

PRELIMINARY IFRS CONSOLIDATED FINANCIAL STATEMENTS
INTERPIPE LIMITED
(FORMERLY KNOWN AS “RAMELTON HOLDINGS LIMITED”)
FOR THE YEAR ENDED 31 DECEMBER 2006
WITH SPECIAL PURPOSE INDEPENDENT AUDITORS’ REPORT

INTERPIPE LIMITED (FORMERLY KNOWN AS “RAMELTON HOLDINGS LIMITED”)
PRELIMINARY IFRS CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2006

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Special Purpose Independent Auditors' Report To the Members and the Board of Directors of the Company

Report on the Preliminary IFRS Consolidated Financial Statements

We have audited the accompanying preliminary IFRS consolidated financial statements of Interpipe Limited (formerly known as "Ramelton Holdings Limited" and referred to herein as the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes (the "preliminary consolidated financial statements").

Management's Responsibility for the Preliminary Consolidated Financial Statements

Management is responsible for the preparation and presentation of these preliminary consolidated financial statements in accordance with the basis set out in Note 2. They have been prepared as part of the Group's adoption of International Financial Reporting Standards (IFRSs). Management's responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and presentation of the preliminary consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these preliminary consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the preliminary consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the preliminary consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the preliminary consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the preliminary 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the preliminary consolidated financial statements.

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

Opinion

In our opinion, the preliminary consolidated financial statements as at 31 December 2006 and for the year then ended have been prepared, in all material respects, in accordance with the basis set out in Note 2, which describes how IFRSs have been applied under IFRS 1, including the assumptions management has made about the standards and interpretations expected to be effective, and the policies expected to be adopted, when management prepares its first complete set of IFRS consolidated financial statements as at 31 December 2007.

Emphasis of Matter

We draw attention to the fact that Note 2 which explains why there is a possibility that the preliminary consolidated financial statements may require adjustment before constituting the final IFRS consolidated financial statements. Moreover, we draw attention to the fact that, under IFRSs only a complete set of consolidated financial statements with comparative financial information and explanatory notes can provide a fair presentation of the Group's consolidated financial position, results of operations and cash flows in accordance with IFRSs.

Report on Supplementary Financial Information

Our audit was conducted for the purpose of expressing an opinion on the preliminary consolidated financial statements taken as a whole. The accompanying Details of Preliminary IFRS Consolidated Financial Statements disclosed as supplementary information to these preliminary consolidated financial statements are presented for purposes of additional analysis and are not a required part of the preliminary consolidated financial statements. Such additional financial information has been subjected to the auditing procedures applied in our audit of the preliminary consolidated financial statements and, in our opinion, has been properly prepared, in all material respects, in relation to the Group's preliminary consolidated financial statements taken as whole.



25 May 2007

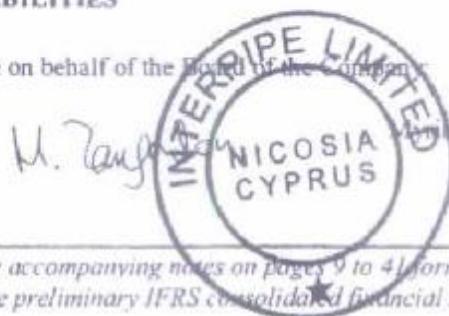
INTERPIPE LIMITED (FORMERLY KNOWN AS "RAMELTON HOLDINGS LIMITED")
PRELIMINARY IFRS CONSOLIDATED BALANCE SHEET
As at 31 December 2006

(in thousands of Ukrainian hryvnia)

	Notes	31 December 2006	1 January 2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	2,489,576	2,707,397
Intangible assets	7	6,404	2,771
Investments in associates	8	13,265	12,657
Other non-current assets		4,434	4,515
Deferred tax assets	9	14,806	20,871
		2,528,485	2,748,211
Current assets			
Inventories	10	778,282	554,219
Trade and other accounts receivable	11	863,814	808,113
Prepayments and other current assets	12	137,593	243,388
Current tax assets		112,084	10,394
Taxes receivable, other than income tax	13	350,935	94,165
Cash and bank deposits	14	489,692	703,862
		2,732,400	2,414,141
Non-current assets classified as held for sale	15	43,989	64,339
TOTAL ASSETS		5,304,874	5,226,691
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		56	10
Share premium		1,823,509	—
Accumulated profits		1,043,884	3,049,599
Foreign currency translation reserve		203	—
		2,867,652	3,049,609
Minority interests		510,984	574,201
Total equity	25	3,378,636	3,623,810
Non-current liabilities			
Deferred tax liabilities	9	306,261	422,097
Borrowings	16	62,170	—
Provisions	17	46,356	31,126
		414,787	453,223
Current liabilities			
Trade and other accounts payable	18	267,672	405,752
Current tax liabilities		20,217	71,479
Taxes payable, other than income tax	19	13,741	14,067
Advances and other current liabilities	20	293,619	150,495
Borrowings	16	891,196	454,203
Provisions	17	25,006	34,323
		1,511,451	1,130,319
Liabilities directly associated with non-current assets classified as held for sale	15	—	19,339
Total liabilities		1,926,238	1,602,881
TOTAL EQUITY AND LIABILITIES		5,304,874	5,226,691

Signed and authorised for issue on behalf of the Board of the Company

Director



M. Zangoulou

15 May 2007

The accompanying notes on pages 9 to 41 form an integral part of the preliminary IFRS consolidated financial statements

INTERPIPE LIMITED (FORMERLY KNOWN AS “RAMELTON HOLDINGS LIMITED”)
PRELIMINARY IFRS CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2006

(in thousands of Ukrainian hryvnia)

	Notes	2006
Revenue from sales	5	7,280,018
Cost of sales	21	<u>(4,738,431)</u>
Gross profit		2,541,587
Other operating income	24	18,211
Selling and distribution expenses	22	(672,764)
General and administrative expenses	23	(266,997)
Other operating expenses	24	(87,953)
Finance income		13,232
Finance costs		(44,410)
Share of profits of associates	8	<u>608</u>
Profit before tax		1,501,514
Income tax expense	9	<u>(403,249)</u>
Profit for the year		1,098,265
Attributable to:		
Equity holders of the parent		1,022,199
Minority interests		<u>76,066</u>
		<u>1,098,265</u>

The accompanying notes on pages 9 to 41 form an integral part of the preliminary IFRS consolidated financial statements

INTERPIPE LIMITED (FORMERLY KNOWN AS “RAMELTON HOLDINGS LIMITED”)
PRELIMINARY IFRS CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 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 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	–	–	–	203	203	–	203
Profit for the year	–	–	1,022,199	–	1,022,199	76,066	1,098,265
Total income and expense for the year	–	–	1,022,199	203	1,022,402	76,066	1,098,468
Capital restructuring (Note 25)	46	1,823,509	(3,027,471)	–	(1,203,916)	–	(1,203,916)
Dividends of subsidiaries (Note 25)	–	–	–	–	–	(130,938)	(130,938)
Acquisition of minority interests (Note 25)	–	–	(443)	–	(443)	(8,345)	(8,788)
At 31 December 2006	56	1,823,509	1,043,884	203	2,867,652	510,984	3,378,636

The accompanying notes on pages 9 to 41 form an integral part of the preliminary IFRS consolidated financial statements

INTERPIPE LIMITED (FORMERLY KNOWN AS “RAMELTON HOLDINGS LIMITED”)
PRELIMINARY IFRS CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2006

(in thousands of Ukrainian hryvnia)

	Notes	<u>2006</u>
Cash flows from operating activities		
Profit before tax		1,501,514
Adjustments for:		
Depreciation, amortisation and impairment		323,747
Change in provisions for pension and other obligations		5,913
Allowance for receivables impairment	11	38,640
Loss on disposal of property, plant and equipment and intangible assets	24	29,598
Finance costs		44,410
Finance income		(13,232)
Translation difference and foreign exchange difference		1,577
Share of profits of associates	8	(608)
Changes in operating assets and liabilities:		
Increase in inventories		(217,652)
Increase in trade and other accounts receivable		(287,695)
Decrease in prepayments and other current assets		707
Increase in taxes receivable, other than income tax		(257,370)
Decrease in trade and other accounts payable		(157,801)
Decrease in taxes payable, other than income tax		(326)
Increase in advances and other current liabilities		90,239
Cash generated from operations		<u>1,101,661</u>
Interest paid		(41,714)
Income tax paid		(665,163)
Net cash inflows from operating activities		<u>394,784</u>
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets		(128,618)
Proceeds from sale of property, plant and equipment		2,849
Proceeds from sale of investments	27	194,530
Proceeds from repayment of loans	12	94,165
Acquisition of minority interests	25	(8,788)
Placement of guarantee deposits		10,923
Interest received		13,232
Net cash inflows from investing activities		<u>178,293</u>
Cash flows from financing activities		
Proceeds from borrowings		1,210,669
Repayments of borrowings		(715,129)
Payments in the process of capital restructuring	25	(1,203,916)
Dividends of subsidiaries	25	(78,053)
Net cash outflows from financing activities		<u>(786,429)</u>
Net change in cash and cash equivalents		(213,352)
Net foreign exchange difference		(818)
Cash and cash equivalents at the beginning of the year	14	<u>703,862</u>
Cash and cash equivalents at the end of the year	14	<u><u>489,692</u></u>
Supplemental disclosure on non-cash transactions:		
Issue of shares in exchange for non-cash contribution	25	1,823,555

The accompanying notes on pages 9 to 41 form an integral part of the preliminary IFRS consolidated financial statements

**INTERPIPE LIMITED (FORMERLY KNOWN AS “RAMELTON HOLDINGS LIMITED”)
NOTES TO THE PRELIMINARY IFRS CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2006
(in thousands of Ukrainian hryvnia)**

1. Corporate information

Principal activities of Interpipe Limited (formerly known as “Ramelton Holdings Limited” and 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. Ramelton Holdings Limited was incorporated under the Companies Law of Cyprus, as a limited liability company on 30 December 2005 and changed its name to Interpipe Limited on 15 May 2007. The registered office and principal place of business of the Company are 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 (the list of the subsidiaries is disclosed in Note 26) and has concentration of its business in Ukraine, where its production facilities are located.

The shares of the Company were not listed at 31 December 2006. Following the reorganisation of the Group, which is further described below in this note, all the shares of the Company have been transferred and as at 31 December 2006, were ultimately held by a number of discretionary trusts established to control and operate the Group as well as certain other investments. Mr. Viktor Pinchuk, a citizen of Ukraine, and his family members are beneficiaries of the trusts.

The Group was formed in April – September 2006, through a number of transactions resulting in transfer to the Company of controlling ownership interest in the subsidiaries from entities which were under common control at the time of reorganisation. As the Group has been formed through a reorganisation of entities under common control, these preliminary IFRS consolidated financial statements have been prepared using the pooling of interest method, and, as such, the financial statements have been presented as if transfers of ownership interests in subsidiaries had occurred on the beginning of the earliest period presented (i.e. 1 January 2006).

The preliminary IFRS consolidated financial statements of the Group as at 31 December 2006 and for the year then ended were authorized for issue on 15 May 2007.

2. Basis of preparation

These preliminary IFRS consolidated financial statements are prepared as part of the Group’s adoption of International Financial Reporting Standards (IFRS). These preliminary IFRS consolidated financial statements as at 31 December 2006 and for the year then ended will be used by management of the Group in preparation of the Group’s first complete set of IFRS financial statements for the year ended 31 December 2007.

Management draws attention to the fact that the accompanying preliminary consolidated financial statements do not constitute a complete set of financial statements in accordance with IFRS, as it does not contain comparative financial information as required by IFRS. In accordance with IAS 1 “Presentation of Financial Statements” a fair presentation of the Group’s financial position can be achieved only by a complete set of financial statements with comparative financial information.

As discussed above, the Group was formed through the reorganization of entities under common control using the pooling of interest method. Assets and liabilities were recognized using the carrying value of the predecessor companies.

As the Group has never previously prepared IFRS financial statements it qualifies as a first time adopter under IFRS 1 “First-time Adoption of International Financial Reporting Standards”. IFRS 1 allows a first time adopter to measure property, plant and equipment at the date of transition (1 January 2006) at fair value and use these fair values as deemed cost. As a result, the fair values of the property, plant and equipment of the Ukrainian production subsidiaries as at the date of transition were used to arrive at deemed cost. The property, plant and equipment of the other subsidiaries were carried at cost less accumulated depreciation and impairment.

The Group has also applied an IFRS 1 exemption which allows the Group not to apply purchase accounting to the business combinations which occurred prior to the date of transition to IFRS. Accordingly, the Group calculated the deemed cost of goodwill arising on acquisition of the subsidiaries at the date of transition to IFRS as the difference between the predecessor’s interest in the net assets of the subsidiaries and the predecessor’s cost of these subsidiaries. Because the predecessor’s interest in the net assets exceeded the cost of the subsidiaries, the difference was recorded as part of the equity attributable to equity holders of the parent as at 1 January 2006.

These preliminary IFRS consolidated financial statements are presented in Ukrainian hryvnia (“UAH”) and all values are rounded to the nearest thousand except when otherwise indicated.

**INTERPIPE LIMITED (FORMERLY KNOWN AS “RAMELTON HOLDINGS LIMITED”)
NOTES TO THE PRELIMINARY IFRS CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2006
(in thousands of Ukrainian hryvnia)**

IFRSs and IFRIC Interpretations not yet effective

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

IFRS 8 “Operating Segments”

IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”

IFRIC 12 “Service Concession Arrangements”

IFRS 8 “Operating Segments” sets out requirements for disclosure of information about an entity’s operating segments and also about the entity’s products and services, the geographical areas in which it operates, and its major customers. This IFRS replaces IAS 14 “Segment Reporting”. An entity shall apply this IFRS in its annual financial statements for periods beginning on or after 1 January 2009. Segment information for prior years that is reported as comparative information for the initial year of application shall be restated to conform to the requirements of this IFRS, unless the necessary information is not available and the cost to develop it would be excessive.

IFRIC 11 addresses the issues whether the certain transactions should be accounted for as equity-settled or as cash-settled under the requirements of IFRS 2, and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group. An entity shall apply this interpretation for annual periods beginning on or after 1 March 2007.

IFRIC 12 applies to public-to-private service concession arrangements and gives guidance on the accounting by operators for public-to-private service concession arrangements. An entity shall apply this interpretation for annual periods beginning on or after 1 January 2008.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group’s result of operations and financial position in the period of initial application. The adoption of IFRS 8 will affect the disclosures relating to segment information as presented in the notes to these financial statements.

Transition to IFRS

As a first-time adopter of IFRS, the Group applies IFRS 1 “First Time Adoption of International Financial Reporting Standards” and has chosen the year ending 31 December 2007 to be the first year when the Group adopts IFRS.

IFRS 1 requires first-time adopters to prepare an opening IFRS balance sheet at the date of transition to IFRS. This is the starting point for its accounting under IFRS. According to IFRS 1, for companies adopting IFRS in 2007, the opening IFRS balance sheet will be as at 1 January 2006, which is the beginning of the first comparative period included in their IFRS financial statements. In accordance with IFRS 1, the Group applies the same accounting policies in its opening IFRS balance sheet and throughout all periods presented in its first complete set of IFRS financial statements. Those accounting policies should comply with each IFRS effective at the reporting date for its first complete set of IFRS financial statements (i.e., as at 31 December 2007).

IFRS 1 requires that financial statements are final only when the first complete set of IFRS financial statements has been prepared. Consequently, financial statements prepared prior to the preparation of the first complete set of IFRS financial statements are referred to hereinafter as the “preliminary IFRS financial statements” as changes may result from subsequent revisions to accounting standards by the IASB. Preparing preliminary IFRS financial statements involves management applying IFRS in effect as at the date of preparation of such preliminary IFRS consolidated financial statements, as well as considering Exposure Drafts of any IFRS existing as at the date. As a result of adoption of any new IFRS in effect as at 31 December 2007 (the date of the first full application of IFRS for the Group), the account balances in these preliminary IFRS consolidated financial statements may change when the Group prepares its first complete set of IFRS financial statements as at 31 December 2007.

IFRS 1 requires a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the balance sheet and requires specific reconciliations of equity reported under previous GAAP to its equity under IFRS. No reconciliation is presented in these notes to the preliminary IFRS consolidated financial statements because IFRS are the primary accounting principles for the Company and as a result, the Group did not have consolidated equity under a previous GAAP as at 1 January 2006.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s

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accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the preliminary IFRS financial statements are disclosed in Note 4.

Basis of consolidation

The preliminary IFRS consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2006 and for the year then ended. The financial statements of the subsidiaries are prepared as at the same reporting date as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intra-group balances, transactions, income and expenses and unrealised profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

Minority interests represent the interest in subsidiaries not held by the Group. Minority interests at the balance sheet date represent the minority shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of changes in net assets since the date of the combination. Minority interests are presented within the shareholders' equity.

Any excess or deficit of the consideration paid over the net assets on the acquisition of minority interests in subsidiaries is charged or credited to accumulated profits.

3. Summary of significant accounting policies

Foreign currency translation

The preliminary IFRS consolidated financial statements are presented in the Ukrainian hryvnia (“UAH”), which is the Group's presentation currency. The Company's functional currency is the United States dollar. Ukrainian hryvnia is the functional currency of the subsidiaries domiciled in Ukraine. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are upon remeasurement taken to income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The functional currencies of the subsidiaries domiciled outside of Ukraine are as follows: the United States dollar for those registered in Switzerland and the United States of America, Russian rouble for a subsidiary in Russia, and Kazakhstani tenge for a subsidiary in Kazakhstan. As at the reporting date, the assets and liabilities of these companies are translated into the presentation currency of the Group at the rate of exchange at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the income statement.

Property, plant and equipment

Property, plant and equipment of the Ukrainian subsidiaries of the Company have been subject to a valuation performed by independent appraisers as at 31 December 2005. When no market values were available, fair value of specific machinery and equipment was determined by using depreciated replacement cost approach. Fair values of other items of property, plant and equipment was determined by reference to market-based evidence, which were the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a seller in an arm's length transaction as at the valuation date. This fair value was adopted by the Group as being the deemed cost at the transition date to IFRS. The resulting adjustment was included in equity as at 1 January 2006. Items of property, plant and equipment of the other subsidiaries are stated at cost, less accumulated depreciation and impairment in value.

Property, plant and equipment are stated at cost or deemed cost at the date of transition to IFRS (hereinafter referred as “cost”), excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the useful life of the assets, except for smelting furnaces depreciation, of which is calculated over their useful lives determined as a maximum possible number of melts for the furnace prior to a scheduled renewal.

INTERPIPE LIMITED (FORMERLY KNOWN AS “RAMELTON HOLDINGS LIMITED”)
NOTES TO THE PRELIMINARY IFRS CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of Ukrainian hryvnia)

Construction in progress is stated at deemed cost determined as discussed above and comprises property, plant and equipment which have not yet been completed. No depreciation is recorded on such assets until they are available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year the item is derecognized.

The Group has the title to certain non-production and social assets, primarily buildings and social infrastructure facilities relating to production subsidiaries in Ukraine. The items of social infrastructure facilities do not meet the definition of an asset according to IFRS; therefore, these items are not recorded in these preliminary IFRS consolidated financial statements. Construction and maintenance costs of social infrastructure facilities are expensed as incurred.

Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. If they are not attributable to such an asset they are recognized as an expense when incurred.

Intangible assets

Intangible assets include patents and trademark, and accounting software acquired separately from business combination and measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Investments in associates

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The income statement reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 future cash flow estimates have not been adjusted. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount

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is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years in income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group has not designated any financial asset as either financial assets at fair value through profit or loss, and held-to-maturity investments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

All investments except for investments in associates are available-for-sale. Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as either financial assets at fair value through profit or loss, loans and receivables, and held-to-maturity investments. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. Investments in equity instruments whose fair value cannot be reliably measured are measured at cost.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first-in, first-out (FIFO) basis, except for cost of work-in-process (comprising unfinished products and metal billets) which is determined on 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). Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Taxes receivable

Taxes receivable represent mainly value-added tax (VAT) recoverable, which relates to purchases of goods and services. The tax authorities permit the settlement of sales and purchases VAT on a net basis.

Cash and cash equivalents

Cash and bank deposits are considered cash and cash equivalents for the purposes of cash flows statement and comprise cash in hand and cash at bank and highly liquid demand deposits (with maturity date of less than 90 days) free from contractual encumbrances which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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Non-current assets held for sale

An item of non-current assets (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset (or disposal group) classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

Trade and other payables

Trade and other payables are initially recognised at cost being the fair value of the consideration received, net of transaction costs incurred. Subsequently, instruments with fixed maturity are re-measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement. Financial liabilities, which do not have a fixed maturity, are subsequently carried at cost.

Borrowings

Borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs, and any discount or premium on settlement. After initial recognition, such instruments are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income statement when the liabilities are derecognised as well as through the amortisation process.

Guarantees issued

At inception, issued financial guarantees are measured at fair value. Subsequently, the guarantee contract is measured at the higher of the amount determined in accordance with the principles discussed in Provisions below and the amount initially recognised less cumulative amortisation at the reporting date.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in income statement.

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Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

For trade and other receivables, an allowance for impairment is made when there is an objective evidence (such as probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its carrying value and its current fair value, less any impairment loss previously recognised in income statement, is transferred from equity to the income statement.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event or it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Pension obligations

In the normal course of business the Group contributes to the Ukrainian, Russian and Kazakhstani state pension schemes at the statutory rates in force during the year, based on gross salary payments; such expense is charged in the period the related salaries are earned. The Group has agreed to provide certain defined contribution pension benefits in Switzerland. The Group has no legal or constructive obligations to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred, however, separate disclosures are not provided as these costs are not material.

In addition, the Group's Ukrainian production subsidiaries provide other post-employment benefits to their employees in accordance with collective agreements. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age. There are two significant defined benefit post-employment plans in Ukraine, both of which are unfunded. These plans comprise a) Group's legal contractual obligation to its employees to make one-off payment on retirement to employees with long service and other benefits according to the collective agreements, and b) Group's legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of the former employees of the Group. The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit method in respect of those employees entitled to such payments. Management uses actuarial techniques in calculating the liability related to these retirement obligations at each balance sheet date. Actual results could vary from estimates made to the date.

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Past service cost resulting from introduction of pension benefits is recognised as expense on a straight-line basis over the average period until the benefits become vested.

Gains and losses resulting from the use of actuarial valuation methodologies are recognized when the cumulative unrecognized actuarial gains or losses for the scheme exceed 10% of defined benefit obligation. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Contingent liabilities

Contingent liabilities are not recognized in the financial statements unless it is probable that an outflow of economic resources will be required to settle the obligation and it can be reasonably estimated. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Income tax

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Current tax expense is calculated by each entity on the pre-tax income determined in accordance with the tax law of a country in which the entity is incorporated, using tax rates enacted at the balance sheet date.

Deferred tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Deferred tax liabilities relating to a taxable temporary difference on the deemed cost adjustment of property, plant and equipment was initially recognised in equity as at 1 January 2006. As depreciation and impairment of property, plant and equipment are included in the income statement the relating effect of deferred tax on these temporary differences is also recognised in the income statement.

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Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and revenue can be reliably measured. Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. Advances from customers represent cash receipts from the buyer before significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from rendering of services is recognized when services are rendered.

Cost of sales and other expenses recognition

Cost of revenue that relates to the same transaction is recognized simultaneously with the respective revenue. Expenses include warranties and other costs which are to be incurred after the shipment of the goods and can be measured reliably are also recognized.

4. Significant accounting judgements and estimates

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Pension obligations under defined benefit plan

The Group collects information relating to its employees in service and pensioners receiving pension benefits and uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. These calculations require the use of demographic assumptions about the future characteristics of 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). The Group does not have access to information about employment record of its former employees with the other entities participating in the defined benefit state pension plan which results in that there is no consistent and reliable basis for allocating the obligation to the Group. Therefore, the Group accounts for the benefits relating to former employees as if it were a defined contribution plan. More details are provided in Note 17.

Valuation of property, plant and equipment

As at 31 December 2005, the valuation of property, plant and equipment of the Ukrainian subsidiaries was made by independent professionally qualified appraisers. Fair values of specialised machinery and equipment owned by these subsidiaries and representing the main part of property, plant and equipment were determined by using depreciated replacement cost approach as no market values were available for such items. The fair value of other than specialised property, plant and equipment was determined by reference to market values of those items at the valuation date. Under depreciated replacement cost approach fair value of specific items of property, plant and equipment was determined based on the replacement cost, which is the estimated amount required to reproduce a duplicate or a replica of the item of property, plant and equipment in accordance with current market prices for materials, labour, and manufactured equipment, contractor's overhead and profit, and fee, but without provision for overtime, bonuses for labour, or premiums for material and equipment, less allowances for physical deterioration and functional (or technical) obsolescence and economic (or external) obsolescence.

The fair value of assets determined on the basis of depreciated replacement cost approach was subjected to an adequate profitability test using discounted cash flow techniques, for the purposes of which the assets were allocated to several cash generating units based on the product lines. The discount rate representing pre tax weighted average cost of capital was estimated at 16%.

This fair value was adopted by the Group as being the deemed cost at the transition date to IFRS (1 January 2006) and the resulting adjustment was included in equity. As at 1 January 2006, approximately 99.8% of total carrying value of property, plant and equipment of the Group was stated at deemed cost and approximately 0.2% was stated at original cost less accumulated depreciation and impairment in value (Note 6).

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Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation recognised in the income statement (Note 6).

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. This requires an estimation of the value in use of the cash generating units to which the item is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In 2006, the Group reassessed its product sales forecasts resulting in a decrease of operating cash flows for certain cash generating units. The Group assessed value in use for the cash generating unit producing large diameter welded pipes that was affected by this change in forecasts. This cash generating unit is included into pipe business segment of the Group (Note 5). The discount used in determining value in use of this cash generating unit was 16%. The difference between value in use and carrying value of plant and machinery amounting to UAH 26,514 thousand was recognised as impairment loss for the year ended 31 December 2006 (Note 6).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements. As at 31 December and 1 January 2006, allowances for doubtful accounts have been made in the amount of UAH 52,742 thousand and UAH 16,644 thousand, respectively (Note 11).

Certain finished goods of the Group are carried at net realisable value. As at 31 December and 1 January 2006, inventory write-down to its net realisable value amounted to UAH 24,676 thousand and UAH 24,681 thousand, respectively (Note 10). Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Deferred income tax assets

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The estimation of that probability includes judgments based on the expected performance (Note 9).

Value-added tax recoverable

Value-added tax receivable is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that refund or VAT liabilities will be available within twelve months from the balance sheet date. The Group considers that the amount due from the state will be either recovered in cash or will be reclaimed against the VAT liabilities related to sales. No allowance for impairment was recognised against VAT receivable as at 31 December and 1 January 2006 (Note 13).

Litigations

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation or arbitration, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as legal counsel. Revisions to the estimates may significantly affect future operating results (Notes 17 and 28).

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5. Segment information

The consolidated financial statements of the Group are reported in two segment reporting formats: business and geographical.

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

The Group’s primary segment reporting format is the dominant source for disclosure of its operating activities in its financial statements. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Group discloses its sales revenue, gross profit, assets, liabilities, and other elements based on the main groups of products segregated into segments: pipes, solid-rolled railway wheels, unallocated.

A geographical segment is the Group’s secondary segment reporting format for disclosure of its operating activities in its financial statements. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those components operating in other economic environments. The Group discloses its revenue from sales, based on the location of the Group’s customers. Segment assets are disclosed based on their location.

Primary reporting format – business segments

<i>Year ended 31 December 2006</i>	<i>Pipes</i>	<i>Wheels</i>	<i>Unallocated</i>	<i>Total</i>
Revenue from sales	5,741,204	1,519,314	19,500	7,280,018
Gross profit	1,903,425	634,264	3,898	2,541,587
Segment assets	3,820,966	759,979	723,929	5,304,874
Segment liabilities	788,069	59,097	1,079,072	1,926,238
Investment in associates	13,265	—	—	13,265
Share of profits of associates	608	—	—	608
Addition to property, plant and equipment	112,016	11,097	20,838	143,951
Depreciation charge	246,756	44,603	11,532	302,891
Impairment loss of property, plant and equipment	26,514	—	—	26,514

<i>As at 1 January 2006</i>	<i>Pipes</i>	<i>Wheels</i>	<i>Unallocated</i>	<i>Total</i>
Segment assets	3,438,963	749,611	1,038,117	5,226,691
Segment liabilities	801,504	59,026	742,351	1,602,881
Investment in associates	12,657	—	—	12,657

Secondary reporting format – geographical segments

Sales to external customers disclosed in geographical segments based on the geographical location of its customers were as follows:

	<i>Ukraine</i>	<i>Russia</i>	<i>Other CIS</i>	<i>Europe</i>	<i>UAE and Middle East</i>	<i>USA</i>	<i>Other countries</i>	<i>Total</i>
Revenue from sales	2,068,741	2,054,538	887,801	748,006	402,749	706,009	412,174	7,280,018

Substantially all of the Group’s assets were located in Ukraine.

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6. Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	<i>Buildings and improvements</i>	<i>Machinery and equipment</i>	<i>Transport and motor vehicles</i>	<i>Fixtures and office equipment</i>	<i>Constru- tion-in- progress</i>	<i>Total</i>
Cost						
At 1 January 2006	396,462	2,198,217	51,801	12,713	48,693	2,707,886
Additions	10,262	75,802	2,296	7,295	48,296	143,951
Disposals	(3,840)	(23,163)	(914)	(808)	(6,904)	(35,629)
Translation difference	—	—	13	91	—	104
At 31 December 2006	402,884	2,250,856	53,196	19,291	90,085	2,816,312
Accumulated depreciation and impairment						
At 1 January 2006	—	—	364	125	—	489
Charge for the year	60,903	226,539	11,449	4,000	—	302,891
Disposals	(186)	(2,702)	(168)	(131)	—	(3,187)
Impairment loss (Note 4)	—	26,514	—	—	—	26,514
Translation difference	—	—	2	27	—	29
At 31 December 2006	60,717	250,351	11,647	4,021	—	326,736
Net book value						
At 1 January 2006	396,462	2,198,217	51,437	12,588	48,693	2,707,397
At 31 December 2006	342,167	2,000,505	41,549	15,270	90,085	2,489,576

As at 31 December 2005, a valuation of all items of property, plant and equipment of the Group's production subsidiaries domiciled in Ukraine was performed by independent qualified appraisers. The fair value of appraised property, plant and equipment was used as deemed cost at 1 January 2006. For description of uncertainty relating to valuation techniques, refer to Note 4.

Construction-in-progress includes primarily uninstalled equipment and unfinished installation works.

Useful lives

The weighted average remaining useful lives of the assets are estimated as follows:

	<u>2006</u>
Buildings and improvements	7
Machinery and equipment	10
Transport and motor vehicles	5
Fixtures and office equipment	<u>5</u>

Other disclosures

As at 31 December 2006, buildings amounting to UAH 49,120 thousand (1 January 2006: UAH 118,899 thousand) and certain items of machinery, equipment, fixtures, and vehicles amounting to UAH 638,549 thousand (1 January 2006: UAH 683,395 thousand) were pledged as a security for the bank loans (Note 16).

In 2006, there were no borrowing costs eligible for capitalisation.

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7. Intangible assets

Intangible assets and related accumulated amortisation consist of the following:

	<i>Patents and trademark</i>	<i>Accounting software</i>	<i>Total</i>
Cost			
At 1 January 2006	—	3,611	3,611
Additions	862	3,526	4,388
Disposals	—	(15)	(15)
Translation difference	—	5	5
At 31 December 2006	862	7,127	7,989
Accumulated amortisation			
At 1 January 2006	—	840	840
Charge for the year	94	659	753
Disposals	—	(10)	(10)
Translation difference	—	2	2
At 31 December 2006	94	1,491	1,585
Net book value			
At 1 January 2006	—	2,771	2,771
At 31 December 2006	768	5,636	6,404

Accounting software is assessed to have finite lives from three to seven years; patents and trademark are assessed to have finite lives from five to ten years.

8. Investments in associates

Investments in associates were as follows:

<i>Entity and country of incorporation</i>	<i>Activity</i>	<i>% of the Group ownership</i>	<i>31 December 2006</i>	<i>1 January 2006</i>
CJSC “Teplogeneratzia”, Ukraine	Utility services	30%	6,867	7,132
CJSC “Nikopolsky Tooling Plant”, Ukraine	Tooling for machines	25%	3,423	3,345
CJSC “Nikopolsky Repairing Plant”, Ukraine	Repairs	25%	2,975	2,180
			13,265	12,657

The Group’s associates were founded through the privatisation of certain production facilities of a formerly state-owned pipe rolling plant and are private companies not listed on any public exchange. The following table illustrates summarised financial information of the Group’s investments in associates as at 31 December 2006:

	<i>CJSC “Teplo- generatzia”</i>	<i>CJSC “Nikopolsky Tooling Plant”</i>	<i>CJSC “Nikopolsky Repairing Plant”</i>
Assets	14,341	8,415	5,623
Liabilities	(7,474)	(4,992)	(2,648)
Net assets – carrying amounts of investments	6,867	3,423	2,975

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The following table illustrates summarised financial information of the Group’s investments in associates as at 1 January 2006:

	<i>CJSC “Teplo- generatzia”</i>	<i>CJSC “Nikopolsky Tooling Plant”</i>	<i>CJSC “Nikopolsky Repairing Plant”</i>
Assets	12,150	7,176	4,390
Liabilities	(5,018)	(3,831)	(2,210)
Net assets – carrying amounts of investments	7,132	3,345	2,180

The following table illustrates the Group’s share of revenues and profit or loss of associates for the year ended 31 December 2006:

	<i>CJSC “Teplo- generatzia”</i>	<i>CJSC “Nikopolsky Tooling Plant”</i>	<i>CJSC “Nikopolsky Repairing Plant”</i>
Revenues	28,475	59,782	64,422
Profit / (loss) for the year	(265)	78	795

9. Income tax

The components of income tax expense for 2006 were as follows:

	<u>2006</u>
Current income tax expense	512,608
Deferred income tax benefit from origination and reversal of temporary differences	(109,359)
Income tax expense recognised in the income statement	<u>403,249</u>

Income tax expense for 2006 originated in the following tax jurisdictions:

	<i>Domestic rates applicable to individual group entities</i>	<u>2006</u>
Ukraine	25%	391,275
Russia	24%	3,070
Switzerland	12%	8,455
The United States of America	34%	148
Kazakhstan	30%	301
Income tax expense		<u>403,249</u>

Profit before tax for financial reporting purposes is reconciled to tax expense as follows:

	<u>2006</u>
Accounting profit before tax	1,501,514
Tax at domestic rates applicable to individual group entities	366,929
Write off of the tax asset relating to the change in an estimate of deductibility of certain temporary difference	2,583
Tax effect of non deductible expenses	33,737
Income tax expense	<u>403,249</u>

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Deferred tax assets and liabilities related to the following:

	<i>31 December 2006</i>	<i>Change recognised in income statement</i>	<i>Translation difference</i>	<i>1 January 2006</i>
Deferred tax liabilities:				
Deemed cost adjustment of property, plant and equipment and difference in depreciation	(337,989)	91,348	—	(429,337)
Deductible prepayments to suppliers	(81,720)	(70,481)	—	(11,239)
Deductible costs retained in inventories	(19,929)	(12,204)	—	(7,725)
Investments valuation	(1,392)	1,339	—	(2,731)
	(441,030)	10,002	—	(451,032)
Deferred tax assets:				
Taxable customer advances	107,228	99,449	—	7,779
Adjustment for unrealised profits in inventories	19,867	(1,720)	210	21,377
Accrued liabilities and provisions	13,901	5,349	59	8,493
Allowance for doubtful accounts	5,333	3,821	185	1,327
Deferral of revenues and related costs	2,966	(3,078)	(52)	6,096
Write-down of inventories	280	(4,464)	10	4,734
	149,575	99,357	412	49,806
Deferred tax liabilities, net	(291,455)		412	(401,226)
Deferred income tax benefit from origination and reversal of temporary differences		109,359		

Reflected in the balance sheet as follows:

Deferred tax assets	14,806	20,871
Deferred tax liabilities	(306,261)	(422,097)
Deferred tax liabilities, net	(291,455)	(401,226)

The Company has not recognised deferred tax liability in respect of UAH 152,567 thousand (1 January 2006: UAH 87,226 thousand) temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends in 2006 by the Company to its shareholders.

10. Inventories

Inventories consisted of the following:

	<i>31 December 2006</i>	<i>1 January 2006</i>
Raw materials at net realizable value	290,256	202,956
Work in process at cost	134,698	95,004
Finished goods at net realizable value	353,328	256,259
	778,282	554,219

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

	<u>2006</u>
At 1 January 2006	(24,681)
Decrease in write-down	5
At 31 December 2006	<u>(24,676)</u>

As at 31 December 2006, finished goods and raw materials with carrying value of UAH 158,147 thousand (1 January 2006: UAH 67,957 thousand) were pledged as a security for the bank loans (Note 16).

11. Trade and other accounts receivable

Trade and other accounts receivable consisted of the following:

	<u>31 December 2006</u>	<u>1 January 2006</u>
Trade accounts receivable	893,768	616,473
Less – allowance for impairment	(47,896)	(11,980)
	<u>845,872</u>	<u>604,493</u>
Other receivables	22,788	208,284
Less – allowance for impairment	(4,846)	(4,664)
	<u>17,942</u>	<u>203,620</u>
	<u>863,814</u>	<u>808,113</u>

Movements in the provision for impairment of receivables were as follows:

	<u>2006</u>
At 1 January 2006	(16,644)
Charge for the year	(38,640)
Amounts written off	2,542
At 31 December 2006	<u>(52,742)</u>

The analysis of trade receivables that were past due but not impaired is as follows:

	<i>Total</i>	<i>Neither past due nor impaired</i>		<i>Past due but not impaired</i>		
		<i>< 30 days</i>	<i>30 – 60 days</i>	<i>60 – 90 day</i>	<i>>90 day</i>	
31 December 2006	863,814	513,195	227,963	55,613	22,739	44,304
1 January 2006	808,113	549,229	113,266	80,384	33,161	32,073

Trade receivables are non-interest bearing and are generally collected within a three-month term.

As at 31 December 2006, trade accounts receivable amounting to UAH 11,654 thousand (1 January 2006: UAH 145,786 thousand) were pledged as a security for the bank loans obtained by the Group (Note 16).

As at 31 December 2006, 50% of trade accounts receivable was due from 20 customers (1 January 2006: 46% due from 20 customers including 13% of receivables due from three related parties, refer to Note 27).

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12. Prepayments and other current assets

Prepayments and other current assets consisted of the following:

	<i>31 December 2006</i>	<i>1 January 2006</i>
Short-term non-interest bearing loans to a related party (Note 27)	73,723	167,888
Prepayments to suppliers	46,133	31,928
Available reimbursement related to litigations (Note 17)	7,575	16,160
Prepaid insurance expense	5,886	12,929
Guarantee deposits	2,574	13,497
Other current assets	1,702	986
	137,593	243,388

As at 31 December 2006, guarantee deposits of UAH 2,574 thousand represented restricted bank deposits relating to letters of credit issued by banks in favour of the Group's suppliers.

13. Taxes receivable, other than income tax

Taxes receivable, other than income tax consisted of the following:

	<i>31 December 2006</i>	<i>1 January 2006</i>
Value-added tax (VAT) receivable (Note 4)	348,906	93,745
Other taxes receivable	2,029	420
	350,935	94,165

VAT receivable originated primarily in Ukraine.

14. Cash and bank deposits

Cash and bank deposits consisted of the following:

	<i>31 December 2006</i>	<i>1 January 2006</i>
Current accounts and deposits on demand at banks	158,504	684,165
Time deposits at banks	331,073	19,615
Cash in hand	115	82
	489,692	703,862

As at 31 December 2006, the Group placed deposit of UAH 70,595 thousand bearing interest at 14% and originally maturing in December 2007 with a Ukrainian bank. This deposit was pledged by the Group as a security for a loan payable by a related party to this bank. This deposit was returned to the Group in January 2007 concurrently with repayment of the loan. For terms and conditions of balances with related parties, refer to Note 27.

Demand deposits at banks earn interest at rates of up to 1% per annum. Time deposits at banks are made for periods of up to three months and earn interest at rates of up to 9% per annum.

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

Before 1 January 2006, the Group decided to dispose certain investments. The disposal of these investments is due to be completed in 2007 and as at 31 December 2006 final negotiations for the sale were in progress as well as firm agreements were entered into by the Group to sell certain investments.

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

		<i>31 December 2006</i>	<i>1 January 2006</i>
“Credit-Dnepr” Bank associate previously accounted for under the equity method	25%	35,467	35,467
Other equity investments		8,522	28,872
		43,989	64,339

At 31 December 2006, the Group had a firm purchase commitment from a related party to acquire the shares of “Credit-Dnepr” Bank. The Group will be able to finalise the transfer of the ownership interest in the bank immediately after obtaining appropriate permission from the National Bank of Ukraine by the acquiring party which is expected in 2007.

In April 2007, the Group entered into the sale agreement with a related party to dispose off its share in another investee at price of UAH 8,522 thousand. The Group expects to close the settlements under this sale agreement during 2007.

As at 1 January 2006, advances obtained by the Group for certain shares classified as held for sale amounting to UAH 19,339 thousand were included into liabilities directly associated with non-current assets classified as held for sale (Note 27).

16. Borrowings

Long and short-term borrowings consisted of the following:

	<i>Maturity</i>	<i>31 December 2006</i>	<i>1 January 2006</i>
Long-term borrowings:			
– interest bearing loans due to banks	2008-2011	62,170	–
		62,170	–
Short-term borrowings:			
– interest bearing loans due to banks	2007	878,088	408,465
– unsecured loans from related parties (Note 27)	2007	13,108	22,393
– unsecured promissory notes		–	23,345
		891,196	454,203

As at 31 December and 1 January 2006, the Group’s short-term interest bearing loans due to banks represent loan arrangements, overdrafts and revolving credit facilities. Promissory notes are carried at amortized cost and their fair value at initial recognition was determined using discount rate from 16.8% to 18% per annum.

As at 31 December 2006, interest bearing loans due to banks comprised UAH 379,978 thousand and UAH 560,280 thousand of loans borrowed at fixed and floating rates, respectively. Floating interest rates (one to six month LIBOR plus a margin of 3% to 7% per annum) attributable to the loans obtained by the Group ranged from 7% to 12% per annum. As at 1 January 2006, interest bearing loans due to banks comprised UAH 159,815 thousand and UAH 248,650 thousand of loans borrowed at fixed and floating rates, respectively. Floating interest rates (one month LIBOR plus a margin of 4% or 6.5% per annum) attributable to the loans obtained by the Group range from 8% to 11% per annum. Maturities of borrowings are disclosed in Note 29.

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

<i>Type of assets pledged as a security</i>	<i>31 December 2006</i>	<i>1 January 2006</i>
Property, plant and equipment (Note 6)	687,669	802,294
Inventories (Note 10)	158,147	67,957
Trade accounts receivable (Note 11)	11,654	145,786

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17. Provisions

Provisions consisted of the following:

	<i>Defined benefit obligations</i>	<i>Provision for warranty and other claims</i>	<i>Total</i>
At 1 January 2006	38,242	27,207	65,449
Arising during the year	24,228	404	24,632
Utilised (payment)	(7,116)	—	(7,116)
Reimbursed	—	(11,110)	(11,110)
Unused amounts reversed	—	(493)	(493)
At 31 December 2006	55,354	16,008	71,362
Current	8,998	16,008	25,006
Non-current	46,356	—	46,356
At 31 December 2006	55,354	16,008	71,362
Current	7,116	27,207	34,323
Non-current	31,126	—	31,126
At 1 January 2006	38,242	27,207	65,449

Provision for warranty and other claims

Provision for warranty and other claims represents provision for probable losses relating to warranty claims on products, based on prior experience of warranty compensation, and quality claims and litigations filed against the Group in the courts. As at 31 December 2006, available insurance coverage and other reimbursements against probable losses amounting to UAH 7,575 thousand (1 January 2006: UAH 16,160 thousand) was recognised as an asset and included in other current assets (Note 12). Increase in available insurance coverage of UAH 2,525 thousand was credited to the provision charge for the year ended 31 December 2006. A portion of costs amounting to UAH 11,110 thousand incurred as at 1 January 2006 was reimbursed by a related party in 2006 (Note 27). Refer to Note 28 for further details on the provision relating to litigation.

Defined benefit state pension plan

Production subsidiaries domiciled in Ukraine have a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the former employees of the Group. Under the plan the Group's employees who have working experience in health hazardous environment and thus eligible to early retirement are entitled to additional compensations financed by the Group and paid through the Ukrainian State Pension Fund. These obligations fall under definitions of a defined benefit plan.

At 31 December 2006, total number of the plan participants accounted for 7,495 (1 January 2006: 7,960) people including 1,387 (1 January 2006: 1,177) pensioners receiving the benefit. The following tables summarise the components of benefit expense recognised in the income statement and amounts recognised in the balance sheet for the plan. Benefit expense is included in payroll and related expenses within cost of sales.

Benefit expense

	<i>2006</i>
Current service cost	8,415
Interest cost	7,321
Past service cost: non-vested	2,801
Actuarial losses	96
Benefit expense	18,633

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Benefit liability

	<u>2006</u>
Benefit liability at 1 January	35,492
Current year charge	18,633
Payment	(6,099)
Benefit liability at 31 December	<u>48,026</u>

Pension benefit liability

	<u>31 December 2006</u>	<u>1 January 2006</u>
Present value of unfunded obligation	133,618	73,203
Unrecognized past service cost	(27,081)	(29,882)
Unrecognised actuarial losses	(58,511)	(7,829)
	<u>48,026</u>	<u>35,492</u>
Benefit liability – current	(7,905)	(6,099)
Benefit liability – non-current	<u>40,121</u>	<u>29,393</u>

In 2006, actuarial losses were attributed primarily to changes in actuarial assumptions relating to expected period of benefit payment to pensioners. The Group’s best estimate of contributions expected to be paid to the plan during the year ended 31 December 2007 amounts to UAH 7,905 thousand.

Retirement benefit plan

Production subsidiaries in Ukraine have contractual commitments to pay lump-sum payments to the retiring employees with the long service and certain post retirement and employment benefits according to collective agreements. As at 31 December 2006, this unfunded benefit plan covers employees of certain subsidiaries amounting to 15,629 (1 January 2006: 3,509) people. The following tables summarise the components of benefit expense recognised in the income statement and amounts recognised in the balance sheet for the plan. Benefit expense is included in payroll and related expenses within cost of sales and general and administrative expenses.

Benefit expense

	<u>2006</u>
Current service cost	220
Interest cost	476
Past service cost: vested	4,771
Actuarial losses	128
Benefit expense	<u>5,595</u>

Benefit liability

	<u>2006</u>
Benefit liability at 1 January	2,750
Current year charge	5,595
Payment	(1,017)
Benefit liability at 31 December	<u>7,328</u>

Post-employment defined benefit liability

	<u>31 December 2006</u>	<u>1 January 2006</u>
Post-employment defined benefit liability	10,784	4,755
Unrecognised net actuarial losses	(3,456)	(2,005)
	<u>7,328</u>	<u>2,750</u>
Benefit liability – current	(1,093)	(1,017)
Benefit liability – non-current	<u>6,235</u>	<u>1,733</u>

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The Group’s best estimate of contributions expected to be paid to the plan during the year ended 31 December 2007 amounts to UAH 1,093 thousand.

Principal assumptions applicable to all plans

The principal assumptions used in determining defined benefit obligations for the Group’s plans are shown below:

	<i>31 December 2006</i>	<i>1 January 2006</i>
Discount rate	10.5%	10.0%
Salary inflation outlook	9.0%	8.5%
Pension inflation outlook	7.5%	8.5%

18. Trade and other accounts payable

Trade and other accounts payable consisted of the following:

	<i>31 December 2006</i>	<i>1 January 2006</i>
Payables to suppliers	244,754	319,335
Promissory notes payable	22,827	14,750
Agent fees payable (Note 27)	91	71,667
	267,672	405,752

Trade accounts payable are non-interest bearing and are to be settled within three-month term.

19. Taxes payable, other than income tax

Taxes payable, other than income tax consisted of the following:

	<i>31 December 2006</i>	<i>1 January 2006</i>
Accrued and withheld taxes on payroll	11,210	10,320
Value added tax payable	454	2,128
Miscellaneous other taxes payable	2,077	1,619
	13,741	14,067

20. Advances and other current liabilities

Advances and other current liabilities consisted of the following:

	<i>31 December 2006</i>	<i>1 January 2006</i>
Advances from customers	155,027	103,307
Dividends payable	53,466	581
Accrued employee benefits	50,611	37,719
Other current liabilities	34,515	8,888
	293,619	150,495

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21. Cost of sales

Cost of sales consisted of the following:

	<i>2006</i>
Materials	3,593,045
Utilities, energy and other services	477,473
Payroll and related expenses	338,511
Depreciation	288,272
Insurance expense	41,130
	4,738,431

22. Selling and distribution expenses

Selling and distribution expenses consisted of the following:

	<i>2006</i>
Forwarding and transportation services	302,101
Sales agency fees (Note 27)	153,916
Insurance expense	110,714
Change in allowance for accounts receivable impairment	38,640
Storage and packaging expenses	36,781
Payroll and related expenses	18,813
Professional fees	7,432
Advertising and promotion	5,314
Customs services	4,774
Foreign exchange gains, net of losses	(9,144)
Other selling costs	3,423
	672,764

23. General and administrative expenses

General and administrative expenses consisted of the following:

	<i>2006</i>
Payroll and related expenses	116,880
Professional fees	59,084
Bank fees	12,659
Repairs and maintenance	12,368
Business trips and transportation	9,516
Depreciation and amortization	8,961
Insurance expense	6,438
Communication	5,165
Rent	4,161
Taxes, other than income tax	3,894
Other general and administrative costs	27,871
	266,997

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24. Other operating income and expenses

Other operating income consisted of the following:

	<u>2006</u>
Fines and penalties received	8,676
Other income	9,535
	<u>18,211</u>

Other operating expenses consisted of the following:

	<u>2006</u>
Loss on disposal of property, plant and equipment and intangible assets	29,598
Impairment of property, plant and equipment (Notes 4 and 6)	26,514
Maintenance of social assets	12,239
Other expenses	19,602
	<u>87,953</u>

25. Equity

Issued capital and capital distribution

As at 1 January 2006, authorised capital of the Company comprised 5,000 shares of 1.00 Cyprus pound each, of which 1,000 shares (equivalent of UAH 10 thousand) were issued and fully paid.

The Company issued additional 4,000 shares to its current shareholders on 22 December 2006 and paid cash of UAH 1,203,916 thousand in exchange for the controlling ownership interests in subsidiaries, which have been transferred to the Company in the process of the legal reorganisation of the Group conducted during 2006 as further described in Note 1. The excess of the registered capital contribution over nominal amount of the shares was recorded as share premium. The cash payments represented capital distributions and were presented as a reduction in accumulated profits in the accompanying financial statements for the year ended 31 December 2006.

Acquisitions of minority interests in subsidiaries

In 2006, the Group acquired 0.31% of minority interests in JSC “Interpipe Niznedneprovsky Tube Rolling Plant”. The excess of the consideration paid over carrying value of the minority interests, which amounted to UAH 443 thousand, was charged to accumulated profits.

Dividends payable by subsidiaries of the Group

Dividends declared by subsidiaries of the Group to the minority owners in subsidiaries were recorded as a reduction in minority interests of UAH 130,938 thousand in the accompanying financial statements for the year ended 31 December 2006.

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26. Principal subsidiaries

The Group’s included the following subsidiaries as at 31 December 2006:

<i>Name of the company</i>	<i>Country of incorporation</i>	<i>Business activities</i>	<i>Ownership</i>	
			<i>31 December 2006</i>	<i>1 January 2006</i>
JSC “Interpipe Niznedneprovsky Tube Rolling Plant” (formerly – JSC “Niznedneprovsky Tube Rolling Plant”)	Ukraine	Production of seamless and welded pipes and railway wheels	87.03%	86.72%
JSC “Interpipe Novomoskovsk Pipe-Production Plant” (formerly – JSC “Novomoskovsk Pipe-Production Plant”)	Ukraine	Production of welded pipes	86.47%	86.47%
CJSC “Interpipe Nikopolsky seamless tubes plant “Niko Tube” (formerly – CJSC “Nikopolsky seamless tubes plant “Niko Tube”)	Ukraine	Production of seamless pipes	75.00%	75.00%
JSC “Interpipe Nikopol Tube Company” (formerly – JSC “Nikopol Tube Company”)	Ukraine	Production of seamless pipes	60.02%	60.02%
“Interpipe Ukraine” LLC	Ukraine	Trading	100.00%	100.00%
“Interpipe Management” LLC	Ukraine	Services	100.00%	100.00%
“Interpipe-M” LLC	Russia	Trading	100.00%	100.00%
“Interpipe Kazakhstan” LLC	Kazakhstan	Trading	100.00%	100.00%
“Interpipe Europe” LLC (formerly – “Sepco” LLC)	Switzerland	Trading	100.00%	100.00%
“Klw-Wheelco” LLC	Switzerland	Trading	100.00%	100.00%
“North American Interpipe, Inc” LLC (formerly – “Sepco Tubulars Inc” LLC)	United States	Trading	100.00%	100.00%
“Metallurgical Plant Dneprosteel” LLC	Ukraine	Construction of electric arc furnace	100.00%	100.00%
Steel.One Limited	Cyprus	Subholding	100.00%	—

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27. Related party transactions

In accordance with IAS 24 “Related Party Disclosures”, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or 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.

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

	<i>Notes</i>	<i>31 December 2006</i>	<i>1 January 2006</i>
Trade and other accounts receivables	11		
— Entities under common control with the Group		82,828	274,468
— Entities associated with the Group		6,044	15,920
		88,872	290,388
Prepayments and other current assets	12		
— Entities under common control with the Group		73,723	185,912
— Entities associated with the Group		734	1,029
		74,457	186,941
Cash and bank deposits	14		
— Entities under common control with the Group		5,060	592,608
— Entities associated with the Group		129,000	41,141
		134,060	633,749
Trade and other accounts payable	18		
— Entities under common control with the Group		17,629	229,946
— Entities associated with the Group		6,128	19,865
		23,757	249,811
Advances and other current liabilities	20		
— Entities under common control with the Group		19	5,569
— Entities associated with the Group		1,102	62
		1,121	5,631
Short-term borrowings	16		
— Entities under common control with the Group		13,108	25,894
— Entities associated with the Group		545	7,527
		13,653	33,421
Liabilities directly associated with non-current assets held for sale	15		
— Entities under common control with the Group		—	19,339
		—	19,339

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

	<i>Notes</i>	<u>2006</u>
Revenue from sales	5	
— Entities under common control with the Group		50,837
— Entities associated with the Group		31,668
		<u>82,505</u>
Purchases of inventories		
— Entities under common control with the Group		272,519
— Entities associated with the Group		47,982
		<u>320,501</u>
Purchases of services		
— Entities under common control with the Group		186,499
— Entities associated with the Group		4,817
		<u>191,316</u>
Purchases of equipment	6	
— Entities under common control with the Group		696
		<u>696</u>
Reimbursement of costs		
— Entities under common control with the Group		102,630
		<u>102,630</u>
Finance income		
— Entities under common control with the Group		1,486
— Entities associated with the Group		1,845
		<u>3,331</u>
Finance costs		
— Entities under common control with the Group		48
— Entities associated with the Group		4,358
		<u>4,406</u>

Terms and conditions relating to the balances and transactions with entities under common control

Sales revenue, trade and other accounts receivable

In 2006, the Group generated UAH 50,621 thousand of revenues from sale of products (0.4% of total sales quantities) and UAH 216 thousand from sales of other commodities to the entities under common control with the Group.

As at 31 December 2006, trade and other accounts receivable from entities under common control consisted of UAH 67,192 thousand (1 January 2006: UAH 74,623 thousand) of trade receivables relating to sales of finished goods and UAH 15,636 thousand (1 January 2006: UAH 199,845 thousand) of other receivables.

As at 31 December 2006, included in trade receivables was the balance of UAH 52,228 thousand (1 January 2006: UAH 53,181 thousand) representing proceeds collected by a sales agent due to be transferred to the Group.

As at 1 January 2006, other accounts receivable from entities under common control included receivable of UAH 193,354 thousand relating to sale of unquoted equity shares to an entity under common control. This receivable with 80 day maturity was repaid in March 2006.

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Prepayments and other current assets

Prepayments and other current assets consisted of the following:

	<i>31 December 2006</i>	<i>1 January 2006</i>
Short-term non-interest bearing loans to an entity under common control	73,723	167,888
Available reimbursement related to litigations (Note 17)	—	11,110
Prepaid insurance expenses	—	6,914
	73,723	185,912

The short-term loans due from an entity under common control are unsecured and normally repaid within the term of 90 days.

Reimbursement of quality claim costs and losses from litigations is provided by a sales agent under common control with the Group as further described in this note.

Prepaid insurance expense represents premium paid for insurance of the Group’s property, plant and equipment.

Cash and bank deposits, and finance income

As at 31 December 2006, cash and bank deposits held with a bank under common control consisted of deposits on demand of UAH 5,025 thousand and time deposits of UAH 35 thousand. Deposits bore interest ranging from 0.5% to 11% per annum. Time deposits matured within one month.

As at 1 January 2006, cash and bank deposits held with a bank under common control consisted of demand deposits of UAH 592,598 thousand bearing interest of up to 2% per annum and time deposits of UAH 10 thousand. Time deposits matured within one month and bore interest ranging from 0.5% to 6% per annum.

Finance income represents interest income on deposits with a bank under common control.

Purchases of inventories and services, trade and other accounts payable

As at 31 December 2006, trade and other accounts payable to entities under common control consisted of UAH 14,916 thousand (1 January 2006: UAH 158,279 thousand) of trade payables relating to purchases of raw materials and UAH 2,713 thousand (1 January 2006: UAH 71,667 thousand) of other payables.

Before 1 January 2006, several entities under common control were responsible for distribution of the Group’s products in addition to the Group’s trading subsidiaries. These entities transferred their responsibilities and unsold inventory to the subsidiaries resulting in trade payables of UAH 68,672 thousand, which was entirely repaid in 2006. Additionally, the Group had agency sale agreements with these entities under common control to facilitate sales of products and fulfil its commitments with the customers. Sales agency fees under such agreements accounted for 7% of a contract amount. In 2006, total amount of such sales agency fees amounted to UAH 21,914 thousand.

Trade payables of UAH 14,916 thousand (1 January 2006: UAH 89,607 thousand) relate to purchase of raw materials. These payables are normally settled within a 90-day term. In 2006, purchase of raw materials from entities under common control amounting to UAH 272,519 thousand comprised primarily purchase of scrap metal at market prices.

As at 31 December 2006, other payables to entities under common control amounting to UAH 91 thousand (1 January 2006: UAH 71,667 thousand) represent accrued fees by “Klw-Wheelco” LLC relating to the agency sales agreements (Note 18). Agents fees payable monthly were fixed at the amount of the excess of the gross margin over the amount calculated as a percentage ranging from 5% to 7% of the sales revenues generated by “Interpipe Europe” LLC and “Klw-Wheelco” LLC from the transactions guaranteed by agents. In 2006, total amount of sales agency fees comprised UAH 132,002 thousand.

In 2006, the Group incurred expenses relating to insurance premiums paid to an insurance company under common control with the Group amounting to UAH 7,782 thousand for insurance of risk of loss or damage of majority of its inventories and UAH 3,003 thousand for insurance of majority of its property, plant and equipment. Insurance costs related to inventories are included into other operating expenses and insurance of property, plant and equipment is included into cost of sales and general and administrative expenses.

In 2006, the Group incurred expenses relating to supplies of energy and other utilities by entities under common control amounting to UAH 14,803 thousand and UAH 6,995 thousand of other services which were included into cost of sales and general and administrative expenses.

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Short-term borrowings and finance costs

As at 31 December 2006, short-term borrowings due to entities under common control included UAH 13,108 thousand of unsecured interest free loans (1 January 2006: UAH 21,104 thousand of unsecured interest free loans and promissory notes). Additionally, short-term borrowings as at 1 January 2006 included a subordinated loan from an entity under common control of CHF 1,250 thousand (equivalent of UAH 4,790 thousand). The unsecured subordinated loan was denominated in Swiss francs and bore interest of 6% per annum.

Other transactions

As at 31 December 2006, short-term deposit amounting to UAH 70,595 thousand (1 January 2006: nil) and accounts receivable amounting to UAH 11,654 thousand (1 January 2006: UAH 3,376 thousand) were pledged as a security for bank loans obtained by entities under common control.

In 2006, UAH 102,630 thousand of costs relating to quality claims in the United States of America was reimbursed by an entity under common control.

Terms and conditions relating to the balances and transactions with associates

Sales revenue, trade and other accounts receivable

In 2006, the Group generated UAH 26,890 thousand of revenues from sales of products (0.2% of total sales quantities) and UAH 4,778 thousand of other commodities to the entities which are associated with the Group.

Cash and bank deposits, and finance income

As at 31 December 2006, cash and bank deposits held with the associated bank consisted of balances on current accounts and deposits on demand of UAH 86,287 thousand and time deposits amounted to UAH 42,713 thousand. Deposits bore interest ranging from 0.5% to 11% per annum. Time deposits mature within one month.

As at 1 January 2006, cash and bank deposits held with the associated bank consisted of demand deposits of UAH 16,556 thousand bearing interest up to 2% per annum and UAH 24,585 thousand of time deposits bore interest ranging from 0.5% to 6%. Time deposits matured within one month and bore interest ranging from 0.5% to 6% per annum.

Finance income represents interest income on deposits with an associated bank.

Short-term borrowings and financial costs

An originally interest free promissory note with nominal amount of UAH 10,585 thousand was carried at amortised cost of UAH 7,527 thousand as at 1 January 2006 was repaid during 2006. Amortisation of UAH 3,058 thousand was included in finance costs in the income statement. Finance costs additionally included interest expenses on short-term loans from a bank associated with the Group.

Purchases of inventories and services, trade and other accounts payable

Payables due to associates relate to purchase of spare parts and servicing equipment, utilities and other production related services.

Compensation to key management personnel

Key management personnel comprised seven executives of the Group as at 31 December 2006. In 2006, total compensation to key management personnel representing short-term employee benefits amounted to UAH 6,882 thousand and was included in general and administrative expenses in the income statement.

28. 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 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 “Niznedneprovsky Tube Rolling Plant” and “Klw-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). The management believes that the customer's claim is 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. The tribunal verdict is expected to be announced in June 2007. At the present, it is not possible to quantify either amount or timing of potential liabilities of the Group to the customer, if any. The adverse consequences of this claim are not probable and, accordingly, no provision has been made in the accompanying financial statements for the year ended 31 December 2006.

As at 31 December 2006, “North American Interpipe, Inc” LLC was defendant in several litigations relating to quality claims from the customers amounting to approximately UAH 103,414 thousand (1 January 2006: UAH 32,825 thousand). Provision for probable adverse consequences of the above cases amounting to UAH 14,140 thousand (1 January 2006: UAH 24,846 thousand) was included in provision for warranty and other claims in the accompanying financial statements for the year ended 31 December 2006 (Note 17).

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.

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Guarantees issued

As at 31 December 2006, the Group had no issued guarantees (1 January 2006: UAH 21,715 thousand in favour of various financial institutions with respect to short-term financing provided to the entities under common control). The fair value of issued guarantees on initial recognition is negligible and, therefore, has not been recognised in these financial statements.

Social commitments

Under the rules of privatisation, the legal ownership of certain social assets was not passed on to JSC “Interpipe Niznedneprovsky 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.

Contractual commitments for the acquisition of property, plant and equipment

As at 31 December 2006, the Group’s contractual commitments for acquisition of property, plant and equipment amounted to UAH 89,821 thousand and relate to purchase and modernisation of production equipment.

29. Financial risk management

The Group’s principal financial instruments comprise trade receivables and payables, borrowings, cash and cash deposits. The main purpose of these financial instruments is to provide funding for the Group’s operations. The Group has various other financial assets and liabilities such as other receivables and other payables, which arise directly from its operations.

The main risks arising from the Group’s financial instruments are foreign currency risk, liquidity risk, credit risk and interest rate risk. The policies for managing each of these risks are summarized below.

Foreign currency risk

The Group performs its operations mainly in the following currencies: the Ukrainian hryvnia (“UAH”), the US dollar (“USD”), the Euro (“EUR”), the Swiss franc (“CHF”), the Russian roubles (“RUB”) and the Kazakhstani tenge (“KZT”). The exchange rates for those currencies to UAH as set by the National Bank of Ukraine (“NBU”) as at the dates stated were as follows:

	<i>USD</i>	<i>EUR</i>	<i>RUB</i>	<i>KZT</i>	<i>CHF</i>
As at 15 May 2007	5.0500	6.8422	0.1957	0.04205	4.1430
As at 31 December 2006	5.0500	6.6509	0.1918	0.03977	4.1389
As at 1 January 2006	5.0500	5.9716	0.1754	0.03769	3.8316

The Group exports its products to Russia, Europe, and other countries; purchases materials from other countries, mainly from Russia; and attracts substantial amount of foreign currency denominated short-term borrowings, and is thus exposed to foreign exchange risk. Foreign currency denominated trade receivables and payables, and short-term borrowings give rise to foreign exchange exposure. The Group has not entered into transactions designed to hedge against these foreign currency risks.

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Currency risks as defined by IFRS 7 arise on account of financial instruments being denominated in a currency that is not the functional currency and being of a monetary nature; translation-related risks are not taken into consideration. Relevant risk variables are generally non-functional currencies in which the Group has financial instruments. The following table demonstrates the sensitivity to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant, of the Group’s profit before tax.

<i>2006</i>	<i>Increase/(decrease) in foreign currency rate</i>	<i>Effect on profit before tax</i>
Change in EUR exchange rate	+5%	5,011
Change in USD exchange rate	+5%	(33,790)
Change in EUR exchange rate	–5%	(5,011)
Change in USD exchange rate	–5%	33,790

Liquidity risk

The Group’s objective is to maintain continuity and flexibility of funding through the use of credit terms provided by suppliers and borrowings.

The Group analyses the aging of its assets and the maturity of its liabilities and plans its liquidity depending on expected repayment of various instruments. In the case of insufficient or excessive liquidity in individual entities, the Group relocates resources and funds among Group entities to achieve optimal financing of business needs of each entity.

The table below summarises the maturity profile of the Group’s financial liabilities at 31 December 2006 based on contractual undiscounted payments:

	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>Total</i>
Borrowings	242,347	648,849	62,170	953,366
Trade and other accounts payable	267,672	–	–	267,672
Other current liabilities	138,592	–	–	138,592
	<u>648,611</u>	<u>648,849</u>	<u>62,170</u>	<u>1,359,630</u>

Credit risk

Financial instruments, which potentially subject the Group to significant concentrations of credit risk, consist principally of bank deposits (Note 14), trade and other accounts receivable (Note 11).

Cash is placed in financial institutions, which are considered to have minimal risk of default at the time of deposit.

The management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. Most of the Group’s sales are made to the customers with an appropriate credit history or on a prepayment basis. The Group does not require collateral in respect of its financial assets.

The credit risk exposure of the Group is monitored and analyzed on a case-by-case basis and, based on historical collection statistics, the Group’s management believes that there is no significant risk of loss to the Group beyond the impairment allowances recognized against the assets.

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Interest rate risk

In 2006, the Group borrowed at a fixed and floating rates mostly linked to London Inter Bank Offering Rate (“LIBOR”).

The following table demonstrates the annualised sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group’s profit before tax (through the impact on floating rate borrowings). There is no impact on the Group’s equity.

	<i>Increase/(decrease) in basis points</i>	<i>Effect on profit before tax</i>
Change in EUR interest rate	+20	(80)
Change in USD interest rate	+20	(1,034)
Change in EUR interest rate	–20	80
Change in USD interest rate	–20	1,034

Capital risk management

The Group considers debt and shareholders equity as primary capital sources. 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 as well as to provide financing of its operating requirements, capital expenditures and Group’s development strategy. The Group’s capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital and flexibility relating to Group’s access to capital markets.

	<i>31 December 2006</i>	<i>1 January 2006</i>
Long-term borrowings	62,170	–
Short-term borrowings	891,196	454,203
Cash and bank deposits	(489,692)	(703,862)
Net debt	463,674	(249,659)
Total equity	3,378,636	3,623,810
Total capital	3,842,310	3,374,151

Management monitors on a regular basis Group’s capital structure and may adjust its capital management policies and targets following changes of its operating environment, market sentiment or its development strategy.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Fair values of financial instruments

The carrying amounts of financial instruments, consisting of cash and cash deposits, investments, short-term accounts receivable and payable, and loans and borrowings, promissory notes, and long-term borrowings approximate their fair values.

The fair value of long-term borrowings was based on cash flows discounted using the effective interest rate which was determined with reference to the weighted average interest rates for interest bearing borrowings the Group obtained from unrelated parties on the similar terms.

30. Events after the balance sheet date

In January 2007, the Company transferred 60% of JSC “Interpipe Niznedneprovsky 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.

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On 26 February 2007, the Group entered into a capital commitment of EUR 260,000 thousand (equivalent of approximately UAH 1,724,494 thousand) 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.

In March and April 2007, dividends declared by subsidiaries of the Group to the minority owners in subsidiaries amounted to UAH 87,223 thousand and were scheduled for the pay out by 31 December 2007.

On 10 April 2007, the Company acquired an additional 4.81% of JSC “Interpipe Nizedneprovsky Tube Rolling Plant” shares for UAH 101,000 thousand. The Company’s interest in the subsidiary increased to 91.84%.

On 15 May 2007, the Company changes its name to Interpipe Limited. Subsequent to 31 December 2006, several other subsidiaries of the Group changed their names (refer to Note 26).

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	Interpipe Limited	JSC “Interpipe Niznedne provsky Tube Rolling Plant”	CJSC “Interpipe Nikopolsky seamless tubes plant “Niko Tube”	“Interpipe Ukraine” LLC	Other subsidiaries	Elimina- tions	31 December 2006 Consoli- dated
ASSETS							
Non-current assets							
Property, plant and equipment	—	1,647,745	410,512	4,594	426,725	—	2,489,576
Intangible assets	—	1,573	1,599	2,258	974	—	6,404
Investments in subsidiaries	3,036,113	—	—	—	9,166	(3,045,279)	—
Investments in associates	—	—	13,265	—	—	—	13,265
Other non-current assets	—	454	1,212	94	2,674	—	4,434
Deferred tax assets	—	—	—	—	6,599	8,207	14,806
	3,036,113	1,649,772	426,588	6,946	446,138	(3,037,072)	2,528,485
Current assets							
Inventories	—	410,772	108,958	50,328	292,533	(84,309)	778,282
Trade and other accounts receivable	7,429	668,744	88,686	1,001,815	404,268	(1,307,128)	863,814
Prepayments and other current assets	—	22,670	77,408	81,979	294,777	(339,241)	137,593
Current tax assets	—	54,366	1,478	55,962	278	—	112,084
Taxes receivable, other than income tax	—	122,586	100,884	25,313	102,152	—	350,935
Cash and bank deposits	940	76,616	136,010	207,485	68,641	—	489,692
	8,369	1,355,754	513,424	1,422,882	1,162,649	(1,730,678)	2,732,400
Non-current assets classified as held for sale	—	43,934	55	—	—	—	43,989
TOTAL ASSETS	3,044,482	3,049,460	940,067	1,429,828	1,608,787	(4,767,750)	5,304,874
EQUITY AND LIABILITIES							
Equity attributable to equity holders of the parent							
Issued capital	56	108,183	169,166	250	39,195	(316,794)	56
Share premium	1,823,509	—	—	—	—	—	1,823,509
Accumulated profits	1,217,760	1,574,580	239,112	296,033	506,692	(2,790,293)	1,043,884
Foreign currency translation reserve	203	—	—	—	—	—	203
	3,041,528	1,682,763	408,278	296,283	545,887	(3,107,087)	2,867,652
Minority interests	—	249,421	135,660	—	125,903	—	510,984
Total equity	3,041,528	1,932,184	543,938	296,283	671,790	(3,107,087)	3,378,636
Non-current liabilities							
Deferred tax liabilities	—	184,690	61,316	21,390	50,525	(11,660)	306,261
Borrowings	—	—	—	47,269	14,901	—	62,170
Provisions	—	35,134	4,106	—	7,116	—	46,356
	—	219,824	65,422	68,659	72,542	(11,660)	414,787
Current liabilities							
Trade and other accounts payable	2,707	329,177	292,676	730,313	292,149	(1,379,350)	267,672
Current tax liabilities	—	—	—	—	20,217	—	20,217
Taxes payable, other than income tax	—	9,499	1,240	98	2,904	—	13,741
Advances and other current liabilities	247	98,018	8,519	90,162	366,326	(269,653)	293,619
Borrowings	—	452,246	27,775	244,313	166,862	—	891,196
Provisions	—	8,512	497	—	15,997	—	25,006
	2,954	897,452	330,707	1,064,886	864,455	(1,649,003)	1,511,451
Total liabilities	2,954	1,117,276	396,129	1,133,545	936,997	(1,660,663)	1,926,238
TOTAL EQUITY AND LIABILITIES	3,044,482	3,049,460	940,067	1,429,828	1,608,787	(4,767,750)	5,304,874

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	Interpipe Limited	JSC “Interpipe Niznedne provsky Tube Rolling Plant”	CJSC “Interpipe Nikopolsky seamless tubes plant “Niko Tube”	“Interpipe Ukraine” LLC	Other subsidiaries	Elimina- tions	1 January 2006 Consoli- dated
ASSETS							
Non-current assets							
Property, plant and equipment	—	1,844,914	403,067	2,323	457,093	—	2,707,397
Intangible assets	—	1,063	837	517	354	—	2,771
Investments in associates	—	—	12,657	—	—	—	12,657
Other non-current assets	—	100	1,481	—	3,283	(349)	4,515
Deferred tax assets	—	—	—	4,066	5,885	10,920	20,871
	—	1,846,077	418,042	6,906	466,615	10,571	2,748,211
Current assets							
Inventories	—	313,116	63,935	50,108	243,158	(116,098)	554,219
Trade and other accounts receivable	—	678,028	97,170	557,064	434,808	(958,957)	808,113
Prepayments and other current assets	—	67,861	2,638	117,758	230,804	(175,673)	243,388
Current tax assets	—	—	9,564	—	830	—	10,394
Taxes receivable, other than income tax	—	41,085	21,115	18,080	13,885	—	94,165
Cash and bank deposits	10	514,906	78,457	40,381	70,108	—	703,862
	10	1,614,996	272,879	783,391	993,593	(1,250,728)	2,414,141
Non-current assets classified as held for sale	—	64,339	—	—	—	—	64,339
TOTAL ASSETS	10	3,525,412	690,921	790,297	1,460,208	(1,240,157)	5,226,691
EQUITY AND LIABILITIES							
Equity attributable to equity holders of the parent							
Issued capital	10	108,183	169,166	250	30,284	(307,883)	10
Accumulated profits	—	2,071,299	229,475	111,861	420,805	216,159	3,049,599
	10	2,179,482	398,641	112,111	451,089	(91,724)	3,049,609
Minority interests	—	333,736	132,888	—	107,577	—	574,201
Total equity	10	2,513,218	531,529	112,111	558,666	(91,724)	3,623,810
Non-current liabilities							
Deferred tax liabilities	—	293,648	69,095	—	72,447	(13,093)	422,097
Provisions	—	25,259	2,654	—	3,213	—	31,126
	—	318,907	71,749	—	75,660	(13,093)	453,223
Current liabilities							
Trade and other accounts payable	—	249,639	62,519	603,187	455,722	(965,315)	405,752
Current tax liabilities	—	46,616	354	15,933	8,576	—	71,479
Taxes payable, other than income tax	—	7,228	1,781	2,333	2,725	—	14,067
Advances and other current liabilities	—	23,544	7,433	33,604	158,315	(72,401)	150,495
Borrowings	—	343,275	15,383	23,129	170,040	(97,624)	454,203
Provisions	—	3,646	173	—	30,504	—	34,323
	—	673,948	87,643	678,186	825,882	(1,135,340)	1,130,319
Liabilities directly associated with non-current assets classified as held for sale	—	19,339	—	—	—	—	19,339
Total liabilities	—	1,012,194	159,392	678,186	901,542	(1,148,433)	1,602,881
TOTAL EQUITY AND LIABILITIES	10	3,525,412	690,921	790,297	1,460,208	(1,240,157)	5,226,691

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	Interpipe Limited	JSC “Interpipe Niznedneprovsky Tube Rolling Plant”	CJSC “Interpipe Nikopolsky tubes plant “Niko Tube”	“Interpipe Ukraine” LLC	Other subsidiaries	Eliminations	Year ended 31 December 2006 Consolidated
Revenue from sales	–	3,819,959	991,892	5,553,728	5,852,728	(8,938,289)	7,280,018
Cost of sales	–	(2,821,006)	(832,924)	(4,672,265)	(5,130,004)	8,717,768	(4,738,431)
Gross profit	–	998,953	158,968	881,463	722,724	(220,521)	2,541,587
Other operating income	–	7,371	941	–	9,899	–	18,211
Selling and distribution expenses	–	(269,933)	(96,218)	(95,896)	(398,421)	187,704	(672,764)
General and administrative expenses	(9,744)	(103,027)	(24,628)	(51,358)	(102,207)	23,967	(266,997)
Other operating expenses	(30)	(48,137)	(2,865)	(2,781)	(35,886)	1,746	(87,953)
Finance income	1,227,848	7,142	407	3,970	4,258	(1,230,393)	13,232
Finance costs	(111)	(18,755)	(4,774)	(5,011)	(15,759)	–	(44,410)
Share of profits of associates	–	–	608	–	–	–	608
Profit before tax	1,217,963	573,614	32,439	730,387	184,608	(1,237,497)	1,501,514
Income tax expense	–	(164,844)	(10,555)	(189,041)	(34,663)	(4,146)	(403,249)
Profit for the year	1,217,963	408,770	21,884	541,346	149,945	(1,241,643)	1,098,265