INTERPIPE LIMITED

Consolidated Financial Statements
Years Ended 31 December 2008
together with

Independent Auditor's Report

INTERPIPE LIMITED

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The Directors present their Report together with the accompanying consolidated financial statements (the "Consolidated Financial Statements") of Interpipe Limited (referred to herein as the "Company") and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2009 and 2008, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Principal Activity and Subsidiaries

The Company was incorporated under the Companies Law of Cyprus under the name of Ramelton Holdings Limited 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 is Mykinon 12, Lavinia Court, 6th floor, P.C. 1065 Nicosia, Cyprus.

The Company operates through a number of subsidiaries in various jurisdictions (the list of the subsidiaries is disclosed in Note 33 to the accompanying Consolidated Financial Statements and has concentration of its business in Ukraine, where its production subsidiaries are located.

The principal activity of the Company is holding ownership interests in its subsidiaries, their financing and strategic management. The Group's activities comprise design, manufacture and distribution of steel tubes and solid-rolled railway wheels.

Development and Performance of the Business

The Group is the largest manufacturer of steel pipes and railway wheels in Ukraine.

Its products are exported to 66 countries and sold domestically.

In 2008, the Group generated revenue from sales of USD 1.9 billion and net loss attributable to the equity shareholders of the Company amounted to USD 349.3 million. The pipe business segment accounted for 75 per cent of revenue from sales and 42 per cent of gross profit, and the wheel business segment accounted for 22 per cent of revenues and 54 per cent of gross profit in 2008. Further segment information is disclosed in Note 6 to the accompanying Consolidated Financial Statements.

Issued Capital and Capital Distributions

Authorised capital

The Company has authorised share capital of 4,000,000,000 ordinary shares of nominal value of EUR 0.01 each.

In January 2008, the authorised capital of the company of 5,000 ordinary shares of 1.00 Cyprus pound per share was converted to EUR at the rate of EUR 1.71 per share. In March 2008 the authorised capital of EUR 8,550 comprising of 5,000 shares where then subdivided into 85,500,000 shares of EUR 0.0001 per share. Additional 414,500,000 ordinary shares were issued of EUR 0.0001 per share. In the result of the transaction the number of shares was increased to 500,000,000 and the authorised capital increased to EUR 50 thousand.

In May 2008, 500,000,000 ordinary shares of the Company of EUR 0.0001 per share were merged to 5,000,000 shares of EUR 0.01 per share. In June 2008, additional 3,995,000,000 ordinary shares were issued of EUR 0.01 per share. As a result of the transaction, number of shares equalled 4,000,000,000 ordinary shares and the authorised capital amounted to EUR 40,000 thousand (equivalent of USD 62,278 thousand). The shares of the Company are not listed.

Issued capital

Upon incorporation on 30 December 2005 the Company issued to the subscribers of its Memorandum of Association 1,000 ordinary shares of CY£1 each at par. On 22 December 2006 the Company issued 4,000 additional ordinary shares of CY£1 each at a premium of CY£ 41,033.09 each for a total premium of CY£164,132 thousand which is equivalent to USD 361,091 thousand.

All authorised shares of the Company were issued and fully paid in cash as at 31 December 2008 and 2007.

Dividends

The Company has not declared any dividends to shareholders during the year ended 31 December 2008 (2007: USD 421,000 thousand of dividends were declared).

Information relating to dividends payable by subsidiaries and acquisition of minority interest in subsidiaries is disclosed in Note 31 and 32 to the accompanying Consolidated Financial Statements.

Principal Risks and Uncertainties

The Group has significant operations in Ukraine and Russia whose economies continue to display certain characteristics consistent with that of economies in transition. Further discussion of operating risks and uncertainties is presented in Note 35 to the accompanying Consolidated Financial Statements.

As at the date of the approval of the accompanying Consolidated Financial Statements, the restructuring of the Group's loan facilities has not been yet completed. Further discussion about the uncertainties born by this fact is presented in Note 2 to the accompanying Consolidated Financial Statements.

Principal financial risks of the Group are discussed in Note 36 to the accompanying Consolidated Financial Statements.

Likely Future Development

The Group's key strategic objectives are to diversify its geographical presence and product mix in order to enhance its position as a leading producer of pipes and wheels in the CIS region and to expand its presence in the global markets for its products. The Group intends to pursue this strategy by increasing its seamless pipe and wheel production, enhancing its product mix and decreasing its costs to improve its profit margins, expanding its global presence and working more closely with its customers to deliver higher value-added products and services.

Research and Development

The Company did not carry out any research and development activities in 2008 and 2007.

Events after the Balance Sheet Date

Events after the balance sheet date are disclosed in Note 37 to the accompanying Consolidated Financial Statements.

Board of Directors

The changes to the Directors during the year and up to the date of this report are:

Name	*Function*	*Date of appointment*	*Date of resignation*
Gennady Gazin	Non- executive director, Chairman of the Board of Directors of Interpipe Limited, Chief Executive Officer of EastOne Group	15 October 2007	
Olexandr Kirichko	Executive director, Chief Executive Officer of Interpipe Limited	15 October 2007	
Andrii Dudnyk	Non-Executive Director, Chief Financial Officer of EastOne Group	15 October 2007	
Jean Pierre Saltiel	Independent Non-Executive Director, Co-Chairman of Ukrainian Economic Advisory Council of Yalta European Strategy	30 November 2007	
Ganna Khomenko	Non-Executive Director, Fiduciana Trust (Cyprus) Limited	9 December 2009	
Vitaly Sadykov	Independent Non-Executive Director, Chief Executive Officer of State Transportation Leasing Company	19 July 2010	
Michael Tsarev	Non-Executive Director, Chief Operational Officer of EastOne Group	11 May 2011	
Alexander Gorodetsky	Non-Executive Director, Member of Strategy and Advisory Committee of EastOne Group Limited	15 October 2007	1 October 2008
Nikolai Tsekhomsky	Independent Non-Executive Director, Senior Vice President of VTB Bank	30 November 2007	7 November 2008
Richard Norris	Independent Non-Executive Director	3 March 2008	13 January 2010
Artem Sirazutdinov	Non-Executive Director, Chief Investment Officer of EastOne Group	1 October 2008	13 May 2010
Ganna Khomenko	Non-Executive Director, Fiduciana Trust (Cyprus) Limited	15 October 2007	3 March 2008

There being no requirement in the Company's Articles of Association for the retirement of Directors by rotation, the remaining directors presently members of the Board continue in office.

There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Independent Auditors
The independent auditors, Ernst & Young Cyprus Limited, have expressed their willingness to continue in office. A resolution proposing their reappointment and giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

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

Member of the Board, Chief Executive Officer Olexandr Kirichko

Member of the Board, Non-Executive Director Andrii Dudnyk

20 July 2011

STATEMENT OF DIRECTORS' AND MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

INTERPIPE

The following statement is made with a view to specifying the respective responsibilities of the directors and management in relation to the consolidated financial statements of Interpipe Limited and its subsidiaries (collectively, the "Interpipe Group" or the "Group").

The Directors and management are responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2008, the consolidated results of its operations, cash flows and changes in equity for the years then ended, in accordance with International Financial Reporting Standards as adopted by the EU (hereafter "IFRS") and the Cyprus Companies Law, Cap. 113.

In preparing the consolidated financial statements, the directors and management are responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparation of the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

The directors and management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls, throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions of countries of incorporation;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Board of Directors on 20 July 2011.

Member of the Board, Chief Executive Officer — Oleksandr Kirichko

Member of the Board, Non-Executive Director — Andrii Dudnyk

20 July 2011

INDEPENDENT AUDITOR’S REPORT

To the Members of Interpipe Limited

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Interpipe Limited (the “Company) and its subsidiaries (hereinafter collectively referred to as the “Group”), which comprise the consolidated statement of financial position as at 31 December 2008, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the Consolidated Financial Statements

The Company’s Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Emphasis of Matter

Ernst & Young

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates that as at the date of approval of the consolidated financial statements, the Group has not completed its negotiations with the lenders on reaching a mutually acceptable restructuring agreement with respect to its borrowing facilities and other debts, which remain in default since late 2008. The Group incurred a net loss of USD 358,511 thousand during the year ended 31 December 2008 and, as of that date, the Group's current liabilities exceeded its current assets by USD 539,268 thousand. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the consolidated financial statements.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Gabriel Onisiforou
Certified Public Accountant and Registered Auditor
for and on behalf of

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia

20 July 2011

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2008
(in US dollars and in thousands)

INTERPIPE

	Notes	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	7	926,804	531,874
Intangible assets	8	17,621	4,649
Investments in associates	9	2,801	3,426
Deferred tax assets	10	40,136	6,095
Prepaid income tax	11	29,271	-
Other non-current assets		870	5,267
		1,017,503	**551,311**
Current assets			
Inventories	12	282,304	235,553
Trade and other accounts receivable	13	171,182	227,512
Prepayments and other current assets	14	6,908	61,552
Prepaid income tax	11	22,025	4,848
Taxes recoverable, other than income tax	15	54,900	70,715
Other financial assets	16	30,817	5,969
Cash and bank deposits	17	101,061	66,978
		669,197	**673,127**
TOTAL ASSETS		**1,686,700**	**1,224,438**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		62,278	11
Share premium		361,091	361,091
Revaluation reserve		303,034	-
Accumulated (deficits) / profits		(117,073)	26,238
Foreign currency translation reserve		(269,548)	553
		339,782	387,893
Non-controlling interests		34,248	37,491
Total equity	31	**374,030**	**425,384**
Non-current liabilities			
Deferred tax liabilities	10	88,458	27,427
Borrowings	18	-	364,171
Provisions	19	14,129	12,642
Derivative financial instruments	23	1,387	-
Other non-current liabilities		231	-
		104,205	**404,240**
Current liabilities			
Borrowings	18	944,168	215,385
Trade and other accounts payable	20	176,780	59,087
Current income tax liability		3,951	4,673
Taxes payable, other than income tax	21	6,712	3,556
Advances and other current liabilities	22	18,722	53,317
Derivative financial instruments	23	45,546	-
Liability attributable to non-controlling interests	32	68	47,000
Provisions	19	12,518	11,796
		1,208,465	**394,814**
Total liabilities		**1,312,670**	**799,054**
TOTAL EQUITY AND LIABILITIES		**1,686,700**	**1,224,438**

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

Member of the Board, Chief Executive Officer — Oleksandr Kirichko

Member of the Board, Non-Executive Director — Andrii Dudnyk

The Notes presented on pages 13 – 66 form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2008
(in US dollars and in thousands)

	Notes	For the year ended 31 December 2008	For the year ended 31 December 2007
Revenue	6	1,943,690	1,792,042
Cost of sales	24	(1,736,986)	(1,242,796)
Gross profit		**206,704**	**549,246**
Selling and distribution expenses	25	(155,939)	(96,488)
General and administrative expenses	26	(70,463)	(63,590)
Other operating income and expenses	27	(6,371)	(25,291)
Operating foreign exchange difference	28	97,411	7,059
Operating profit		**71,342**	**370,936**
Finance income	29	17,669	3,203
Finance costs	30	(126,901)	(34,615)
Non-operating foreign exchange difference	28	(422,285)	(243)
Share of profits of associates	9	756	864
(Loss) / Profit before tax		**(459,419)**	**340,145**
Income tax benefit / (expense)	10	100,908	(84,571)
(Loss) / Profit for the year		**(358,511)**	**255,574**
(Loss) / Profit attributable to:			
Equity holders of the parent		(349,268)	243,358
Non-controlling interests		(9,243)	12,216
		(358,511)	**255,574**
Other comprehensive income:			
Exchange differences on translation of foreign operations		(292,291)	513
Revaluation of property, plant and equipment, net of tax		738,662	-
Income tax relating to the components of other comprehensive income		(184,665)	-
Other comprehensive income for the year, net of tax:		**261,706**	**513**
Total comprehensive income for the year, net of tax:		**(96,805)**	**256,087**
Total comprehensive income attributable to:			
Equity holders of the parent		(107,160)	243,871
Non-controlling interests		10,355	12,216
		(96,805)	**256,087**

The Notes presented on pages 13 – 66 form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2008
(in US dollars and in thousands)

	Attributable to equity holders of the parent							
	Issued capital	**Share premium**	**Revaluation reserve**	**Accumulated profits / (deficits)**	**Foreign currency translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
At 1 January 2007	**11**	**361,091**	**-**	**206,710**	**40**	**567,852**	**101,185**	**669,037**
Profit for the year	-	-	-	243,358	-	243,358	12,216	255,574
Other comprehensive income	-	-	-	-	513	513	-	513
Total comprehensive income	-	-	-	243,358	513	243,871	12,216	256,087
Merger of subsidiaries (Note 32)	-	-	-	(2,296)	-	(2,296)	(44,704)	(47,000)
Acquisition of minority interest (Note 32)	-	-	-	(534)	-	(534)	(19,466)	(20,000)
Dividends by subsidiaries of the Group to the minority owners of subsidiaries (Note 31)	-	-	-	-	-	-	(11,740)	(11,740)
Dividends (Note 31)	-	-	-	(421,000)	-	(421,000)	-	(421,000)
At 31 December 2007	**11**	**361,091**	**-**	**26,238**	**553**	**387,893**	**37,491**	**425,384**
Loss for the year	-	-	-	(349,268)	-	(349,268)	(9,243)	(358,511)
Other comprehensive income	-	-	512,209	-	(270,101)	242,108	19,598	261,706
Total comprehensive income	-	-	512,209	(349,268)	(270,101)	(107,160)	10,355	(96,805)
Depreciation transfer	-	-	(209,175)	209,175	-	-	-	-
Issue of share capital (Note 31)	62,267	-	-	-	-	62,267	-	62,267
Acquisition of non-controlling interest (Note 32)	-	-	-	(3,218)	-	(3,218)	(14,832)	(18,050)
Non-controlling interest arising on business combination (Note 5)	-	-	-	-	-	-	1,234	1,234
At 31 December 2008	**62,278**	**361,091**	**303,034**	**(117,073)**	**(269,548)**	**339,782**	**34,248**	**374,030**

The Notes presented on pages 13 – 66 form an integral part of the consolidated financial statements

INTERPIPE LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2008

(in US dollars and in thousands)

INTERPIPE

	Notes	For the year ended 31 December 2008	For the year ended 31 December 2007
(Loss) / Profit before tax		**(459,419)**	**340,145**
Adjustments for:			
Depreciation and amortisation	24,25,26	105,943	61,436
Decrease in property plant and equipment value as result of revaluation	7, 24	62,446	-
Loss / (Gain) on disposal of property, plant and equipment and intangible assets	27	4,238	(1,410)
Finance costs	30	126,901	34,615
Finance income	29	(17,669)	(3,203)
Movement in provisions less interest cost		7,298	7,567
Translation difference and foreign exchange difference		197,250	(817)
Gain on disposal of non-current assets held for sale		-	(1,390)
Share of (profits) of associates	9	(756)	(864)
Operating cash flows before working capital changes		**26,232**	**436,079**
Decrease / (Increase) in inventories		(93,123)	(80,618)
Decrease / (Increase) in trade and other accounts receivable		33,260	(54,690)
Decrease / (Increase) in prepayments and other assets		1,978	(8,386)
Decrease / (Increase) in taxes recoverable, other than income tax		(4,185)	(1,223)
Increase / (Decrease) in trade and other accounts payable		114,258	(7,057)
Increase / (Decrease) in taxes payable, other than income tax		4,011	835
Increase / (Decrease) in advances and other current liabilities		(20,412)	8,689
Cash generated from operations		**62,019**	**293,629**
Income tax paid		(86,599)	(102,958)
Interest and other finance costs paid		(113,634)	(34,516)
Net cash (outflow) / inflow from operating activities		**(138,214)**	**156,155**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets		(194,659)	(105,967)
Proceeds from sale of property, plant and equipment		5,773	2,204
Proceeds from disposal of non-current assets held for disposal		-	10,101
Payments under derivative instruments		(17,937)	-
Proceeds from repayment of loans originated		-	14,599
Acquisition of non-controlling interests	32	(19,213)	(68,787)
Acquisition of subsidiary, net of cash acquired	5	(39,714)	-
Proceeds from guarantee deposits		1,547	-
Interest received		1,467	2,906
Dividends from associates		-	65
Net cash (outflow) from investing activities		**(262,736)**	**(144,879)**
Cash flows from financing activities			
Proceeds from borrowings		594,431	607,837
Repayments of borrowings		(189,270)	(208,699)
Placement of guarantee deposit to secure loan repayment	16	(24,000)	-
Proceeds from issue of share capital	31	62,267	-
Contributions from non-controlling interests for shares issued by subsidiaries		2,948	-
Dividends		-	(421,000)
Dividends paid to non-controlling interest holders	20, 31	(431)	(20,484)
Net cash inflow / (outflow) from financing activities		**445,945**	**(42,346)**
Net change in cash and cash equivalents		44,995	(31,070)
Net foreign exchange difference		(10,912)	1,079
Cash and cash equivalents at period beginning		66,978	96,969
Cash and cash equivalents at period end	17	**101,061**	**66,978**

The Notes presented on pages 13 – 66 form an integral part of the consolidated financial statements

1. Corporate information

These consolidated financial statements include the financial statements of Interpipe Limited (referred to as the "Company") and its subsidiaries (together referred to as the "Group").

The Company was incorporated under the name Ramelton Holdings Limited in accordance with the Companies Law of Cyprus as a limited liability company on 30 December 2005. It was renamed to Interpipe Limited on 15 May 2007. The registered office and principal place of business of the Company is Mykinon 12, Lavinia Court, 6th floor, P.C. 1065 Nicosia, Cyprus.

The Company holds ownership interests in a number of subsidiaries registered in various jurisdictions as detailed in Note 33 with a concentration of the Group's business in Ukraine, where its production facilities are located. The principal business activities of the Group are described in more detail in Note 6.

The IFRS consolidated financial statements of the Group as at 31 December 2008 and for the year then ended were authorised for issue in accordance with a resolution of the Board of Directors on 20 July 2011.

2. Basis of preparation

Statement of Compliance

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU). In addition the financial statements have been prepared in accordance with the requirements of the Cyprus Company Law, Cap.113.. The entities composing the Group maintain their accounting records in accordance with the accounting and reporting regulations of the countries of their incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group entities' local statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The consolidated financial statements have been prepared on a historical cost basis except for property, plant and equipment and construction in progress which have been measured at fair value as at 1 July 2008, investment in associates accounted for using the equity method, post-employment benefits measured in accordance with the requirements of IAS 19 "Employee benefits" and certain financial instruments measured in accordance with the requirements of IAS 39 "Financial instruments: recognition and measurement". The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to the risks that are being hedged.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported amounts of revenues and expenses during the reporting period.

Due to the inherent uncertainty in making those estimates, actual results reported in future periods could differ from such estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

These IFRS consolidated financial statements are presented in US Dollars ("USD") and all values are rounded to the nearest thousand except when otherwise indicated; all expenses are shown in brackets.

Going concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business.

The Group's activities had been adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis broken out in the fourth quarter of 2008. Due to the crisis, the willingness of financial institutions to extend committed finance on a long-term basis was reduced significantly. In the fourth quarter of 2008, the Group had started to experience a weaker demand for its products in all business and geographical segments. As a result, the Group's revenues, which had been steadily increasing for the first three quarters of 2008 compared to the previous year, had fallen significantly in the fourth quarter. This, combined with significant non-operating foreign exchange losses attributable primarily to the Group's borrowings, had resulted in the consolidated net loss for the year of USD 358,511 thousand (2007: net profit of USD 255,574 thousand).

Due to the declining performance, in the end of 2008 the Group had broken certain covenants attributable to some of its loan facilities, which in turn had triggered cross-default on the Group's borrowings with carrying amount of USD 944,168 thousand, including an electric arc construction financing facility as at 31 December 2008. As a result, the lenders became entitled to suspend drawing by the Group of any credit facilities earlier committed but not yet provided and to demand early repayment of any outstanding amounts. Accordingly, the liabilities due or claimable due within 12 months from 31 December 2008 exceeded the Group's current assets as of that date by USD 539,268 thousand and continued to exceed them in the following years (2009: USD 669,477 thousand, 2010: USD 696,709 thousand).

In the light of the existing market conditions, in early 2009, the Group determined that it would be in the interests of the Group as well as its creditors to pursue a broadly consensual financial restructuring in order to provide the Group with a sustainable capital structure allowing it to continue the normal operations. With the lenders consent, until reaching a mutually acceptable restructuring agreement, outstanding principal repayments under the Group's loan facilities in 2009 and 2010 were suspended.

Although the revenues of the Group continued deteriorating during 2009, management was able to realign ongoing operational activities and to maintain the production at the level meeting the current market demand, thus minimising, to the extent possible, the Group's operational losses in 2009. In 2009, despite the decrease in sales to USD 816,291 thousand and in operating profit to USD 30,541 thousand (2008: USD 1,943,690 thousand and USD 71,342 thousand, respectively) the Group decreased net loss to USD 60,585 thousand (2008: USD 358,511 thousand). In 2010, on the back of the improved market conditions, the Group has substantially increased its revenues to USD 1,257,890 thousand and improved its operational performance indicators. The Group's operating profit increased to USD 53,498 thousand and the net loss for the year decreased to USD 24,341 thousand.

The Group's ability to continue as a going concern continues to be dependent on the successful completion of the restructuring negotiations. As of the date of authorisation of these consolidated financial statements the restructuring agreement has not been formally implemented.

The directors and management of the Group have concluded that the combination of the above conditions and circumstances indicates the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Nevertheless, having assessed the situation, the directors and management believe that a mutually acceptable restructuring agreement with the lenders will be reached during 2011 and the Group will be able to continue its operations for the foreseeable future in the normal course of business. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Changes in accounting policy and disclosures

In the current year, the Group has adopted all of the new Interpretations issued by the IFRIC of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2008. The adoption of these Interpretations has resulted in changes to the Group's accounting policies in the following areas that have not affected the amounts reported for the current or prior years:

IFRIC 11 "IFRS 2 Group and Treasury Share Transactions" (effective 1 March 2007);

IFRIC 12 "Service Concession Arrangements" (effective 1 January 2008);

IFRIC 14 "IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective 1 January 2008).

The Group has also early adopted the following IFRS and IFRIC interpretations as of 1 January 2008:

IFRS 8 "Operating segments" (effective 1 January 2009);

IAS 1 "Presentation of Financial Statements" Revised (effective 1 January 2009);

IAS 23 "Borrowing Costs" Revised (effective 1 January 209).

Adoption of these standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to certain changes in presentation of financial statements.

The principal effects of these changes are as follows:

IFRS 8 Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting upon its effective date. The Group early adopted this amendment as of 1 January 2008. The Gorup concluded that the operating segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 6.

IAS 1 Presentation of Financial Statements (Revised)

The Group early adopted this revised Standard as of 1 January 2008. The revised Standard separates owner and non-owner changes in equity and. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

IAS 23 Borrowing costs (Revised)

The Group early adopted this revised Standard as of 1 January 2008. The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group's previous policy was to capitalize eligible borrowing costs; therefore, this amendment did not have any impact on the financial position or performance of the Group.

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 "Share-based Payment", and concerns the accounting treatment for share-based payment arrangements that involve two or more entities within the same group.

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.

IFRIC 14 addresses how to assess the limit under IAS 19 "Employee Benefits", on the amount of the surplus that can be recognised as an asset, in particular, when a minimum funding requirement exists. An entity must apply the Interpretation from the beginning of the first year presented in the first financial statements to which the Interpretation is applied. Any initial adjustment arising from the application of the Interpretation is recognised in retained earnings at the beginning of that period.

Basis of consolidation

The IFRS consolidated financial statements comprise the financial statements of the Company and its subsidiaries at 31 December 2008 and for the year then ended.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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.

Non-controlling interests represent the interest in subsidiaries not held by the Group. Non-controlling interests at the reporting date represent the non-controlling shareholders' portion of the fair value of the identifiable assets and liabilities of the subsidiary at the acquisition date and the non-controlling shareholders' portion of changes in net assets since the date of the combination. Non-controlling interests are presented within the shareholders' equity.

3. Summary of significant accounting policies

Foreign currency translation

The IFRS consolidated financial statements are presented in the US Dollars ("USD"), which is the Company's functional and presentation currency. Items included in the financial statements of each entity are measured using the functional currency determined for that entity. 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 reporting date. All differences upon re-measurement are recognised in statement of comprehensive income. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Ukrainian hryvnia is the functional currency of the subsidiaries domiciled in Ukraine. The functional currencies of the subsidiaries domiciled outside of Ukraine are as follows: the United States dollar for those registered in Switzerland, United Arab Emirates, Republic of Cyprus 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 reporting date. For the year ended 31 December 2008 their statements of comprehensive income are translated at the weighted average exchange rates for the first nine months of the year and at monthly average rates for each of the months of the last quarter of the year. All equity transactions and significant transactions relating to the statement of comprehensive income such as revaluation and impairment of property, plant and equipment and write down of inventories to net realisable value were translated using the exchange rate ruling at the date of transaction. 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 recognised in equity relating to that particular foreign operation is recognised in statement of comprehensive income.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition, irrespective of the extent of any non-controlling interest.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Property, plant and equipment

During the year ended 31 December 2008, management of the Company adopted the revaluation model of accounting for property, plant and equipment. This change in accounting policy allows for a more fair presentation of property, plant and equipment in accordance with industry specifics. Revaluation was performed by independent appraisal as at 1 July 2008. Consequently, property, plant and equipment are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. When no market values are available, fair value of specific machinery and equipment is determined by using depreciated replacement cost approach. Fair values of other items of property, plant and equipment are determined by reference to market-based evidence, which are the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Prior to revaluation, property, plant and equipment were 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 included the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria were met.

Revaluations of property, plant and equipment are to be performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increases in carrying amount arising on revaluation of property, plant and equipment are credited to revaluation reserve in equity. However, such increase is to be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in the consolidated statement of comprehensive income. If the asset's carrying amount is decreased as a result of a revaluation, the decrease is recognized the consolidated statement of comprehensive income. However, such decrease is debited directly to equity to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

As the asset is used by an entity, the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is transferred to retained earnings. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus included in equity is transferred directly to retained earnings.

Depreciable amount is the cost or revalued amount of the item of property, plant and equipment. Depreciation is calculated on a straight-line basis over the estimated remaining useful life of the assets, determined at the date of revaluation, or estimated useful life of the assets, determined at the date the asset is available for use.

The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end. Depreciation is calculated over the estimated remaining useful life of the assets as follows:

	After revaluation	Before revaluation
Buildings and structures	3-50 years	5-78 years
Machinery and equipment	1-25 years	2-25 years
Transport and motor vehicles	1-10 years	5-20 years
Fixtures and office equipment	1-7 years	5-25 years

Construction in progress comprises prepayments made and letters of credit issued for purchases of property, plant and equipment, and property, plant and equipment which have not yet been completed. No depreciation is recorded on such assets until they are available for use.

An item of property, plant and equipment is derecognised 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 consolidated statement of comprehensive income in the year the item is derecognised.

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 IFRS consolidated financial statements. Construction and maintenance costs of social infrastructure facilities are expensed as incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Intangible assets

Intangible assets include patents and trademark, accounting and other 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. Intangible assets are amortised using straight line method over estimated useful lives from three to ten years.

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 statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment. The consolidated statement of comprehensive income 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. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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 on non-revalued assets are recognised in statement of comprehensive income. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same 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 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 the consolidated statement of comprehensive income. 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.

Financial assets

Initial recognition

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, or 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.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with gains or losses recognised in the statement of comprehensive income. The Group has not designated any financial asset as at fair value through profit or loss.

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 the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

The Group has not designated any financial asset as either held to maturity investments or available for sale during the years ended 31 December 2008 and 2007.

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) but excluding borrowing costs. 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.

Cash and cash equivalents

Cash and cash equivalents 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 original 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.

Financial liabilities

Initial recognition

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. Financial liabilities are recognised initially at fair value and in the case of loans and borrowings, directly attributable transaction costs. The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by IAS 39. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income.

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.

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 statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

Liability attributable to non-controlling participants

Some non-controlling interests in the Group subsidiaries established in the form of a limited liability company do not satisfy the conditions of an equity instrument. Such non-controlling interests are treated as financial liability attributable to non-controlling participants and are reclassified from equity. At initial recognition and subsequently at each reporting date liability attributable to non-controlling participants is measured at the present value of the amount payable at exercise, with any change in value reflected in statement of comprehensive income as finance income or expense.

Guarantees issued

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.

Fair value of financial instruments

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business day on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

Amortised cost of financial instruments

Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

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.

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 statement of comprehensive income.

Impairment of financial assets

The Group assesses at each reporting 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 statement of comprehensive income.

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 statement of comprehensive income, 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. When trade and other receivables are uncollectible, they are written off against the allowance account. Changes in the carrying amount of the allowance account and subsequent recoveries of amounts previously written off are recognised in profit or loss.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge, are taken directly to the statement of comprehensive income.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in firm capital commitments These hedges are accounted as fair value hedges.

The Group has a set of forward currency contracts which hedges the exposure to foreign currency risk of its firm capital commitments under the electric arc furnace construction and equipment delivery contracts (Note 23). These hedges are accounted as fair value hedges.

Fair value hedges of unrecognised firm commitment

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of comprehensive income.

The Group discontinues fair value hedge accounting if the hedging instrument expires, is sold, terminated or exercised, or no longer meets the criteria for hedge accounting, or the Group revokes the designation. The Group discontinues fair value hedge accounting from the last date on which compliance with the hedge effectiveness was demonstrated.

When hedge relationship no longer meets the criteria for hedge accounting the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged and continues to be accounted for in a manner that was applicable prior to it being hedged. The basis adjustment on the hedged item is frozen and continues as part of the carrying amount of the asset up to the date the carrying value is recovered through use or sale of the asset becomes impaired. The hedged instrument continues to be accounted as derivative at fair value through profit and loss.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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 recognised 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 also agreed to provide certain defined contribution pension benefits in Switzerland and the USA. 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.

In addition, the Group's Ukrainian production subsidiaries provide other post-employment benefits to their employees. There are two significant defined benefit post-employment plans in Ukraine, both of which are unfunded. These plans comprise:

- the 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
- the Group's legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of the eligible 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 reporting date. Actual results could vary from estimates made to the date.

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 recognised when the cumulative unrecognised actuarial gains or losses for the scheme exceed 10% of defined benefit obligation. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

Contingent liabilities

Contingent liabilities are recognised in the financial statements if the fair value can be measured reliably and if it is a present obligation that arises from past events. 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 during the tax period when the respective transaction arises.

Deferred tax

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

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 reporting 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 reporting 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 reporting date.

Deferred tax relating to items recognised directly in equity is recognised in equity and not in statement of comprehensive income. Deferred tax liabilities relating to a taxable temporary difference on the fair value adjustment of property, plant and equipment were initially recognised in equity as at 1 July 2008. As depreciation and impairment of the underlying property, plant and equipment are included in statement of comprehensive income the related effect of deferred tax on these temporary differences is also recognised in statement of comprehensive income.

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 recognised 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 recognised 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 recognised when services are rendered.

Cost of sales and other expenses recognition

Cost of revenue that relates to the same transaction is recognised 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.

IFRSs and IFRIC Interpretations not yet effective

The Group has not adopted the following IFRSs and IFRIC Interpretations that have been issued, amended or revised but are not yet effective. Currently the Group evaluates possible effect of the adoption on its financial position and performance.

- *Amendments to IFRS 7 Financial Instruments: Disclosures*

The Amendments were issued in October 2010 and are effective for annual periods beginning on or after 1 July 2011. The Amendments introduce additional disclosure requirements for transferred financial assets that are not derecognized. The Group expects that these amendments will have no impact on the Group's financial position.

- *Amendments to IAS 12 Income Taxes – Deferred tax: Recovery of underlying assets*

In December 2010, the IASB issued amendments to IAS 12 effective for annual periods beginning on or after 1 January 2012. IAS 12 has been updated to include a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. The Group expects that these amendments will have no impact on the Group's financial position.

- *IFRS 10 Consolidated Financial Statements*

IFRS 10 Consolidated Financial Statements provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. The standard sets out requirements for situations when control is difficult to assess, including cases involving potential voting rights, agency relationships, control of specified assets and circumstances in which voting rights are not the dominant factor in determining control. In addition IFRS 10 introduces specific application guidance for agency relationships. The standard also contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27. IFRS 10 replaces the consolidation requirements in SIC-12 Consolidation — Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 10 on its financial position and performance.

- *IFRS 11 Joint Arrangements*

IFRS 11 Joint Arrangements improves the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. The classification of a joint arrangement is determined by assessing the rights and obligations of the parties arising from that arrangement. There are only two types of arrangements provided in the standard - joint operation and joint venture. IFRS 11 also eliminates proportionate consolidation as a method to account for joint arrangements. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities — Non-monetary Contributions by Venturers and is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Currently the Group evaluates possible effect of the adoption of IFRS 11 on its financial position and performance.

- *IFRS 12 Disclosure of Interests in Other Entities*

IFRS 12 Disclosure of Interests in Other Entities issued in May 2011 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. Adoption of the standard may require new disclosures to be made in the financial statements of the Group but will have no impact on its financial position or performance.

- *IFRS 13 Fair Value Measurement*

IFRS 13 Fair Value Measurement defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. IFRS 13 is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The adoption of the IFRS 13 may have effect on the measurement of the Group's assets and liabilities accounted for at fair value. Currently the Group evaluates possible effect of the adoption of IFRS 13 on its financial position and performance.

- *IFRS 9 Financial Instruments*

In November 2009 the IASB has issued IFRS 9, which provides guidance on the classification and measurement of financial assets. Publication of this IFRS represents the completion of the first part of a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement with a new standard - IFRS 9 Financial Instruments. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing many different impairment methods in IAS 39. The effective date for mandatory adoption of IFRS 9 is for annual periods beginning on or after 1 January 2013. The Group expects that the new standard may have effect on the classification and measurement of its financial assets, however, the exact amount of potential effect have not yet been quantified.

- *IAS 24 Related Party Disclosures (Revised)*

In November 2009 the IASB replaced IAS 24 Related Party Disclosures with a new version. The IASB believes the revised standard simplifies the disclosure requirements for government-related entities by focusing disclosures on significant transactions, and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. The revised standard will not result in additional disclosures as the Company is not a subsidiary of a government-related entities.

- *Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*

The amendment, which was issued in January 2010, provides relief to first-time adopters of IFRSs from providing the additional disclosures introduced by the recent amendments to IFRS 7. As a result, first-time adopters receive the same transition provisions provided to current IFRS preparers. This amendment is effective for financial years beginning on or after 1 July 2010, with early application is permitted. The amendment will not result in any changes to the consolidated financial statements as the Group is not a first-time adopter.

- *Amendment to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"*

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

- *Amendment to IFRIC 14 IAS 19: Prepayments of a Minimum Funding Requirement*

Amendment to IFRIC 14 IAS 19 was issued in November 2009 and becomes effective for financial years beginning on or after 1 July 2011 with early application permitted. The amendment applies in the limited circumstances when an entity is a subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment will have no impact on the financial position or performance of the Group, as the Group's employee benefit plans are unfunded IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments.

IFRIC 19, which was published in November 2009, provides guidance on how to account for the extinguishment of financial liability by the issuance of equity instruments. These transactions are often referred to as debt-for-equity swaps. IFRIC 19 includes the following guidance: (i) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; (ii) the equity instruments issued are measured at their fair value; (ii) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit and loss for the period. IFRIC 19 becomes effective for financial years beginning on or after 1 July 2010 with early application permitted.

- *Amendment to IFRS 1: Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*

The amendment allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The group will apply IFRS 1 (Amendment) from 1 January 2009.

The amendment, which was issued in January 2010, provides relief to first-time adopters of IFRSs from providing the additional disclosures introduced by the recent amendments to IFRS 7. As a result, first-time adopters receive the same transition provisions provided to current IFRS preparers. This amendment is effective for financial years beginning on or after 1 July 2010, with early application is permitted. The amendment will not result in any changes to the consolidated financial statements as the Group is not a first-time adopter.

- *Amendments to IFRS 2 Share-based Payment - Group Cash–settled Share-based Payment Transactions*

The amendment deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group shall apply this revised IFRS in its annual financial statements for periods beginning on or after 1 January 2009.

The amendments that were issued in June 2009 are effective for annual periods beginning on or after 1 January 2010. The amendments clarify the accounting for group cash-settled share-based payment transactions. Specifically, an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amended standard clarifies that in IFRS 2 a "group" has the same meaning as in IAS 27, that is, it includes only a parent and its subsidiaries. The Group expects that the amended standard will not have any effect on financial position or performance of the Group as the Group did not enter into such transactions.

- *IFRS 3R Business Combinations and IAS 27R Consolidated and Separate Financial Statements*

The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control. The standards may be early applied. However, the Group does not intend to take advantage of this possibility.

- *IFRS 9 Financial Instruments*

In November 2009 the IASB has issued IFRS 9, which provides guidance on the classification and measurement of financial assets. Publication of this IFRS represents the completion of the first part of a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement with a new standard - IFRS 9 Financial Instruments. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing many different impairment methods in IAS 39. The effective date for mandatory adoption of IFRS 9 is for annual periods beginning on or after 1 January 2013. The Group expects that the new standard may have effect on the classification and measurement of its financial assets, however, the exact amount of potential effect have not yet been quantified.

- *IAS 24 Related Party Disclosures (Revised)*

In November 2009 the IASB replaced IAS 24 Related Party Disclosures with a new version. The IASB believes the revised standard simplifies the disclosure requirements for government-related entities by focusing disclosures on significant transactions, and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. The revised standard will not result in additional disclosures as the Company is not a subsidiary of government-related entities.

- *IAS 27 Consolidated and separate financial statements (Revised)*

The standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The group will apply IAS 27 (Revised) to transactions with non-controlling interests from 1 January 2009.

- *Amendment to IAS 32 "Financial instruments: Presentation": Classification of Rights Issues"*

In October 2009, the IASB issued amendment to IAS 32. Entities shall apply that amendment for annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment alters the definition of a financial liability in IAS 32 to classify rights issues and certain options or warrants as equity instruments. This is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, in order to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The Group expects that this amendment will have no impact on the Group's consolidated financial statements.

- *IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*

These amendments to IAS 39 were issued in August 2008 and become effective for financial years beginning on or after 1 July 2009. The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

- *IFRIC 9 Reassessment of Embedded Derivatives:*

Amendment clarifies that IFRIC 9 does not apply to embedded derivatives in contracts acquired in a combination between entities under common control or the formation of a joint venture. This has no impact on the Group as the Group does not have any joint venture business.

- *IFRIC 13 Customer Loyalty Programmes*

IFRIC 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction; the consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. If the cost of fulfilling the awards is expected to exceed the consideration received, the entity will have an onerous contract and a liability for the excess must be recognised. If changes in accounting policies are required, they are applied retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The Group will apply the IFRIC 13 from 1 January 2010. IFRIC 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- *Amendment to IFRIC 14 IAS 19: Prepayments of a Minimum Funding Requirement*

Amendment to IFRIC 14 IAS 19 was issued in November 2009 and becomes effective for financial years beginning on or after 1 July 2011 with early application permitted. The amendment applies in the limited circumstances when an entity is a subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment will have no impact on the financial position or performance of the Group, as the Group's employee benefit plans are unfunded.

- *IFRIC 15 Agreement for the Construction of Real Estate*

IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. The Group will apply the IFRIC 15 from 1 January 2009. IFRIC 15 will not have an impact on the consolidated financial statement because the Group does not conduct such activity.

- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation:*

Amendment makes amendment to the restriction on the entity that can hold hedging instruments. This has no impact on the Group as the Group does not hedge for the foreign operations.

- *IFRIC 17 Distributions of Non-cash Assets to Owners*

IFRIC 17 issued in November 2008 (effective from 1 July 2009), provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Group will apply the IFRIC 17 from 1 January 2010. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

- *IFRIC 18 Transfers of Assets from Customers*

IFRIC 18 was issued in January 2009 and becomes effective for financial years beginning on or after 1 July 2009 with early application permitted, provided valuations were obtained at the date those transfers occurred. This interpretation should be applied prospectively. IFRIC 18 provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both. The interpretation clarifies the circumstances, in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfers of cash from customers. IFRIC 18 will have no impact on the financial position or performance of the Group, as the Group does not receive assets from customers.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19, which was published in November 2009, provides guidance on how to account for the extinguishment of financial liability by the issuance of equity instruments. These transactions are often referred to as debt-for-equity swaps. IFRIC 19 includes the following guidance: (i) the entity's equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability; (ii) the equity instruments issued are measured at their fair value; (ii) the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the entity's profit and loss for the period. IFRIC 19 becomes effective for financial years beginning on or after 1 July 2010 with early application permitted.

Improvements to IFRS

In May 2008, April 2009 and May 2010, the IASB issued Improvements to IFRSs, omnibuses of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. Certain of these amendments are considered to have a reasonable possible impact on the accounting policies. The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

- *IFRS 2 Share-based Payment:*

The amendment clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of IFRS 2 and IFRS 3. It is to be applied retrospectively for annual periods beginning on or after 1 July 2009 with early application permitted. This amendment has no impact on the Group as there were no such activities during 2010.

- *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations:*

Amendment clarifies that the disclosure requirements for non-current assets or disposal groups classified as held for sale are only those set out in IFRS 5 although the general requirements of IAS 1 still apply to them. If subsidiary is classified as a held for sale, all its assets and liabilities are classified as held for sale, even the entity remains a non-controlling interest after the sale transaction. It is effective for annual periods beginning on or after 1 January 2010 and is to be applied prospectively. The amendment is applied prospectively and has no impact on the financial position nor financial performance of the Group.

- *IFRS 8 Operating Segments:*

Amendment clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. It is effective for annual periods beginning on or after 1 January 2010 and applied retrospectively. This has no impact on the Group as the Group's segment assets and liabilities are used by the chief operating decision maker hence be reported on the financial statements.

- *IAS 1 Presentation of Financial Statements:*

Amendment clarifies that assets and liabilities classified as held for trading in accordance with IAS 39 Financial Instruments: Recognition and Measurement are not automatically classified as current in the balance sheet. The group will apply the IAS 1 (Amendment) from 1 January 2009.

Amendment clarifies that if the conversion option of a convertible instrument can be exercised by the holder at any time, the liability component would be classified as current. It is applicable retrospectively to annual periods beginning on or after 1 January 2010. This has no impact on the Group as the Group does not hold convertible financial instruments that are classified as liability.

- *IAS 7 Statement of Cash Flows:*

Amendment explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. It is applicable retrospectively to annual periods beginning on or after 1 January 2010. This has no impact on the Group as the cash flow from investing activities does not include expenditures that results in recognised assets.

- *IAS 17 Leases:*

The amendment removes the specific guidance on classifying leases of land and of buildings as operating or finance leases such that only the general guidance remains. It is effective for annual periods beginning on or after 1 January 2010 and applied retrospectively unless information necessary to apply the amendment retrospectively is not available. This has no impact on the Group's financial statements as the Group does not own any land.

- *IAS 19 Employee Benefits:*

IAS 19 revised the definition of "past service costs", "return on plan assets" and "short term" and "other long-term" employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment. Deleted the reference to the recognition of contingent liabilities to ensure consistency with IAS 37.

- *IAS 23 Borrowing costs:*

IAS 23 revised the definition of borrowing costs to consolidate the two types of items that are considered components of "borrowing costs" into one – the interest expense calculated using the effective interest rate method calculated in accordance with IAS 39.

- *IAS 36 Impairment of Assets:*

The amendment clarifies that when discounted cash flows are used to estimate "fair value less cost to sell", additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". This amendment has no immediate impact on the consolidated financial statements of the Group because the recoverable amount of its cash generating units is currently estimated using "value in use".

The amendment clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

- *IAS 39 Financial Instruments: Recognition and Measurement:*

The amendment clarifies that changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the "fair value through profit or loss" classification after initial recognition. Removed the reference in IAS 39 to a "segment" when determining whether an instrument qualifies as a hedge. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.

Amendment clarifies the assessment of loan prepayment penalties as embedded derivatives, the scope exemption for contracts associated with a business combination and the accounting treatment for gains and losses on cash flow hedges.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- *IFRS 7 Financial Instruments: Disclosures*
- *IAS 8 Accounting Policies, Change in Accounting Estimates and Errors*
- *IAS 10 Events after the Reporting Period*
- *IAS 16 Property, Plant and Equipment*
- *IAS 18 Revenue*
- *IAS 20 Accounting for Government Grants and Disclosures of Government Assistance*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 28 Investment in Associates*
- *IAS 29 Financial Reporting in Hyperinflationary Economies*
- *IAS 31 Interests in Joint Ventures*
- *IAS 34 Interim Financial Reporting*
- *IAS 38 Intangible Assets*
- *IAS 40 Investment Property*
- *IAS 41 Agriculture*

(in US dollars and in thousands)

Reclassifications

The following reclassifications were made to the consolidated income statements for the year ended 31 December 2007 to conform to 2008 presentation:

Consolidated income statement caption	Note	*Before reclassific ations*	*Storage and packaging expenses*	*Payroll and related expenses*	*Foreign exchange gains, net of losses*	*Other income*	*Non-operating forex*	*After reclassifi cations*
Selling and distribution expenses	25	(95,393)	(78)	2,620	(3,637)	-	-	(96,488)
General and administrative expenses	26	(61,048)	78	(2,620)	-	-	-	(63,590)
Other operating income and expenses	27	(21,869)	-	-	-	(3,422)	-	(25,291)
Operating foreign exchange difference	28	-	-	-	3,637	3,422	-	7,059
Operating profit		**370,936**	**-**	**-**	**-**	**-**	**-**	**370,936**
Finance income	29	2,960	-	-	-	-	243	3,203
Finance costs	30	(34,615)	-	-	-	-	-	(34,615)
Non-operating foreign exchange difference	28	-	-	-	-	-	(243)	(243)
Share of profits of associates	9	864	-	-	-	-	-	864
Profit before tax		**340,145**	**-**	**-**	**-**	**-**	**-**	**340,145**

The following reclassifications were made to the consolidated balance sheet for the year ended 31 December 2007 to conform to 2008 presentation:

Consolidated balance sheet caption	Note	*Before reclassific ations*	*Interest payable*	*Dividends payable to non-controlliung interest holders*	*Other accounts payable*	*Guarantee deposits*	*After reclassific ations*
Prepayments and other current assets	14	67,521	-	-	-	(5,969)	61,552
Other financial assets	16	-	-	-	-	5,969	5,969
Trade and other accounts payable	20	45,079	9,238	1,843	2,927	-	59,087
Advances and other current liabilities	22	67,325	(9,238)	(1,843)	(2,927)	-	53,317

4. **Significant accounting judgements and estimates**

Estimation of uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting 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 and future projected salary). More details are provided in Note 19.

Valuation of property, plant and equipment

As at 1 July 2008, the valuation of property, plant and equipment 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 15.4%.

Certain items which primary relate to the electric arc furnace under construction (Note 7) were not subject to the valuation. As the cost of electric arc furnace mostly includes newly purchased items of machinery and equipment, site preparation costs, and prepayments to suppliers; the cost is believed to approximate the fair value.

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 statement of comprehensive income (Note 7).

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.

The Group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Group estimates the recoverable amount of that asset.

Impairment of Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to two individual cash-generating units (CGU), which are also reportable segments irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

An impairment of goodwill exists when the carrying value of the cash generating units exceeds its recoverable amounts, which are the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next two years and do not include restructuring activities or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected gross margins, raw materials price inflation and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including comments on sensitivity, are further explained in Note 8.

Allowances

The Group makes allowances for doubtful accounts receivable (Note 13). 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.

Inventory is carried at lower of cost and net realisable value. Estimates of net realisable value of raw materials, work in progress and 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 reporting date to the extent that such events confirm conditions existing at the end of the period (Note 12).

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group company's domicile. As the Group assesses the probability for a litigation and subsequent cash outflow with respect to taxes as remote, no contingent liability has been recognised.

Deferred tax assets are reviewed at each reporting 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. The estimation of that probability includes judgments based on the expected performance

Further details on taxes are disclosed in Note 10 and Note 35.

Value-added tax recoverable

Value-added tax recoverable is reviewed at each reporting date and reduced to the extent that it is no longer probable that refund or VAT liabilities will be available. 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.

Judgements

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 19 and 35).

(in US dollars and in thousands)

5. Business combination

Acquisitions in 2008

As of 30 June 2008, Interpipe Limited acquired 95.95% shares of OJSC "Dnepropetrovsk Vtormet" ("Vtormet"). Vtormet operates a scrap metal processing plant in Dnepropetrovsk along with scrap metal processing business in Dnepropetrovsk and Ternopol districts of Ukraine. Vtormet holds a 100% subsidiary LLC "Luganskiy Kombinat Vtormet" which operates a scrap metal processing business in Lugansk district of Ukraine.

The acquired business contributed revenues of USD 26,674 thousand and net loss of USD 2,919 thousand to the Group for the period from 1 July 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, Group revenue would have been USD 1,965,338 thousand and loss for the year would have been USD 357,684 thousand.

The fair value of the identifiable assets, liabilities and contingent liabilities of Vtormet as at the date of acquisition were:

	Fair value recognised on acquisition
Property, plant and equipment	35,132
Other non-current assets	60
Inventories	7,535
Trade and other accounts receivable	16,288
Prepayments and other current assets	1,404
Cash and cash equivalents	9
Total assets	**60,428**
Long-term borrowings	(35)
Deferred tax liabilities	(6,227)
Liability under staff retirement and pension plan	(222)
Other non-current liabilities	(344)
Trade and other accounts payable	(13,778)
Dividends payable to non-controlling interests	(3,093)
Short-term borrowings	(4,498)
Current income tax liabilities	(378)
Advances received	(40)
Other current liabilities	(1,334)
Total liabilities	**(29,949)**
Net assets	30,479
Attributable to non-controlling interests	1,234
Net assets acquired by the Group	**29,245**
Goodwill arising on acquisition (Note 8)	10,478
Total consideration	**39,723**

The goodwill is attributable to the significant synergies expected to arise from acquisition, as it will secure the supply of scrap metal for the Group's metal smelting facilities.

The total cost of combination was USD 39,723 and was paid in cash.

Cash flow on Vtormet acquisition was as follows:

Purchase consideration – Cash paid	39,723
Net cash acquired with the subsidiary	(9)
Net cash outflow	**39,714**

6. **Segment information**

For management purposes, the Group is organised into business units based on its products and services, and has four reportable operating segments as follows:

1. Seamless pipes segment – production and distribution of:
   - Seamless oil country tubular goods ("OCTG"), used for oil and gas exploration and production;
   - Seamless transportation line pipes, used for oil and gas transportation in severe pressure and temperature conditions;
   - Seamless industrial pipes, used in a large variety of infrastructure and industrial applications;
   - Seamless special applications pipes, used in various applications by the machine-building, power and heat generation and petrochemical industries, among others.
2. Welded pipes segment - production and distribution of:
   - Industrial welded pipes, used mainly in the construction industry and in local water distribution networks;
   - Transportation line welded pipes, used to transport water, crude oil and natural gas in moderate pressure and temperature conditions.
3. Railway wheels segment - production and distribution of extensive range of forged wheels used for freight cars, passenger carriages, locomotives and underground trains as well as tyres for wheel sets used on locomotives, underground trains and trams.
4. Other operations segment - production and sales of enamel ware, lime, scrap metal, and other by-products and services.

Inter-segment sales primarily consisted of scrap metal sold by Dnepropetrovsk Vtormet to JSC "Interpipe Niznedneprovsky Tube Rolling Plant", the cost of which was included in the cost of seamless pipes and wheels.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Group financing (including finance costs and finance revenue) and income taxes are managed on a group basis and are not allocated to operating segments.

(in US dollars and in thousands)

Segment revenues and results Year ended 31 December 2008	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Revenue	1,129,005	322,577	431,277	75,865	1,958,724
Elimination of sales to other segments	-	-	-	(15,034)	(15,034)
Revenue – external	1,129,005	322,577	431,277	60,831	1,943,690
Cost of sales	(1,076,345)	(287,789)	(320,359)	(52,493)	(1,736,986)
Gross profit	**52,660**	**34,788**	**110,918**	**8,338**	**206,704**
Selling and distribution expenses	(95,162)	(44,707)	(14,855)	(1,215)	(155,939)
General and administrative expenses	(40,210)	(14,901)	(12,429)	(2,923)	(70,463)
Other operating income and expenses	(2,679)	(2,016)	(873)	(803)	(6,371)
Operating foreign exchange difference	66,320	28,258	3,080	(247)	97,411
Operating profit / (loss)	**(19,071)**	**1,422**	**85,841**	**3,150**	**71,342**
Finance income					17,669
Finance costs					(126,901)
Non-operating foreign exchange difference					(422,285)
Share of profits of associates					756
Loss before tax					**(459,419)**
Income tax benefit					100,908
Loss for the year					**(358,511)**

For the year ended 31 December 2008, share of profits of associates was attributable to seamless pipes segment.

EBITDA is not a measure of financial performance under IFRS. The calculation of EBITDA by the Group may be different from the calculations of similarly labelled measures used by other companies and it should therefore not be used to compare one company against another or as a substitute for analysis of the Group's operating results as reported under IFRS. EBITDA is not a direct measure of the Group's liquidity, nor is it an alternative to cash flows from operating activities as a measure of liquidity, and it needs to be considered in the context of the Group's financial commitments. EBITDA may not be indicative of the Group's historical operating results, nor is it meant to be predictive of the Group's potential future results. The Group believes that EBITDA provides useful information to the users of the consolidated financial statements because it is an indicator of the strength and performance of the Group's ongoing business operations, including the Group's ability to fund discretionary spending such as capital expenditure, acquisitions and other investments and the Group's ability to incur and service debt.

EBITDA by segments Year ended 31 December 2008	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Operating profit	(19,071)	1,422	85,841	3,150	71,342
Depreciation and amortisation	63,345	13,153	26,871	2,574	105,943
Decrease in property plant and equipment as a result of revaluation (Note 7, 24)	45,412	3,113	13,921	-	62,446
Loss on disposal of property, plant and equipment and intangible assets (Note 27)	2,773	363	1,084	18	4,238
EBITDA	**92,459**	**18,051**	**127,717**	**5,742**	**243,969**

(in US dollars and in thousands)

Segment assets, liabilities and other information

Year ended 31 December 2008	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Segment assets	873,053	212,931	298,755	19,290	1,404,029
Segment liabilities	136,122	34,523	31,843	2,777	205,265
Investment in associates (Note 9)	2,801	-	-	-	2,801
Addition to property, plant and equipment (Note 7)	163,051	7,745	82,803	2,488	256,087
Decrease in property, plant and equipment as a result of revaluation (Note 7, 24)	45,412	3,113	13,921	-	62,446
Movement in provisions (Note 19)	8,401	2,591	4,440	114	15,546
Other non-cash items	77,853	37,540	4,218	145	119,756

Segment revenues and results

Year ended 31 December 2007	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Revenue	1,101,470	296,736	371,419	22,417	1,792,042
Cost of sales	(773,759)	(218,419)	(231,002)	(19,616)	(1,242,796)
Gross profit	**327,711**	**78,317**	**140,417**	**2,801**	**549,246**
Selling and distribution expenses	(65,827)	(20,960)	(9,608)	(93)	(96,488)
General and administrative expenses	(40,727)	(12,611)	(9,428)	(824)	(63,590)
Other operating income and expenses	(15,832)	(1,151)	(9,806)	1,498	(25,291)
Operating foreign exchange difference	4,082	1,658	1,318	1	7,059
Operating profit	**209,407**	**45,253**	**112,893**	**3,383**	**370,936**
Finance income					3,203
Finance costs					(34,615)
Non-operating foreign exchange difference					(243)
Share of profits of associates					864
Profit before tax					**340,145**
Income tax expense					(84,571)
Profit for the year					**255,574**

For the year ended 31 December 2007, share of profits of associates was attributable to seamless pipes segment.

EBITDA by segments

Year ended 31 December 2007	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Operating profit	209,407	45,253	112,893	3,383	370,936
Depreciation and amortisation	44,010	5,502	11,195	697	61,404
Impairment of property, plant and equipment and intangible assets (Note 27)	(225)	(920)	(265)	-	(1,410)
Sales agreement violation claim settlement charge (Note 27)	-	-	9,896	-	9,896
EBITDA	**253,192**	**49,835**	**133,719**	**4,080**	**440,826**

(in US dollars and in thousands)

Segment assets, liabilities and other information

Year ended 31 December 2007	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Segment assets	765,942	143,686	184,839	4,869	1,099,336
Segment liabilities	140,395	16,490	16,277	2,428	175,590
Investment in associates (Note 9)	3,426	-	-	-	3,426
Addition to property, plant and equipment (Note 7)	63,271	12,012	27,734	4,060	107,077
Movement in provisions (Note 19)	8,845	528	934	-	10,307

Reportable segments' assets are reconciled to total assets as follows:

	31 December 2008	*31 December 2007*
Segment assets for reportable segments	**1,384,739**	**1,094,467**
Other segments assets	**19,290**	**4,869**
Unallocated		
Intangible assets	7,143	3,719
Deferred tax assets	40,136	-
Prepaid income tax	51,296	3,878
Taxes recoverable, other than income tax	54,900	59,839
Other financial assets	26,836	4,378
Cash and bank deposits	101,061	53,288
Other assets	1,299	-
	282,671	**125,102**
	1,686,700	**1,224,438**

Reportable segments' liabilities are reconciled to total liabilities as follows:

	31 December 2008	*31 December 2007*
Segment liabilities for reportable segments	**202,488**	**173,162**
Other segments liabilities	**2,777**	**2,428**
Unallocated		
Deferred tax liabilities	88,458	27,427
Non-current borrowings	-	364,171
Taxes payable, other than income tax	6,712	3,556
Current income tax liabilities	3,951	4,673
Current borrowings	944,168	215,385
Derivative financial instruments	46,933	-
Interest payable	10,265	6,409
Dividends payable to non-controlling interest owners	2,891	1,843
Other liabilities	4,027	-
	1,107,405	**623,464**
	1,312,670	**799,054**

(in US dollars and in thousands)

Geographical information

Revenues from external customers

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Russia	578,213	561,815
Ukraine	552,745	517,700
Other CIS countries	375,800	297,099
Europe	227,379	177,877
Middle East and Africa	107,934	172,594
NAFTA	83,767	42,107
Other countries	17,852	22,850
	1,943,690	**1,792,042**

NAFTA geographical segment includes the USA, Canada and Mexico. Other CIS countries geographical segment includes members of Commonwealth of Independent States with the exception of Ukraine and Russia, both of which form separate geographical segments.

Non-current assets

Non-current assets comprising property, plant and equipment and intangible assets are presented in the table below. Non-current assets are allocated according to the location of foreign countries in which the Group holds assets. If non-current assets in an individual foreign country are material, those assets are disclosed separately.

	31 December 2008	*31 December 2007*
Ukraine	806,835	506,864
Europe	131,409	29,422
Other countries	6,181	237
	944,425	**536,523**

Non-current assets allocated to Europe geographical segment are primarily attributable to the construction of electric arc furnace (Notes 7 and 35).

(in US dollars and in thousands)

7. **Property, plant and equipment**

Movement in property, plant and equipment and related accumulated depreciation for the years ended 31 December 2008 and 2007 was as follows:

	Buildings and structures	*Machinery and equipment*	*Transport and motor vehicles*	*Fixtures and office equipment*	*Construction-in-progress and uninstalled equipment*	*Total*
Cost or valuation:						
At 1 January 2007	**79,779**	**445,714**	**10,534**	**3,820**	**17,754**	**557,601**
Additions	3,561	26,581	390	1,668	71,156	103,356
Transfers	1,358	1,530	32	122	(3,042)	-
Disposals	(100)	(1,213)	(1,011)	(56)	(240)	(2,620)
Translation difference	-	2	6	9	-	17
At 31 December 2007	**84,598**	**472,614**	**9,951**	**5,563**	**85,628**	**658,354**
Additions	120	634	89	980	254,264	256,087
Acquisitions of a subsidiary (Note 5)	21,239	8,343	2,272	26	3,252	35,132
Transfers	9,743	59,349	3,085	1,421	(73,598)	-
Disposals and write-offs	(1,179)	(31,534)	(241)	(553)	(2,079)	(35,586)
Elimination of accumulated depreciation against carrying amount	(32,451)	(176,405)	(6,056)	(2,349)	(93)	(217,354)
Revaluation	261,190	455,213	12,235	908	9,116	738,662
Translation difference	(123,868)	(276,919)	(7,521)	(1,791)	(52,853)	(462,952)
At 31 December 2008	**219,392**	**511,295**	**13,814**	**4,205**	**223,637**	**972,343**
Accumulated depreciation and impairment:						
At 1 January 2007	**12,023**	**49,576**	**2,306**	**796**	**-**	**64,701**
Depreciation for the year	10,527	48,492	2,474	901	-	62,394
Disposals	(20)	(437)	(141)	(24)	-	(622)
Translation difference	-	1	2	4	-	7
At 31 December 2007	**22,530**	**97,632**	**4,641**	**1,677**	**-**	**126,480**
Depreciation for the year	19,842	91,345	3,581	1,695	-	116,463
Disposals and write-offs	(307)	(25,802)	(86)	(367)	-	(26,562)
Elimination of accumulated depreciation against carrying amount	(32,451)	(176,406)	(6,056)	(2,348)	(93)	(217,354)
Decrease as a result of revaluation (Note 24)	4,069	57,127	226	931	93	62,446
Translation difference	(3,244)	(11,731)	(497)	(462)	-	(15,934)
At 31 December 2008	**10,439**	**32,165**	**1,809**	**1,126**	**-**	**45,539**
Net book value						
At 31 December 2007	62,068	374,982	5,310	3,886	85,628	531,874
At 31 December 2008	**208,953**	**479,130**	**12,005**	**3,079**	**223,637**	**926,804**

(in US dollars and in thousands)

Buildings and structures, machinery and equipment, transport and motor vehicles, fixtures and office equipment of the Group were valued at 1 July 2008. The valuation was carried out by an independent appraiser.

All items of property, plant and equipment that were not re-valued are carried at historical cost which approximates to their fair value.

During the year 2007, the Group commenced construction of an electric arc furnace. As at 31 December 2008 and 2007, costs attributable to the project amounting to USD 174,381 thousand and USD 39,141 thousand, respectively, were included in the construction-in-progress and uninstalled equipment and comprised of site preparation costs and prepayment under the contract for equipment delivery (Note 35). Other costs included in construction-in-progress and uninstalled equipment represented primarily unfinished installation works and uninstalled equipment on existing production sites.

As at 31 December 2008 and 2007, property, plant and equipment amounting to USD 121,913 thousand and USD 205,755 thousand, respectively, were pledged as a security for bank loans. As at 31 December 2008 and 2007 prepayments for property plant and equipment in the amounts of USD 89,019 thousand and nil, respectively, were pledged as property rights under property, plant and equipment purchase agreements (Note 18).

For the years ended 31 December 2008 and 2007, borrowing costs were capitalised to property, plant and equipment amounting to USD 10,208 thousand and USD 1,144 thousand, respectively. The capitalisation rate for the years ended 31 December 2008 and 2007 comprised 5.26% and 8.9%, respectively.

For the year ended 31 December 2008 amount of USD 57,797 thousand and nil for the year ended 31 December 2007 qualified for hedge accounting in respect of forward foreign exchange contracts and were included in construction-in-progress and uninstalled equipment (Note 23).

As at 31 December 2008 and 2007, the cost of fully depreciated items of property, plant and equipment in use amounted to nil and USD 3,266 thousand, respectively.

If property, plant and equipment continued to be measured using cost model, the carrying amount would be as follows:

	Buildings and structures	*Machinery and equipment*	*Transport and motor vehicles*	*Fixtures and office equipment*	*Construction-in-progress and uninstalled equipment*	*Total*
31 December 2008	65,757	289,802	6,995	4,378	179,209	546,141

(in US dollars and in thousands)

8. **Intangible assets**

Movement in intangible assets and related accumulated amortisation for the years ended 31 December 2008 and 2007 was as follows:

	Goodwill	*Patents and trademark*	*Accounting software*	*Other software*	*Intangible assets under development*	*Total*
Cost						
At 1 January 2007	**-**	**48**	**669**	**796**	**247**	**1,760**
Additions	-	14	907	969	1,831	3,721
Disposals	-	(2)	(42)	(30)	-	(74)
Translation difference	-	-	-	-	-	-
At 31 December 2007	**-**	**60**	**1,534**	**1,735**	**2,078**	**5,407**
Acquisition of subsidiary (Note 5)	10,478	-	8	10	7	10,503
Additions	-	13	1,351	1,031	4,610	7,005
Disposals	-	(2)	-	(2)	-	(4)
Translation difference	-	(23)	(1,002)	(958)	(2,172)	(4,155)
At 31 December 2008	**10,478**	**48**	**1,891**	**1,816**	**4,523**	**18,756**
Accumulated amortisation						
At 1 January 2007	**-**	**8**	**171**	**228**	**-**	**407**
Amortisation for the year	-	15	195	161	-	371
Disposals	-	(1)	(16)	(3)	-	(20)
Translation difference	-	-	-	-	-	-
At 31 December 2007	**-**	**22**	**350**	**386**	**-**	**758**
Acquisition of subsidiary	-	-	8	9	-	17
Amortisation for the year	-	17	437	450	-	904
Disposals	-	(1)	-	(2)	-	(3)
Translation difference	-	(12)	(258)	(271)	-	(541)
At 31 December 2008	**-**	**26**	**537**	**572**	**-**	**1,135**
Net book value						
At 31 December 2007	-	38	1,184	1,349	2,078	4,649
At 31 December 2008	**10,478**	**22**	**1,354**	**1,244**	**4,523**	**17,621**

Accounting software and other 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. Amortisation of intangible assets is included in the general and administrative expenses in the consolidated statement of comprehensive income.

Intangible assets under development mainly consist of capitalised costs attributable to the implementation of management information system.

For the year ended 31 December 2008 there were no internally generated intangible assets included into additions of intangible assets under development, while for the year ended 31 December 2007 this amount constituted USD 909 thousand.

(in US dollars and in thousands)

Impairment tests for Goodwill

For the purpose of impairment testing goodwill acquired through business combination (Note 5) has been allocated to two individual cash-generating units (CGU), which are also reportable segments, as follows:

Cash Generating Unit	*31 December 2008*
Seamless pipes	5,433
Wheels	5,045
	10,478

The recoverable amount of both CGUs has been determined based on value in use using cash flow projections from the approved Group's strategy covering the period to 2013.

The calculation of value in use for both CGUs is particularly sensitive to the following assumptions:

- Gross margins;
- Raw materials price inflation;
- Discount rate;
- Growth rate.

Gross margins – management determined budgeted gross margin based on past performance and its expectations of market development.

Raw materials price inflation – estimates are obtained from published indices or Group's internal researches. Forecast figures are used if data is publicly available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

The pre-tax discount rates applied to cash flow projections are 21.1% and 21.7% as at 31 December 2008 for seamless pipes and wheels businesses, respectively. Discount rates reflect management's estimate of the specific risks relating to the relevant segments.

The growth rate used to extrapolate the cash flows of the both seamless pipes and wheels CGUs beyond five-year period is 3.0%. This growth rate does not exceed the average growth rate for the pipes and wheels industries.

With regard to assessment of value in use of the both CGUs, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the units to materially exceed its recoverable amount.

No impairment of goodwill was identified as result of tests performed.

(in US dollars and in thousands)

9. **Investments in associates**

The Group's investments in associates were as follows:

Entity	*Activity*	*% of the Group ownership*	*31 December 2008*	*31 December 2007*
CJSC "Teplogeneratzia"	Utility services	30%	886	1,556
CJSC "Nikopolsky Tooling Plant"	Tooling for machines	25%	834	924
CJSC "Nikopolsky Repairing Plant"	Repairs	25%	1,081	946
			2,801	**3,426**

CJSC "Teplogeneratzia", CJSC "Nikopolsky Tooling Plant" and CJSC "Nikopolsky Repairing Plant" were incorporated in Ukraine.

The Group's associates are private companies not listed on any public exchange. The following table illustrates summarised financial information of the Group's investments in associates:

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
At period beginning	3,426	2,627
Share of profit	756	864
Dividends received	-	(65)
Translation difference	(1,381)	-
At period end	**2,801**	**3,426**

Net assets of the Group's associates were structured as follows:

	CJSC "Teplo-generatzia"	*CJSC "Nikopolsky Tooling Plant"*	*CJSC "Nikopolsky Repairing Plant"*
At 31 December 2008			
Assets	1,038	1,347	1,193
Liabilities	(152)	(513)	(112)
Net assets – carrying amounts of investments	**886**	**834**	**1,081**

	CJSC "Teplo-generatzia"	*CJSC "Nikopolsky Tooling Plant"*	*CJSC "Nikopolsky Repairing Plant"*
At 31 December 2007			
Assets	1,796	1,748	1,651
Liabilities	(240)	(824)	(705)
Net assets – carrying amounts of investments	**1,556**	**924**	**946**

The following table illustrates the Group's share of revenues and profit or loss of associates:

	For the year ended 31 December 2008		*For the year ended 31 December 2007*	
	Revenue	*Profit / (loss) for the year*	*Revenue*	*Profit / (loss) for the year*
CJSC "Teplogeneratzia"	2,625	(201)	1,810	196
CJSC "Nikopolsky Tooling Plant"	4,128	292	3,626	246
CJSC "Nikopolsky Repairing Plant"	4,782	665	4,185	422

(in US dollars and in thousands)

10. **Income tax**

The components of income tax expense for the years ended 31 December 2008 and 2007 were as follows:

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Current income tax expense	(13,866)	(120,974)
Deferred income tax benefit	114,774	36,403
	100,908	**(84,571)**

Income tax benefit / (expense) for the years ended 31 December 2008 and 2007 originated in the following tax jurisdictions:

	Domestic tax rates applicable to individual group entities as at		*For the year ended*	*For the year ended*
	31 December 2008	*31 December 2007*	*31 December 2008*	*31 December 2007*
Ukraine	25%	25%	106,874	(79,564)
Russia*	24%	24%	(1,128)	(3,588)
Switzerland	12%	12%	(1,786)	(2,957)
The USA	34%	34%	(648)	2,130
Cyprus	10%	10%	-	(14)
Kazakhstan*	30%	30%	(2,404)	(578)
			100,908	**(84,571)**

**-* *Amended corporate income tax rates in Russia (20%) and Kazakhstan (20%) enacted for the fiscal years commenced on 1 January 2009.*

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

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Accounting (loss) / profit before tax	(459,419)	340,145
Tax benefit / (expenses) calculated at domestic rates applicable to individual Group entities	110,967	(81,896)
Tax effect of non-deductible expenses	(28,047)	(9,769)
Tax effect of non-taxable incomes	27,501	1,009
Revaluation of property, plant and equipment for tax purposes	10,068	3,716
Recognition of the tax asset due to change in tax ruling	-	3,871
Change in previously unrecognised deferred tax assets	(26,455)	(550)
Translation difference	10,264	-
Other differences	(3,390)	(952)
	100,908	**(84,571)**

Deferred tax expense resulting from change in income tax rates in Russia and Kazakhstan from 1 January 2009 amounted to USD 523 thousands and included in other differences for the year ended 31 December 2008.

The effect of the change in tax base of property, plant and equipment of entities located in Ukraine for tax purposes in the above table represents a one-off increase in future tax deductibility of property, plant and equipment due to the Ukrainian Consumer Price Index growth for 2008 and 2007 exceeding 10% per annum.

As at 31 December 2007 due to change in Ukrainian tax ruling the Group recognised deferred tax asset arising on defined benefit state pension plan (Note 19).

(in US dollars and in thousands)

Deferred tax assets and liabilities related to the following:

	31 December 2008	*Acquisition of subsidiaries*	*Change recognised in statement of comprehensive income*	*Change recognised in equity*	*Translation difference*	*31 December 2007*
Deferred tax liabilities:						
Revaluation and deemed cost adjustments of property, plant and equipment and difference in depreciation	(128,637)	(6,522)	37,738	(184,665)	73,437	(48,625)
Deductible prepayments to Group companies and suppliers	(12,922)	(207)	16,778	-	9,716	(39,209)
Deductible costs retained in inventories	(2,628)	(18)	(332)	-	1,879	(4,157)
Deferral of revenues and related costs	-	-	380	-	-	(380)
Other deferred tax liabilities	(67)	(137)	219	-	80	(229)
	(144,254)	**(6,884)**	**54,783**	**(184,665)**	**85,112**	**(92,600)**
Deferred tax assets:						
Tax losses carry forward	37,820	-	46,452	-	(9,492)	860
Write-down of inventories	23,957	85	25,862	-	(3,448)	1,458
Taxable advances from Group companies and customers	15,055	89	(22,482)	-	(12,157)	49,605
Accrued liabilities and provisions	11,179	293	1,061	-	(2,459)	12,284
Derivative financial instruments	8,382	-	10,165	-	(1,783)	-
Adjustment for unrealised profits in inventories	7,988	-	3,751	-	-	4,237
Loans and interest payable	7,603	-	9,225	-	(3,407)	1,785
Allowance for doubtful accounts	5,720	141	5,837	-	(1,371)	1,113
Deferral of revenues and related costs	4,727	-	6,369	-	(1,642)	-
Other deferred tax assets	506	48	206	-	(224)	476
	122,937	**656**	**86,446**	**-**	**(35,983)**	**71,818**
Unrecognized deferred tax assets	(27,005)	-	(26,455)	-	-	(550)
Deferred income tax benefit from origination and reversal of temporary differences			**114,774**			
Reflected in the consolidated statement of financial position as follows:						
Deferred tax assets	40,136					6,095
Deferred tax liabilities	(88,458)					(27,427)
Deferred tax liabilities, net	**(48,322)**					**(21,332)**

The Group has tax losses which arose in Ukraine of USD 36,095 thousand (2007: USD 310 thousand), USD 1,725 thousand in Cyprus (2007: USD 550 thousand). Tax losses are available for offset against future taxable profits of the companies in which the losses arose for 20 years in USA and indefinitely in all other jurisdiction.

As at 31 December 2008 and 2007 deferred tax assets were not recognised in respect of Tax losses carry forward and Inventory write-downs in USA, Tax losses carry forward and Financial instruments at fair value through profit and loss in Cyprus, as there are doubts about recoverability of this assets.

(in US dollars and in thousands)

	31 December 2007	*Change recognised in comprehensive income*	*Translation difference*	*1 January 2007*
Deferred tax liabilities:				
Deemed cost adjustment of property, plant and equipment and difference in depreciation	(48,625)	18,304	-	(66,929)
Deductible prepayments to Group companies and suppliers	(39,209)	(23,027)	-	(16,182)
Deductible costs retained in inventories	(4,157)	(211)	-	(3,946)
Deferral of revenues and related costs	(380)	(369)	(11)	-
Other deferred tax liabilities	(229)	47	-	(276)
	(92,600)	**(5,256)**	**(11)**	**(87,333)**
Deferred tax assets:				
Taxable advances from Group companies and customers	49,605	28,372	-	21,233
Accrued liabilities and provisions	12,284	9,522	9	2,753
Adjustment for unrealised profits in inventories	4,237	286	17	3,934
Loans and interest payable	1,785	1,785	-	-
Write-down of inventories	1,458	1,399	3	56
Allowance for doubtful accounts	1,113	97	(40)	1,056
Deferral of revenues and related costs	-	(587)	-	587
Other deferred tax assets	476	475	1	-
Tax losses carry forward	860	860	-	-
	71,818	**42,209**	**(10)**	**29,619**
Unrecognized deferred tax assets	(550)	(550)	-	-
Deferred income tax benefit from origination and reversal of temporary differences		**36,403**		
Reflected in the consolidated statement of financial position as follows:				
Deferred tax assets	6,095			2,932
Deferred tax liabilities	(27,427)			(60,646)
Deferred tax liabilities, net	**(21,332)**			**(57,714)**

As at 31 December 2007 deferred tax asset was not recognised in respect of Tax losses carry forward in Cyprus, as there are doubts about recoverability of this asset.

As at 31 December 2008 and 2007, the Company has not recognised deferred tax liability in respect of temporary differences amounting to USD 20,689 thousand and USD 57,698 thousand, respectively, 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.

(in US dollars and in thousands)

11. Current and non-current income tax asset

Income tax asset consisted of prepayments made to the tax authorities in Ukraine. In accordance with Ukrainian tax legislation income tax should be accrued and paid on a quarterly basis during current tax year. Tax losses suffered by the Ukrainian subsidiaries in the 4th quarter of 2008 exceeded taxable profits accrued and paid during the first nine months of the year, and resulted in the recognition of prepaid income tax as at 31 December 2008. The income tax asset was allocated between current and non-current components based on the management's best estimate of taxable profits generation by the Ukrainian subsidiaries and resulting expected tax asset recovery (since direct reimbursement of such income tax asset for the Ukrainian Budget is not available under Ukrainian tax legislation).

12. Inventories

Inventories carried at lower of cost and net realisable value consisted of the following:

	31 December 2008	*31 December 2007*
Raw materials	63,387	104,852
Work in process	29,137	33,707
Finished goods	189,780	96,994
	282,304	**235,553**

As at 31 December 2008 and 2007, the value of writen down inventories to net realisable value amounted to USD 90,393 and USD 6,725 thousand, respectively.

No inventories were pledged as at 31 December 2008 and 2007.

13. Trade and other accounts receivable

Trade and other accounts receivable consisted of the following:

	31 December 2008	*31 December 2007*
Trade accounts receivable	200,368	232,924
Less allowance for impairment	(30,071)	(8,193)
	170,297	224,731
Other receivables net of allowance for impairment	885	2,781
	171,182	**227,512**

Movements in the allowance for trade accounts receivable impairment were as follows:

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
At period beginning	8,193	9,484
Charge / (Release) for the year (Note 25)	24,675	(1,291)
Utilisation	(90)	-
Translation difference	(2,707)	-
At period end	**30,071**	**8,193**

Allowance for impairment of other receivables as at 31 December 2008 and 2007 amounted to USD 370 thousand and USD 350 thousand, respectively.

As at 31 December 2008 and 2007, the allowance for trade accounts receivable impairment comprised amounts of USD 5,385 thousand and USD 894 thousand, respectively, that were individually determined in respect of debtors with significant financial difficulties or with estimated high probability of their insolvency.

(in US dollars and in thousands)

The analysis of trade and other accounts receivable is as follows:

		Neither past due nor	*Past due, net of allowance for impairment*			
	Total	*impaired*	*< 30 days*	*30 – 60 days*	*60 – 90 days*	*>90 days*
31 December 2008	**171,182**	59,314	39,646	20,408	20,682	31,132
31 December 2007	**227,512**	131,366	60,725	18,396	6,702	10,323

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

As at 31 December 2008 and 2007, trade accounts receivable and contracted amounts of future proceeds under sales agreements to ultimate customers amounting to USD 17,098 thousand and USD 50,176 thousand, respectively, were pledged as a security for bank loans obtained by the Group (Note 18).

As at 31 December 2008 and 2007, 63% and 53% of trade accounts receivable, respectively, was due from twenty major customers.

14. **Prepayments and other current assets**

As at 31 December 2008 and 2007 prepayments and other current assets consisted of the following:

	31 December 2008	*31 December 2007*
Prepayments to suppliers	5,644	14,141
Prepaid insurance expense	1,220	232
Other current assets	44	179
Prepayment to settle the liability attributable to non-controlling participants of “Interpipe Niko Tube” LLC (Note 32)	-	47,000
	6,908	**61,552**

15. **Taxes recoverable, other than income tax**

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

	31 December 2008	*31 December 2007*
Value-added tax (“VAT”) recoverable	54,895	70,685
Other taxes recoverable	5	30
	54,900	**70,715**

VAT recoverable primarily originated in Ukraine (Note 4).

(in US dollars and in thousands)

16. Other financial assets

As at 31 December 2008 and 2007 other financial assets consisted of the following:

	31 December 2008	*31 December 2007*
Restricted bank deposit pledged as collateral for loans	24,000	-
Available reimbursement related to litigations (Notes 19)	3,981	1,591
Guarantee deposits	2,831	4,378
Other financial assets	5	-
	30,817	**5,969**

As at 31 December 2008 and 2007, the guarantee deposits represented restricted bank deposits relating to letters of credit issued by banks in favour of the Group's suppliers and bank guarantees issued by banks in favour of the Group's customers.

As at 31 December 2008 and 2007 restricted bank deposits and guarantee deposits with carrying value of USD 24,000 thousand and nil respectively were pledged as a security for bank loans (Note 18).

17. Cash and bank deposits

As at 31 December 2008 and 2007 cash and bank deposits consisted of the following:

	31 December 2008	*31 December 2007*
Current accounts and deposits on demand at banks	101,045	35,980
Time deposits at banks	4	30,963
Cash in hand	12	35
	101,061	**66,978**

As at 31 December 2008 and 2007, deposits on demand at banks earned interest at rates of up to 8%, and 3% per annum, respectively. Time deposits at banks that were placed for periods of up to three months earned interest at rates of up to 11% and 9% per annum, respectively, for the years ended 31 December 2008 and 2007.

As at 31 December 2008 and 2007 cash and bank deposits with carrying value of USD 7,825 thousand and USD 880 thousand were pledged as a security for bank loans (Note 18).

18. Borrowings

Interest bearing long and short-term borrowings net of unamortised borrowing origination costs consisted of the following:

	31 December 2008	*31 December 2007*
Current borrowings		
Interest bearing loans due to banks	746,763	174,841
Bonds issued	197,405	-
Borrowings from non-financial institutions	-	3,546
Add: Current portion of non-current borrowings	-	36,998
	944,168	**215,385**
Non-current borrowings		
Interest bearing loans due to banks	-	205,193
Bonds issued	-	195,976
Less: Current portion of non-current borrowings	-	(36,998)
	-	**364,171**
Total borrowings	**944,168**	**579,556**

As at 31 December 2008 and 2007, the Group's interest bearing loans due to banks were represented by loan arrangements, revolving credit facilities and financing under letters of credit.

In August 2007, Interpipe Limited issued USD 200 million bonds, maturing in August 2010. The bonds are US Dollar denominated and bear interest of 8.75%, per annum, payable semi-annually in arrears. The bonds are listed on the Luxemburg Stock Exchange.

(in US dollars and in thousands)

The bonds are jointly and severally guaranteed by JSC "Interpipe Niznedneprovsky Tube Rolling Plant", Interpipe Niko Tube and Interpipe Ukraine. As at 31 December 2008 and 2007 the effective interest rate on the bonds was 9.88% per annum.

As at 31 December 2008 and 2007 the amount of undrawn credit facilities comprised USD 7,552 thousand and USD 210,483 thousand, respectively.

As at 31 December 2008 and 2007, effective interest rate and currency split for borrowings were as follows:

	Ranges of effective interest rates	*31 December 2008*	*31 December 2007*
USD			
Floating rate	LIBOR (1month - 1year) + 2.25% - 7.00%	582,547	359,557
Floating rate	Cost of funding * + 2.50% - 7.00%	1,597	-
Fixed rate	7.77% - 9.88%	278,184	195,976
Other		14	3,310
		862,342	558,843
EUR			
Floating rate	EURIBOR (1month - 1year) + 3.12% - 7.00%	6,689	15,562
Floating rate	LIBOR (1month - 1year) + 3.00% - 7.00%	4,494	-
Floating rate	Cost of funding * + 4.50%	61,467	-
Floating rate	Cost of funding * + 2.50%	9,036	-
Floating rate	6.50% - 8.30%	-	2,317
Fixed rate	4.80% - 11.50%	-	578
Other		125	-
		81,811	18,457
RUB			
Floating rate	MOSPRIME O/N + 3.50%	-	1,082
Fixed rate	20.00%	-	231
Other		-	236
		-	1,549
UAH			
Fixed rate	12.00% - 21.00%	-	707
AED			
Fixed rate	4.49%	15	-
Total borrowings		**944,168**	**579,556**

** Cost of funding means an actual interest rate at which the Bank attracts funds for respective tranche for Group in USD or EUR. This interest rate is based on, but may differ from, the London Interbank Offered Rate. For 2008 difference between LIBOR and cost of funding varied between (0.01%) - 1.39%.*

Covenants

Bank borrowings and bonds issued are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, mergers or acquisitions, liens and dispositions of assets, transactions with affiliates, payment of dividends and some other distributions, guarantees and sureties issued to other parties as well as restrictions in respect of certain finance ratios relating, but not limited to, debt service, profitability and performance measures. Breach of certain covenants may cause part or full amount of the respective facility becoming due and payable as at the moment of breach.

As at 31 December 2008 the Group was in breach of certain financial and non-financial covenants provided by loan agreements and bonds issue undertakings. The non-compliance with the covenants provides the lenders with rights to demand accelerated or full immediate repayment of the borrowings.

As at 31 December 2008 USD 564,417 thousand of borrowings originally maturing in more than 12 months from the reporting date were reclassified into current loans as a result of the above non-compliance, as it is required by IAS 1.74.

(in US dollars and in thousands)

Pledges

A summary of the pledges to secure bank loans is set out below:

	31 December 2008	*31 December 2007*
Assignments of export contract receivables from Group companies	452,700	30,577
All rights/title/interest under property, plant and equipment purchase agreements	274,050	53,663
Carrying values of property, plant and equipment (Note 7)	121,913	205,755
Prepayment for property, plant and equipment (Note 7)	89,019	-
Other financial assets (Note 16)	24,000	-
Carrying values of trade accounts receivable and contract amounts of future proceeds under sales agreements to ultimate customers (Note 13)	17,098	50,176
Cash and bank deposits (Note 17)	7,825	880

Participatory interest pledged as at 31 December 2008 is represented by 100% of charter capital of LLC "Metallurgical Plant Dneprosteel". Pledge was issued to secure Group's obligation under loan facility agreement drawn for the purpose of financing of the electric arc furnace construction. As at 31 December 2008 LLC "Metallurgical Plant Dneprosteel" had negative net assets of USD 25,995 thousand.

19. **Provisions**

As at 31 December 2008 and 2007, the provisions included the following:

	31 December 2008	*31 December 2007*
Provision for customers' and other claims	9,636	8,966
Defined benefit state pension plan	15,837	13,924
Retirement benefit plan	1,174	1,548
	26,647	**24,438**
Provision – current portion	(12,518)	(11,796)
Provision – non-current portion	**14,129**	**12,642**

Non-current portion of provisions related to defined benefit state pension plan and retirement benefit plan.

For the years ended 31 December 2008 and 2007, movements in the provisions were as follows:

	Provision for customers' and other claims	*Defined benefit state pension plan*	*Retirement benefit plan*	*Total provisions*
At 1 January 2007	3,170	9,510	1,451	14,131
Charge for the year	11,994	6,545	333	18,872
Payments and utilisation	(4,728)	(2,131)	(236)	(7,095)
Reversal	(1,470)	-	-	(1,470)
At 31 December 2007	**8,966**	**13,924**	**1,548**	**24,438**
Charge for the year	3,449	13,535	835	17,819
Payments and utilisation	(403)	(3,716)	(600)	(4,719)
Reversal	(2,273)	-	-	(2,273)
Liabilities acquired in business combination	-	217	5	222
Translation difference	(103)	(8,123)	(614)	(8,840)
At 31 December 2008	**9,636**	**15,837**	**1,174**	**26,647**

For the years ended 31 December 2008 and 2007, interest cost, credited to provision account, amounting to USD 3,530 thousand and USD 2,740 thousand, respectively, was recorded in the finance costs in the statement of comprehensive income (Note 30).

Provision for customers' and other claims

Provision for customers' and other claims represents provision for probable losses relating to customers' quality claims and other litigations filed against the Group in the courts. Charge in Provision for customers` and other claims for the year ended

(in US dollars and in thousands)

31 December 2008 consists of USD 1,176 thousand (2007: USD 10,524 thousand), recorded to Customers` and other claims (charges), net of reversals (Note 27).

As at 31 December 2008 and 2007, virtually certain insurance coverage and other reimbursements against probable losses amounting to USD 3,981 thousand and USD 1,591 thousand, respectively, was recognised as an asset and included in other financial assets (Note 16). For the years ended 31 December 2008 and 2007, increase in virtually certain insurance coverage of USD 2,146 thousand and USD 91 thousand, respectively, was credited to Customers' and other claims (charges), net of reversals, in other operating income and expenses (Note 27). Refer to Note 35 for further details on the provision relating to litigations.

Defined benefit state pension plan

Production subsidiaries of the Group domiciled in Ukraine have a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the former and existing 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.

The following tables summarise the components of benefit expense recognised in the consolidated income statement and amounts recognised in the consolidated balance sheet for the plan. Benefit expense, with the exception of interest cost, is included in payroll and related expenses within cost of sales. Interest cost is included in finance cost.

Benefit expense

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Current service cost	3,462	2,758
Interest cost (Note 30)	3,301	2,539
Past service cost	5,313	554
Actuarial losses	1,459	694
	13,535	**6,545**

Changes in the present value of the defined benefit state pension plan

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Present value at the beginning of the year	35,798	26,459
Current service cost	3,462	2,758
Interest cost (Note 30)	3,301	2,539
Payment	(3,716)	(2,131)
Actuarial losses	(9,366)	6,173
Past service cost	9,691	-
Defined benefit liability arisen in business combinations (Note 5)	217	-
Translation difference	(13,504)	-
Present value at the end of the year	**25,883**	**35,798**

Pension benefit liability

	31 December 2008	*31 December 2007*
Present value of unfunded obligation	25,883	35,798
Unrecognised past service cost	(6,141)	(4,807)
Unrecognised actuarial losses	(3,905)	(17,067)
	15,837	**13,924**
Benefit liability – current	(2,628)	(2,573)
Benefit liability – non-current	**13,209**	**11,351**

Experience adjustments

	31 December 2008	*31 December 2007*
Present value of unfunded obligation	25,883	35,798
Experience adjustments on plan liabilities	(6,265)	(4,050)

(in US dollars and in thousands)

Past service cost resulted from the changes in Ukrainian pension legislation occurred in 2008 providing for retrospective increase in the benchmark pension and decrease in the term of service in health hazardous environment required for eligibility for state pension plan.

Retirement benefit plan

Some production subsidiaries of the Group 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. 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, with the exception to interest cost, is included in payroll and related expenses within cost of sales and general and administrative expenses. Interest cost is included in the finance costs.

Benefit expense

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Current service cost	105	82
Interest cost (Note 30)	229	201
Vested past service cost	281	-
Actuarial losses	220	50
	835	**333**

Changes in the present value of retirement benefit plan

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Present value at the beginning of the year	2,655	2,135
Current service cost	105	82
Interest cost (Note 30)	229	201
Payment	(600)	(236)
Vested past service cost	447	-
Actuarial losses	(1,353)	473
Retirement benefit liability arisen in business combinations (Note 5)	5	-
Translation difference	(533)	-
Present value at the end of the year	**955**	**2,655**

Post-employment defined benefit liability

	31 December 2008	*31 December 2007*
Post-employment defined benefit liability	955	2,655
Unrecognised net actuarial losses	219	(1,107)
	1,174	**1,548**
Benefit liability – current	(254)	(257)
Benefit liability – non-current	**920**	**1,291**

Experience adjustments

	31 December 2008	*31 December 2007*
Post-employment defined benefit liability	955	2,655
Experience adjustments on plan liabilities	796	(39)

Principal assumptions applicable to all plans

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

	31 December 2008	*31 December 2007*

Annual discount rate	17.0%	10.0%
Annual salary increase rate	9.0%	9.0%
Annual pension increase rate	8.5%	8.5%

20. **Trade and other accounts payable**

Trade and other accounts payable consisted of the following:

	31 December 2008	*31 December 2007*
Payables to suppliers	144,809	44,866
Promissory notes payable	12,991	213
Interest payable	10,265	9,238
Dividends payable to non-controlling interests	2,891	1,843
Other accounts payable	5,824	2,927
	176,780	**59,087**

Trade accounts payable are non-interest bearing and are generally settled within a three-month term.

21. **Taxes payable, other than income tax**

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

	31 December 2008	*31 December 2007*
Property tax payable	3,518	-
Accrued and withheld taxes on payroll	2,217	3,184
VAT payable	49	171
Miscellaneous other taxes payable	928	201
	6,712	**3,556**

22. **Advances and other current liabilities**

Advances and other current liabilities consisted of the following:

	31 December 2008	*31 December 2007*
Advances from customers	9,806	40,715
Accrued employee benefits	8,286	12,046
Other	630	556
	18,722	**53,317**

(in US dollars and in thousands)

23. **Derivative financial instruments**

Derivative financial instruments consisted of the following:

	31 December 2008	*31 December 2007*
USD-EUR Forward foreign exchange contracts	22,342	-
USD-UAH Forward foreign exchange contracts	24,591	-
	46,933	**-**

Liability under Forward foreign exchange contracts was classified as non-current if the remaining maturity was more than 12 months and as current, if remaining maturity was less than 12 months.

	31 December 2008	*31 December 2007*
Derivative financial instruments – non-current portion	1,387	-
Derivative financial instruments – current portion	45,546	-
	46,933	**-**

In April 2008 the Group entered into USD-EUR forward foreign exchange contracts, designated as hedging instrument, with notional amount of EUR 200,000 thousand to hedge the exposure to foreign currency risks on firm capital commitments under electric arc furnace construction and equipment delivery contracts denominated in EUR, designated as hedged item. The unrecognised firm commitment and forward contracts have similar principal terms. Payments under both contracts are aligned and scheduled from October 2008 to January 2010. Hedge was assessed as effective at the inception and classified as fair value hedge.

In early November 2008 due to liquidity shortfall, the Group suspended payments under delivery contracts designated as hedged item. As a result, prospective effectiveness of the hedge could not be reliably measured, and fair value hedge accounting was discontinued. As at the date of fair value hedge accounting discontinuation, fair value of hedged item was assessed, and included as a basis adjustment in Construction-in-progress and Uninstalled equipment balance in the amount of USD 57,797 thousand. The change in fair value of hedging instrument was prospectively accounted for as fair value through profit and loss.

In 2008 USD 19,402 thousand of commissions were paid in respect of forward contracts which fell due in 2008. The change in fair value of the forward foreign exchange contracts resulted in finance income of USD 16,053 thousand in 2008 (Note 29).

In September 2008 the Group entered into USD-UAH forward foreign exchange contracts with notional amount of USD 54,800 thousand to hedge the exposure to foreign currency risks on sales proceeds denominated in USD. Payments under these contracts were scheduled from May 2009 to October 2009. Contracts are not assessed as effective hedge and therefore were accounted for as financial liability through profit and loss. The change in fair value of the USD-UAH forward foreign exchange contracts resulted in finance loss of USD 24,591 thousand in 2008 (2007: Nil) (Note 30).

The notional principal amount of the forward foreign exchange contracts outstanding as at 31 December 2008 is USD 257,743 thousand.

The fair value of derivative financial instruments as at 31 December 2008 has been calculated by using a valuation technique based on the discounting of the expected future cash flows at USD LIBOR with maturity which approximates the maturity of appropriate forward contract.

The Group did not hold any derivative financial instruments as at 31 December 2007.

(in US dollars and in thousands)

24. Cost of sales

Cost of sales consisted of the following:

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Materials	(1,111,711)	(886,680)
Energy and utilities	(115,564)	(110,878)
Payroll and related expenses	(106,852)	(73,283)
Depreciation	(102,463)	(59,951)
Write down of inventories to net realisable value	(94,322)	(450)
Decrease in property, plant and equipment value as a result of revaluation (Note 7)	(62,446)	-
Rolling tools and instruments	(44,573)	(44,741)
Repairs and maintenance	(34,835)	(36,551)
Other	(64,220)	(30,262)
	(1,736,986)	**(1,242,796)**

25. Selling and distribution expenses

Selling and distribution expenses consisted of the following:

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Forwarding and transportation services	(95,509)	(67,045)
(Charge) / Release of accounts receivable allowance (Note 13)	(24,675)	1,291
Storage and packaging expenses	(18,965)	(13,491)
Payroll and related expenses	(5,889)	(4,499)
Customs services	(3,128)	(4,968)
Advertising and promotion	(2,078)	(1,059)
Sales agency fees	(1,335)	(3,908)
Professional fees	(943)	(356)
Depreciation	(322)	(32)
Insurance expense	(716)	(1,688)
Other	(2,379)	(733)
	(155,939)	**(96,488)**

26. General and administrative expenses

General and administrative expenses consisted of the following:

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Payroll and related expenses	(32,618)	(27,098)
Professional fees	(11,837)	(17,742)
Business trips and transportation	(7,238)	(4,765)
Depreciation and amortisation	(3,158)	(1,453)
Rent	(3,120)	(1,541)
Bank fees	(2,454)	(2,860)
Taxes, other than income tax	(2,388)	(2,356)
Communication	(1,462)	(1,201)
Insurance expense	(1,130)	(132)
Repairs and maintenance	(900)	(598)
Other	(4,158)	(3,844)
	(70,463)	**(63,590)**

(in US dollars and in thousands)

Auditors' remuneration

Auditors' remuneration fee for the year ended 31 December 2008 includes statutory audit fee of USD 1,000 thousand and non-audit fees of USD 765 thousand.

27. Other operating income and expenses

Other operating income and expenses consisted of the following:

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Gain on disposal of by-products	856	1,582
Impairment of prepayments and other accounts receivable allowance	(759)	(45)
Customers' and other claims (charges), net of reversals (Notes 19)	970	(10,433)
Maintenance of social assets	(3,866)	(3,654)
(Loss) / Gain on disposal of property, plant and equipment and intangible assets	(4,238)	1,410
Gain on disposal of non-current assets held for sale	-	1,390
Sales agreement violation claim settlement charge	-	(9,896)
Other gains / (losses)	666	(5,645)
	(6,371)	**(25,291)**

On 13 July 2005, NTRP and "Klw-Wheelco" LLC ("KLW") commenced an arbitration proceeding against a group of companies representing one customer in connection with a dispute related to termination date of their railway wheels sales agreement. The NTRP and KLW notice of arbitration was filed with the International Centre for Dispute Resolution of the American Arbitration Association (the "ICDR"). The customer thereafter asserted a counter-claim in the ICDR against NTRP and KLW requesting compensation for alleged damages as a result of the failure by NTRP and KLW to deliver a certain shipment of railway wheels. On 31 July 2007, the ICDR issued its final award and ordered NTRP and KLW to pay the reimbursement to the customer. During October 2007, NTRP and KLW finalised the settlement with the customer in the amount of USD 9,896 thousand. The Group recognised the settlement amount in other operating expenses and has included it in the railway wheels reporting segment.

28. Operating and non-operating foreign exchange difference

Foreign currency translation differences (FOREX) on monetary assets and liabilities consisted of the following;

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Operating FOREX gains / (losses) originated on		
trade accounts receivable	132,932	7,277
trade accounts payable	(29,949)	(218)
other operating exchange difference	(5,572)	-
	97,411	**7,059**
Non-operating FOREX (losses) / gains originated on		
loans payable	(400,246)	(255)
cash balances	(20,072)	12
intercompany dividends declared	(1,967)	-
	(422,285)	**(243)**

29. Finance income

Finance income consisted of the following:

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Change in fair value of financial instruments at fair value through profit and loss (Note 23)	16,053	-
Interest income	1,492	2,827
Other	124	376
	17,669	**3,203**

(in US dollars and in thousands)

30. **Finance costs**

Finance costs consisted of the following:

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Interest expense relating to bank loans and bonds issued	(94,642)	(30,940)
Change in fair value of financial instruments at fair value through profit and loss (Note 23)	(24,591)	-
Defined benefit state pension plan interest cost (Note 19)	(3,301)	(2,539)
Retirement benefit plan interest cost (Note 19)	(229)	(201)
Other	(4,138)	(935)
	(126,901)	**(34,615)**

31. **Equity**

Issued capital and capital distribution

The Group was formed in April – September 2006 through a series of transactions that ultimately resulted in the Company obtaining controlling ownership interest in the subsidiaries from entities which were under common control at the time of reorganisation. As part of the reorganisation all the shares of the Company have been transferred to and, since 2006 are ultimately held by a number of discretionary trusts established to operate the Group as well as certain other investments. Mr. Viktor Pinchuk, a citizen of Ukraine, and his family members are beneficiaries of such discretionary trusts. The trustees engaged to manage the trusts are professional, experienced and reputable trust management companies.

In January 2008, authorised capital of the company of 5,000 ordinary shares of 1.00 Cyprus pound per share was converted to EUR at the rate of EUR 1.71 per share. In March 2008 the authorised capital of EUR 8,550 comprising of 5,000 shares where then subdivided into 85,500,000 shares of EUR 0.0001 per share. Additional 414,500,000 ordinary shares were issued of EUR 0.0001 per share. In the result of the transaction the number of shares was increased to 500,000,000 and the authorised capital increased to EUR 50 thousand.

In May 2008, 500,000,000 ordinary shares of the Company of EUR 0.0001 per share were merged to 5,000,000 shares of EUR 0.01 per share. In June 2008 additional 3,995,000,000 ordinary shares were issued of EUR 0.01 per share. As a result of the transaction, the number of shares equalled 4,000,000,000 ordinary shares and the authorised capital amounted to EUR 40,000 thousand (equivalent of USD 62,278 thousand). All shares issued were fully paid. The shares of the Company are not listed.

At 31 December 2008 and 2007 all authorised shares were issued and fully paid.

The shares of the Company are not listed.

Revaluation reserve

Revaluation reserve is used to record increases in the fair value of property, plant and equipment as well as decreases to the extent that such decreases relate to any prior increase on the same asset previously recognised in equity. Revaluation reserve is limited in respect of dividends distribution.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries denominated in their respective functional currencies into Group reporting currency.

Dividends payable by subsidiaries of the Group

The portion of dividends declared by subsidiaries of the Group that were paid to the non-controlling shareholders were recorded as a reduction in non-controlling interests of USD 11,740 thousand for the year ended 31 December 2007. There were no dividends declared by subsidiaries of the Group that should be paid to the non-controlling shareholders for the year ended 31 December 2008.

Dividends payable by the Company

During the year ended 31 December 2007, the Company declared and paid to the shareholders dividends attributable to profits accumulated as at 31 December 2006 together with interim dividends for 2007 amounting to USD 421,000 thousand. There were no dividends declared by the Company that should be paid to the shareholders for the year ended 31 December 2008.

32. **Acquisition of non-controlling interest and liability to non-controlling participants in subsidiaries**

NTRP

During the year ended 31 December 2007, the Company acquired additional 4.81% non-controlling interest in JSC "Interpipe Niznedneprovsky Tube Rolling Plant" ("NTRP") (including 100% subsidiary of NTRP - "Limestone factory" LLC). The excess of the consideration paid over the carrying value of the non-controlling interests, which amounted to USD 534 thousand for the year ended 31 December 2007 was charged to accumulated (deficits) / profits. In October 2007, a prepayment of USD 1,787 thousands was made for 0.08% of non-controlling interest in NTRP. The transaction was completed in May 2008.

In May 2008, two other acquisitions of non-controlling interest in NTRP took place 0.81% and 0.04%, respectively. The combined consideration paid for these two acquisitions amounted to USD 18,613 thousand. In July 2008, NTRP made a rights issue. After the rights issue the Group's share in NTRP increased by 1.13% and amounted to 93.90%.

NMPP

In August 2008, JSC "Interpipe Novomoskovsk Pipe Production Plant" ("NMPP") (including 100% subsidiary of NMPP - Society "Dishware Novomoskovsk" Ltd) made a rights issue. After the rights issue the Group's share in NMPP increased by 1.17% and comprised 87.64%.

DVM

In October 2008, OJSC "Dneprovtormet" ("DVM") (including 100% subsidiary of DVM - "Luganskiy Kombinat Vtormet" LLC) made a rights issue. After the rights issue the Group's share in DVM increased by 2.72% and equalled 98.67%.

Merger of subsidiaries and settlement of liability attributable to non-controlling participants

On 24 December 2007, all assets and liabilities of CJSC "Interpipe Nikopolsky Seamless Tubes Plant "Niko Tube" ("NSTP") and JSC "Interpipe Nikopol Tube Company" ("NTC") were transferred to a newly created limited liability company "Interpipe Niko Tube" LLC ("Interpipe Niko Tube"). Starting from this date operating activity of NSTP and NTC was terminated and the process of liquidation of the legal entities was commenced. Interpipe Niko Tube assumed all obligations and contractual commitments of NSTP and NTC without exception. As a result of the merge the Company's shares in NSTP and NTC comprising 75.00% and 60.02%, respectively, were converted into 72.58% share of net assets in Interpipe Niko Tube.

According to Ukrainian laws, equity participants in a limited liability company may unilaterally withdraw from the company and have a right to request redemption of their interests by the company. Accordingly, the present value of the amount payable at exercise to non-controlling participants in Interpipe Niko Tube have been transferred from equity to liability attributable to non-controlling participants in the amount of USD 47,000 thousand; the excess of the liability over the non-controlling participants' share in the net assets was charged to accumulated profits in the amount of USD 2,296 thousand.

In December 2007, Interpipe Limited signed an agreement and made a prepayment of total consideration under the agreement amounting to USD 47,000 thousand (Note 14) to settle the liability attributable to non-controlling participants in Interpipe Niko Tube. In June 2008, after respective amendments to the statutory documents of Interpipe Niko Tube which were registered according to the Ukrainian legislation, the transaction relating to the acquisition of non-controlling interest in Interpipe Niko Tube was completed and the Group ownership interest in Interpipe Niko Tube comprised 99.93%. As a result of the transaction both, the prepayment for total consideration under the purchase agreement (Note 14) and the liability, attributable to non-controlling participants in Interpipe Niko Tube, amounting to USD 47,000 thousand, as of 31 December 2007, were settled.

(in US dollars and in thousands)

33. **Principal subsidiaries**

The Group included the following subsidiaries as at 31 December 2008 and 2007:

			Effective ownership	
Name of the company	*Country of incorporation*	*Business activities*	*31 December 2008*	*31 December 2007*
JSC "Interpipe Niznedneprovsky Tube Rolling Plant"	Ukraine	Production of seamless and welded pipes and railway wheels	93.90%	91.84%
JSC "Interpipe Novomoskovsk Pipe-Production Plant"	Ukraine	Production of welded pipes	87.64%	86.47%
"Interpipe Niko Tube" LLC	Ukraine	Production of seamless pipes	99.93%	72.58%
"Metallurgical Plant Dneprosteel" LLC	Ukraine	Construction of electric arc furnace	100.00%	100.00%
"Transkom - Dnepr" LLC	Ukraine	Transportation services	100.00%	100.00%
"Limestone factory" LLC	Ukraine	Production of limestone	93.90%	91.84%
Society "Dishware Novomoskovsk" Ltd	Ukraine	Production of dishware	87.64%	86.47%
OJSC "Dnepropetrovsk Vtormet"	Ukraine	Scrap metal processing	98.67%	-
"Luganskiy Kombinat Vtormet" LLC	Ukraine	Scrap metal processing	98.67%	-
"Research and development center "Quality" LLC	Ukraine	Research and development	100.00%	-
"Interpipe Ukraine" LLC	Ukraine	Trading	100.00%	100.00%
"Interpipe Management" LLC	Ukraine	Management 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	Switzerland	Trading	100.00%	100.00%
"Klw-Wheelco" LLC	Switzerland	Trading	100.00%	100.00%
"North American Interpipe, Inc" LLC	United States	Trading	100.00%	100.00%
"Interpipe Middle East" FZE with limited liability	United Arab Emirates	Trading	100.00%	100.00%
Steel.One Limited	Cyprus	Subholding	100.00%	100.00%
Saleks Investments Limited	Cyprus	Subholding	100.00%	100.00%

OJSC "Dnepropetrovsk Vtormet" and its subsidiary "Luganskiy Kombinat Vtormet" LLC were acquired during the year ended 31 December 2008 (Note 5).

"Research and development center "Quality" LLC was acquired during the year ended 31 December 2008. Consideration paid by the Company approximated the fair value of net assets acquired and amounted to USD 125 thousand.

"Interpipe Middle East" FZE with limited liability, "Transkom - Dnepr" LLC and Saleks Investments Limited were founded by the Group companies during the year ended 31 December 2007.

(in US dollars and in thousands)

34. **Related party transactions**

The Group defines related parties in accordance with IAS 24 "Related Party Disclosures". IAS 24 focuses significantly on the concept of "control" (including common control) and "significant influence" as primary methods to identify related parties.

In 2008 and 2007, the Group's transactions with its related parties comprise those with its associates (Note 9) and key management personnel.

Transactions with associates

The transactions of the Group with its associates are presented below:

	For the year ended 31 December 2008	*For the year ended 31 December 2007*
Sales of the products and other commodities	3,416	7,748
Purchases of inventories, utilities and other services	20,258	15,144
Guarantee issued for associates (Note 35)	4,000	1,500

Outstanding balances of the Group with its associates were as follows:

	31 December 2008	*31 December 2007*
Amounts owed to the Group	970	2,645
Amounts owed by the Group	3,072	2,134

The significant part of the associates' transactions is with the Group production entities.

For the year ended 31 December 2008 and 2007, the Group has not recorded any impairment of receivables relating to the outstanding amounts presented in the table above.

Accounts payable to shareholders

Accounts payable to shareholders included in other accounts payable in amount of USD 292 thousand (2007: USD 298 thousand) are interest free and payable on demand.

Compensation to key management personnel

Key management personnel of the Group as at 31 December 2008 comprised:

- The members of the Board of Directors and some of their important professional assignments include:

Name	**Function**
Gennady Gazin	Chairman of the Board of Directors of Interpipe Limited, Chief Executive Officer of EastOne Group
Olexandr Kirichko	Chief Executive Officer of Interpipe Limited
Andriy Dudnyk	Non-Executive Director, Chief Financial Officer of EastOne Group
Artem Sirazutdinov	Non-Executive Director, Chief Investment Officer of EastOne Group
Jean Pierre Saltiel	Independent Non-Executive Director, Co-Chairman of Ukrainian Economic Advisory Council of Yalta European Strategy
Richard Norris	Independent Non-Executive Director, Qualinta (Cyprus) Limited

- Senior Management of the Group as at 31 December 2008 and 2007 comprised eighteen and thirteen persons (including the CEO who is also a member of the Board of Directors), respectively.

For the years ended 31 December 2008 and 2007 total compensation representing short-term employee benefits to the Board of Directors comprised USD 1,011 thousand (2007: USD 141 thousand), to the Senior Management of the Group USD 3,032 thousand (2007: USD 4,207 thousand), and was included in general and administrative expenses in the consolidated statement of comprehensive income. In addition to the above no other incentives were attributable to the key management personnel of the Group.

35. Commitments, contingencies, and operating risks

Operating environment

The Group has significant operations in Ukraine as well as in Russia and some other CIS countries, whose economies while deemed to be of market status continue to display certain characteristics consistent with those of an economy in transition. These characteristics include, but are not limited to relatively high inflation and the existence of currency controls which cause the national currencies to be illiquid outside of these countries. These countries continue economic reforms and development of their legal, tax and regulatory frameworks as required by a market economy. 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. As a result, operations in Ukraine, Russia and other CIS countries involve risks that are not typical for developed markets.

The Ukrainian, Russian and other CIS economies are vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, devaluation of national currencies against major currencies, capital markets instability, and significant deterioration in the liquidity in the banking sector, tighter credit conditions within these countries. As discussed in Note 2 “Basis of Preparation”, these factors had already affected and may have a further effect on the Group’s financial position and results of operations.

Taxation

Ukrainian as well as Russian and other CIS countries’ legislations and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, 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. Where the risk of outflow of resources is probable, the Group has accrued tax liabilities based on management’s best estimate.

The uncertainty of inconsistent enforcement and application of tax laws in these countries creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Group’s financial position, results of operations and cash flows. Management believes that there are strong arguments to successfully defend any such challenge and does not believe that the risk is any more significant than those of similar enterprises operating in Ukraine, Russia or other CIS countries. When it is not considered probable that a material claim will arise, no provision has been established in these financial statements.

Management believes that the Group has sufficient basis to support its compliance with all regulations, and it is not likely that any significant settlement will arise from its interpretation and application of tax legislation and regulations.

Litigation

As at 31 December 2008 and 2007, North American Interpipe, Inc. and Interpipe Europe, LLC were defendants in several litigations relating to quality claims from customers amounting to approximately USD 30,063 thousand and USD 16,726 thousand, respectively. Provision for probable adverse consequences of the above cases amounting to USD 9,089 thousand and USD 8,166 thousand was included in provision for customers’ and other claims for the years ended 31 December 2008 and 2007, respectively.

In addition to the specific cases mentioned above, in the ordinary course of business, the Group is subject to legal actions and complaints. As at 31 December 2008 and 2007 general provision for such legal actions amounting to USD 532 thousand and USD 200 thousand, respectively, was created. Management believes that the ultimate liability arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Guarantees issued

As at 31 December 2008 and 2007, the Group had issued guarantees amounting to USD 4,000 thousand and USD 1,500 thousand, respectively, in favour of various financial institutions with respect to short-term financing provided to the associates (Note 34).

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.

(in US dollars and in thousands)

Contractual commitments for the acquisition of property, plant and equipment

During the year ended 31 December 2008, the Group continued to maintain a capital commitment of EUR 280,240 thousand (equivalent of approximately USD 395,082 thousand as at 31 December 2008) under a turn-key contract with a leading equipment supplier to construct the electric arc furnace with a production capacity of 1.32 million ton of billets annually entered in 2007. As at 31 December 2008 and 2007 unpaid capital commitment contract amount was EUR 199,385 thousand (USD 281,093 thousand) and EUR 252,202 thousand (USD 372,005 thousand), respectively (Note 7).

As at 31 December 2008 and 2007, the Group's contractual commitments for acquisition and renovation of production equipment other than turn-key contract amounted to USD 54,012 thousand and USD 78,706 thousand, respectively. The Group also has contractual commitments in terms of acquisition and implementation of management information systems in the amount of USD 5,614 thousand and USD 6,624 thousand, respectively, as at 31 December 2008 and 2007.

36. Financial risk management

The Group's principal financial instruments comprise trade receivables and payables, interest bearing loans due to banks, bonds issued, 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 Group also enters into derivative transactions, primarily forward currency contracts. The purpose is to manage currency risks arising from Group's operations and its sources of finance.

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 summarised 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 Russian rouble ("RUB") and the Kazakhstani tenge ("KZT").

The exchange rates of USD to those currencies as set by the National Bank of Ukraine ("NBU") as at the dates stated were as follows:

	100 UAH	*1 EUR*	*100 RUB*	*1000 KZT*
As at 31 December 2008	12.987	1.4098	3.4036	8.2803
As at 31 December 2007	19.802	1.4692	4.0750	8.2952

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 and long term borrowings, and is, thus, exposed to foreign exchange risk. Foreign currency denominated trade receivables and payables, and borrowings give rise to foreign exchange exposure.

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:

For the year ended 31 December 2008	*High / low limits of change in currency exchange rate, %*	*Effect on profit before tax*
USD/UAH	+ 25%	(150,719)
EUR/UAH	+ 25%	(16,370)
RUB/UAH	+ 10%	6,558
EUR/USD	+ 10%	1,446
USD/UAH	+ 10%	(60,287)
EUR/UAH	+ 10%	(6,548)
RUB/UAH	+ 5%	3,279
EUR/USD	- 10%	(1,446)

(in US dollars and in thousands)

For the year ended 31 December 2007	*High / low limits of change in currency exchange rate, %*	*Effect on profit before tax*
USD/UAH	+ 5.0%	(22,768)
EUR/UAH	+ 5.0%	(605)
RUB/UAH	+ 5.0%	6,144
EUR/USD	+ 5.0%	704
USD/UAH	- 5.0%	22,768
EUR/UAH	- 5.0%	605
RUB/UAH	- 5.0%	(6,144)
EUR/USD	- 5.0%	(704)

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 ageing 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 based on contractual undiscounted payments. The borrowings are included in the Less than 3 months category as a result of the breach of covenants as at 31 December 2008 (Notes 2 and 18).

As at 31 December 2008	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Borrowings and interest payable	978,077	-	-	978,077
Trade and other accounts payable	144,794	21,721	-	166,515
Derivative financial instruments	14,619	30,927	1,387	46,933
	1,137,490	**52,648**	**1,387**	**1,191,525**

As at 31 December 2007	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Borrowings and interest payable	26,834	239,223	429,150	695,207
Trade and other accounts payable	49,140	709	-	49,849
	75,974	**239,932**	**429,150**	**745,056**

Credit risk

Financial instruments, which potentially subject the Group to significant concentrations of credit risk, consist principally of bank deposits (Note 16, 17), trade and other accounts receivable (Note 13).

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

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 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 analysed on a case-by-case basis. 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 recognised against the assets. The maximum exposure to the credit risk is represented by the carrying amounts of the financial assets that are carried in the consolidated statement of financial position.

(in US dollars and in thousands)

Interest rate risk

During 2008 the Group borrowed at a fixed and floating rates. Floating rates are mostly linked to London Interbank 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):

For the year ended 31 December 2008	*High / low limits of change in interest rate, basic points*	*Effect on profit before tax*
LIBOR (USD)	- 5	424
EURIBOR (EUR)	- 50	33
LIBOR (USD)	- 40	1,249
EURIBOR (EUR)	-100	67

For the year ended 31 December 2007	*High / low limits of change in interest rate, basic points*	*Effect on profit before tax*
LIBOR (USD)	+20	(727)
EURIBOR (EUR)	+20	(31)
LIBOR (USD)	-20	727
EURIBOR (EUR)	-20	31

There were no financial instruments which possible fluctuations of interest rates could have affected direct charges to the Group's other comprehensive income for the years ended 31 December 2008 and 2007.

Capital risk management

The Group considers its debt and shareholders' equity as the 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 the 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 to provide flexibility relating to the Group's access to capital markets. Furthermore, the Group makes its investment decisions taking into consideration its capital structure.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group policy is to keep the gearing ratio at 50% approximately.

	31 December 2008	*31 December 2007*
Non-current borrowings	-	364,171
Current borrowings	944,168	215,385
Cash and bank deposits	(101,061)	(66,978)
Net debt	843,107	512,578
Total equity	374,030	425,384
Total capital	**1,217,137**	**937,962**
Net debt-to-total capital ratio	69.27%	54.65%

No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 2007.

Fair values of financial instruments

The carrying amounts of financial instruments, consisting of cash and cash deposits, short-term accounts receivable and payable, liability attributable to non-controlling interests, other financial assets, loans and borrowings, derivative financial instruments - approximate their fair values. Long-term interest bearing bank loans are predominately variable rate, using market rates as of year end the carrying value of the long-term bank loans approximates their fair value.

As at 31 December 2008 and 2007, the fair value of bonds issued was based on market quotation and approximated to USD 94,000 thousand and USD 195,000 thousand, respectively. As at these dates, the carrying value of bonds issued comprised USD 197,405 thousand and USD 195,976 thousand, respectively, and interest payable on bonds issued comprised USD 7,292 thousand and USD 7,292 thousand, respectively.

37. **Events after the reporting period**

In February 2010, the Group determined to postpone the interest payment due on that day and initiated restructuring negotiations with the holders of its 3-year bonds originally due for full repayment in August 2010 (Note 18). On 17 September 2010 the holders of the bonds have consented to extend the maturity of the bonds to 2017 and increase the interest rate to 10.25%.

In January 2010, Richard Norris, Independent Non-Executive Director of Interpipe Limited Board of Directors resigned (Note 34).

In May 2010, Artem Sirazutdinov.Non-Executive Director of Interpipe Limited Board of Directors resigned (Note 34).

In July 2010, Vitaly Sadykov, was appointed as Independent Non-Executive Director of Interpipe Limited Board of Directors.

New Government of Ukraine, appointed after presidential election in Ukraine in February 2010, initiated significant changes in tax laws. These changes, if implemented, may have significant effect on the Group's current and deferred tax assets and liabilities.

In May 2011, Michael Tsarev, was appointed as Non-Executive Director of Interpipe Limited Board of Directors.