank, which issued a loan maturing in January 2008 and amounting to USD 150,000 thousand (equivalent of UAH 757,500 thousand) to a related party.

As at 30 June 2007, other guarantees issued by the Group amounted to UAH 45,450 thousand (31 December 2006: nil). The fair value of these guarantees on initial recognition is negligible and, therefore, has not been recognized in these financial statements.

Social commitments

Under the rules of privatization, the legal ownership of certain social assets was not passed on to JSC "Interpipe Nizhnedneprovsky Tube Rolling Plant" and JSC "Interpipe Novomoskovsk Pipe Production Plant" and over an undefined period of time they should be fully transferred to the municipal authorities. However, until the transfer, the subsidiary bears expenses related to the maintenance of these property, plant and equipment items. Such assets are not presented on the balance sheet, as the Group has no legal title to these assets. The corresponding maintenance costs are expensed as incurred as they are considered to be costs of operations in the current period and included in other expenses in the accompanying financial statements for the year ended 31 December 2006.

Lease of land

The Group has the right to permanent use of the land on which its Ukrainian production facilities are located, and pays land tax as assessed annually by the state based on the total area and use for which the land is zoned.

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Contractual commitments for the acquisition of property, plant and equipment

On 26 February 2007, the Group entered into a capital commitment of EUR 260,000 thousand (equivalent of approximately UAH 1,767,298 thousand as at 30 June 2007) to construct an electric arc metal smelting plant with a production capacity of 1.3 million ton of billets annually. The launch of the plant is expected in 2009.

As at 30 June 2007, the Group's other contractual commitments for acquisition of property, plant and equipment amounted to UAH 89,827 thousand and relate to purchase and modernization of production equipment.

18. Events after the balance sheet date

In July 2007, the Group has issued USD 200,000 thousand (UAH 1,010,000 thousand) 8.75 % notes due in 2010.

On 7 August 2007 Interpipe Limited declared dividends in the amount of USD 95,000 thousand (UAH 479,750 thousand).

Subsequent to 30 June 2007, the Group entered into several additional loan agreements with international banks comprising USD 217,000 thousand (UAH 1,095,850 thousand) of loans secured with the Group's assets and USD 25,000 thousand (UAH 126,250 thousand) of unsecured loans.