

9. CONSOLIDATED FINANCIAL STATEMENTS

ОАО ТМК

Notes to the Consolidated Financial Statements (continued)

(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

L) Employee Benefits Liability (continued)

Defined Contribution Plans

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

M) Government Grants

Grants from the government are recognised when there is a reasonable assurance that the grant will be received and the Group will comply with all conditions attached to it.

When the grant relates to an expense item, it is recognised as the decrease of respective expenses over the periods when the costs, which it is intended to compensate, are incurred.

Government grants relating to assets are included in non-current liabilities as deferred government grants and are credited to other income in the income statement on a straight-line basis over the expected lives of the related assets.

N) Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income tax is recognised in the income statement, except to the extent that it relates to items directly taken to equity or other comprehensive income, in which case it is recognised against equity or other comprehensive income.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where deferred income tax arises from initial recognition of goodwill or of an asset or liability in transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where timing of reversal of temporary differences can be controlled and it is probable that temporary differences will not be reversed in the near future.

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Notes to the Consolidated Financial Statements (continued)

(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

O) Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from proceeds in equity.

Treasury Shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of treasury shares.

Dividends

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

P) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenues from sales of inventory are recognised when significant risks and rewards of ownership of goods have passed to the buyer. Revenues arising from rendering of services are recognised in the same period when the services are provided.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, revenue is measured at the fair value of goods or services provided.