



INTERPIPE

INTERPIPE LIMITED

Consolidated Financial Statements

Year ended 31 December 2013 together with

Independent Auditor's Report

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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 herein as the “Group”), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year 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 the 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 30 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 72 countries and sold domestically.

In 2013, the Group generated revenue from sales of USD 1.5 billion and net loss attributable to the equity holders of the Company amounted to USD 72.7 million. The pipe business segment accounted for 73 per cent of the revenue from sales and 64 per cent of the gross profit and the wheel business segment accounted for 22 per cent of the revenues and 28 per cent of the gross profit in 2013. Further segment information is disclosed in Note 6 to the accompanying Consolidated Financial Statements.

Issued Capital and Capital Distributions

Upon its 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 each for a total premium of CY£164,132 thousand, which is equivalent to USD 361,091 thousand.

During the period from March to June 2008 a set of amendments was made to the authorised share capital of the Company, including conversion of the authorised share capital into euro, a subdivision of existing shares, a merge of the Company’s shares and two additional issues of shares both before the merging and after it.

In December 2011 the Company issued 1,950,000 additional ordinary shares of EUR 0.01 each (equivalent of USD 26 thousand) at a premium of EUR 25 each for a total premium of EUR 48,591 thousand, which is equivalent of USD 64,974 thousand.

As a result of the above mentioned transactions, as at 31 December 2012 and 2013, the number of shares equalled to 4,001,950 thousand ordinary shares of EUR 0.01 each and the authorised, issued and fully paid capital of the Company amounted to EUR 40,019 thousand (equivalent of USD 62,304 thousand).

During the year ended 31 December 2013, the Company did not declare any dividends.

Information relating to dividends payable by the subsidiaries is disclosed in Notes 19 and 29 to the accompanying Consolidated Financial Statements.

Principal Risks and Uncertainties

The Group’s activities had been adversely affected by cancellation of quota regime for pipes in the Customs Union (signed by Russian Federation, Belarus and Kazakhstan) since 1 July 2013, decline in Ukrainian railcar construction industry resulting in lower Group’s sales of wheels and 1-year delay in commissioning of EAF (“Electric Arc Furnace”).

During 2013 the Group breached certain financial covenants and missed scheduled principal repayment of USD 106 million in November 2013 which in turn had triggered cross-default on the Group's borrowings with carrying amount of USD 1,026,013 thousand as at 31 December 2013. As a result, the lenders became entitled to demand early repayment of any outstanding amounts. Accordingly, the liabilities due or claimable due within 12 months from 31 December 2013 exceeded the Group's current assets as of that date by USD 649,125 thousand.

Further discussion on the operating environment and related risks of the Group as well as on the going concern of the Group is included in Note 2 to the financial statements.

Other principal operating and financial risks of the Group are discussed in Notes 32 and 33 to the accompanying Consolidated Financial Statements.

Likely Future Developments

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 presence of its products in the global markets. 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 material research and development activities in 2013.

Events after the Reporting period

Events after the reporting period date are disclosed in Note 34 to the accompanying Consolidated Financial Statements.

Board of Directors

As at 31 December 2013 composition and responsibilities of the Board of Directors was as follows:

<i>Name</i>	<i>Function</i>	<i>Date of appointment</i>
Olexandr Kirichko	Chairman of the Board of Directors of Interpipe Limited	26 November 2013
Gennady Gazin	Non-Executive Director	15 October 2007
Andrii Dudnyk	Non-Executive Director, Executive Director, Chief Investment Officer of EastOne	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, CEO of Fiduciana Trust (Cyprus) Limited	9 December 2009
Michael Tsarev	Non-Executive Director, Director, Head of Internal Control and Audit Department of EastOne	11 May 2011
Yakiv Konstantyniv's'ky	Non-Executive Director, Director of the Dnipropetrovsk brunch of EastOne	20 July 2011
Kirill Roubinski	Non-Executive Director, Chief Executive Officer of EastOne	20 June 2012
Iuliia Chebotarova	Non-Executive Director, First Deputy of the CEO of EastOne	10 October 2012
Oleg Rozenberg	Chief Executive Officer of Interpipe Limited	22 November 2013

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



**DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2013**

Following changes occurred in Board of Directors' constitution and responsibilities allocation during the year and up to the date of this report:

- In April 2013 Vitaly Sadykov, a Non-Executive Director of Interpipe Limited Board of Directors has resigned.
- In November 2013 Olexandr Kirichko was appointed as a Chairman of the Board of Directors of the Company replacing Kirill Roubinski, who became Non-Executive Director;
- In November 2013 Oleg Rozenberg was appointed as a Chief Executive Officer of the Company replacing Olexandr Kirichko, who became Chairman of the Board of Directors;
- In June 2014 Ulrich Becker was appointed as Non-Executive Director.

There were no other changes in the assignment of responsibilities and remuneration of the Board of Directors during the year and up to the date of this report.

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

A blue ink signature of Oleg Rozenberg, consisting of stylized initials and a surname.

Oleg Rozenberg

Member of the Board, Non-Executive Director

A purple ink signature of Andrii Dudnyk, featuring a large, sweeping initial 'A' followed by the surname.

Andrii Dudnyk

30 June 2014

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 referred to herein as the "Group").

The Directors and management are responsible for the preparation of the consolidated financial statements that present fairly the consolidated financial position of the Group as at 31 December 2013, the consolidated results of its operations, cash flows and changes in equity for the year 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 their competencies, are 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.

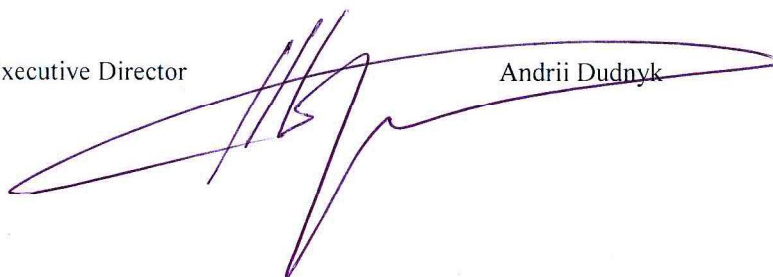
The consolidated financial statements for the year ended 31 December 2013 were authorised for issue on 30 June 2014.

Member of the Board, Chief Executive Officer



Oleg Rozenberg

Member of the Board, Non-Executive Director



Andrii Dudnyk

30 June 2014



Independent Auditor's Report

To the Members of Interpipe Limited

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Interpipe Limited (the “Company”) and its subsidiaries (together with the Company, the “Group”), which comprise the consolidated statement of financial position as at 31 December 2013, and the 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 about 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 2013, 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

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 debt, which remain in default since October 2013. The Group incurred a net loss of USD 73,443 thousand during the year ended 31 December 2013 and, as of that date, the Group's current liabilities exceeded its current assets by USD 649,125 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 Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, 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, so far as appears from our examination of these books.
- 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 Cyprus 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 Laws of 2009 and 2013 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

30 June 2014

INTERPIPE LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013 (in US dollars and in thousands)



INTERPIPE

	Notes	31 December 2013	31 December 2012	At 1 January 2012
			Restated*	Restated*
ASSETS				
Non-current assets				
Property, plant and equipment	7	1,105,212	1,165,576	1,048,825
Intangible assets and goodwill	8	1,676	1,687	12,102
Investments in associates	9	3,159	2,972	2,522
Deferred tax assets	10	43,645	39,944	77,875
Other non-current assets		597	567	555
		1,154,289	1,210,746	1,141,879
Current assets				
Inventories	11	307,151	381,161	324,492
Trade and other accounts receivable	12	198,924	267,222	208,227
Prepayments and other current assets	13	100,130	70,991	78,846
Prepaid current income tax		10,644	1,160	4,554
Taxes recoverable, other than income tax	14	29,286	38,870	57,776
Other financial assets	15	54,020	8,246	14,019
Cash and cash equivalents	16	34,516	119,801	136,997
		734,671	887,451	824,911
Non-current assets classified as held for sale	7	-	-	3,390
TOTAL ASSETS		1,888,960	2,098,197	1,970,180
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Issued capital		62,304	62,304	62,304
Share premium		426,065	426,065	426,065
Revaluation reserve		294,870	356,538	249,730
Accumulated deficit		(68,783)	(61,908)	(50,525)
Foreign currency translation reserve		(291,907)	(288,713)	(290,081)
		422,549	494,286	397,493
Non-controlling interests		34,634	35,491	30,688
Total equity	29	457,183	529,777	428,181
Non-current liabilities				
Long-term borrowings	17	-	732,227	898,967
Deferred tax liabilities	10	3,670	6,106	14,777
Provisions	18	44,230	46,717	40,767
Other non-current liabilities		81	85	251
		47,981	785,135	954,762
Current liabilities				
Borrowings	17	1,026,013	312,307	126,619
Trade and other accounts payable	19	230,757	286,712	299,270
Advances and other current liabilities	21	105,088	159,449	141,239
Current income tax payable		1,559	2,339	495
Taxes payable, other than income tax	20	5,739	9,997	3,816
Provisions	18	14,640	12,481	15,798
		1,383,796	783,285	587,237
Total liabilities		1,431,777	1,568,420	1,541,999
TOTAL EQUITY AND LIABILITIES		1,888,960	2,098,197	1,970,180

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Note 3

Member of the Board, Chief Executive Officer

Oleg Rozenberg

Member of the Board, Non-Executive Director

Andrii Dudnyk

30 June 2014

The Notes presented on pages 13–55 form an integral part of the consolidated financial statements

INTERPIPE LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

(in US dollars and in thousands)



	Notes	2013	2012 Restated*
Revenue	6	1,520,688	1,770,024
Cost of sales	22	(1,231,822)	(1,498,736)
Gross profit		288,866	271,288
Selling and distribution expenses	23	(141,828)	(115,830)
General and administrative expenses	24	(68,405)	(60,522)
Other operating income and expenses	25	(13,973)	(18,741)
Operating foreign exchange difference	26	(3,527)	(1,383)
Operating profit		61,133	74,812
Finance income	27	3,076	878
Finance costs	28	(137,870)	(129,838)
Non-operating foreign exchange difference	26	6,728	581
Share of profit of associates	9	187	452
Loss before tax		(66,746)	(53,115)
Income tax expense	10	(6,697)	(16,663)
Loss for the year		(73,443)	(69,778)
Loss attributable to:			
Equity holders of the parent		(72,723)	(67,640)
Non-controlling interests		(720)	(2,138)
		(73,443)	(69,778)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		(3,201)	1,263
Income tax effect		-	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:		(3,201)	1,263
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of property, plant and equipment		-	208,721
Income tax relating to revaluation of property, plant and equipment	10	-	(34,712)
		-	174,009
Re-measurement gains (losses) on defined benefit plans		4,822	(4,641)
Income tax effect	10	(772)	743
		4,050	(3,898)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods:		4,050	170,111
Other comprehensive income for the year, net of tax:		849	171,374
Total comprehensive income / (loss) attributable to:			
Equity holders of the parent		(71,867)	96,793
Non-controlling interests		(727)	4,803
		(72,594)	101,596

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Notes 3

The Notes presented on pages 13 –55 form an integral part of the consolidated financial statements

INTERPIPE LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2013

(in US dollars and in thousands)



	Attributable to equity holders of the parent					Total	Non-controlling interests	Total equity
	Issued capital	Share premium	Revaluation reserve	Accumulated deficit	Foreign currency translation reserve			
At 1 January 2012	62,304	426,065	249,730	(30,326)	(290,081)	417,692	31,943	449,635
Changes in accounting policies (Note 3)	-	-	-	20,199	-	20,199	1,255	21,454
At 1 January 2012 (restated*)	62,304	426,065	249,730	(50,525)	(290,081)	397,493	30,688	428,181
Loss for the year	-	-	-	(67,640)	-	(67,640)	(2,138)	(69,778)
Other comprehensive income	-	-	166,704	(3,639)	1,368	164,433	6,941	171,374
Total comprehensive income / (loss)	-	-	166,704	(71,279)	1,368	96,793	4,803	101,596
Depreciation transfer	-	-	(59,896)	59,896	-	-	-	-
At 31 December 2012 (restated*)	62,304	426,065	356,538	(61,908)	(288,713)	494,286	35,491	529,777
Loss for the year	-	-	-	(72,723)	-	(72,723)	(720)	(73,443)
Other comprehensive income	-	-	-	4,050	(3,194)	856	(7)	849
Total comprehensive income / (loss)	-	-	-	(68,673)	(3,194)	(71,867)	(727)	(72,594)
Depreciation transfer	-	-	(61,668)	61,668	-	-	-	-
Acquisition of non-controlling interest	-	-	-	130	-	130	(130)	-
At 31 December 2013	62,304	426,065	294,870	(68,783)	(291,907)	422,549	34,634	457,183

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Notes 3

The Notes presented on pages 13-55 form an integral part of the consolidated financial statements

INTERPIPE LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2013

(in US dollars and in thousands)



	Notes	2013	2012 Restated*
(Loss) / profit before tax		(66,746)	(53,115)
Adjustments for:			
Depreciation and amortisation	22,23,24	137,094	92,151
Impairment of property, plant and equipment and intangible assets / Revaluation decrease	22,25	20,335	137,005
Loss on disposal of property, plant and equipment and intangible assets	25	1,768	1,560
Finance costs	28	137,870	129,838
Finance income	27	(3,076)	(878)
Movement in provisions less interest cost		(1,207)	(4,399)
Share of profit of associates	9	(187)	(452)
Translation difference and foreign exchange difference		2,647	1,027
Operating cash flows before working capital changes		228,498	302,737
(Increase) / Decrease in inventories		72,098	(55,067)
(Increase) / Decrease in trade and other accounts receivable		63,816	(60,650)
(Increase) / Decrease in prepayments and other assets		(30,847)	5,427
(Increase) / Decrease in taxes recoverable, other than income tax		9,409	18,810
Increase / (Decrease) in trade and other accounts payable		(72,479)	(13,868)
Increase / (Decrease) in taxes payable, other than income tax		(4,256)	6,107
Increase / (Decrease) in advances and other current liabilities		(54,110)	17,850
Cash generated from operations		212,129	221,346
Income tax paid		(24,235)	(15,678)
Interest and other finance costs paid		(112,285)	(94,181)
Net cash inflow from operating activities		75,609	111,487
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets		(82,074)	(126,233)
Proceeds from sale of property, plant and equipment		1,453	2,636
Acquisition of subsidiaries, net of cash of acquired		-	(173)
Interest received		2,293	560
Net cash outflow from investing activities		(78,328)	(123,210)
Cash flows from financing activities			
Proceeds from borrowings		175,357	136,041
Repayments of borrowings		(259,267)	(145,216)
Release from restricted cash accounts		-	3,000
Dividends paid to non-controlling interest holders		(70)	(13)
Net cash outflow from financing activities		(83,980)	(6,188)
Net decrease in cash and cash equivalents		(86,699)	(17,911)
Net foreign exchange difference		1,414	715
Cash and cash equivalents at period beginning		119,801	136,997
Cash and cash equivalents at period end	16	34,516	119,801

* Certain amounts shown here do not correspond to the 2012 financial statements and reflect adjustments made, refer Notes 3

The Notes presented on pages 13-55 form an integral part of the consolidated financial statement.

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 as a limited liability company under the name of Ramelton Holdings Limited in accordance with the Companies Law of Cyprus 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 30 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 consolidated financial statements of the Group as at 31 December 2013 and for the year then ended were authorised for issue in accordance with a resolution of the Board of Directors on 30 June 2014.

2. Operating environment and risks of the Group

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 cancellation of quota regime for pipes in the Customs Union (signed by Russian Federation, Belarus and Kazakhstan) since 1 July 2013, decline in Ukrainian railcar construction industry resulting in lower Group’s sales of wheels and 1-year delay in commissioning of EAF. During 2013 the Group breached certain financial covenants and missed scheduled principal repayment of USD 106 million in November 2013 which in turn had triggered cross-default on the Group’s borrowings with carrying amount of USD 1,026,013 thousand as at 31 December 2013. As a result, the lenders became entitled to demand early repayment of any outstanding amounts. Accordingly, the liabilities due or claimable due within 12 months from 31 December 2013 exceeded the Group’s current assets as of that date by USD 649,125 thousand. See Note 17 on borrowings.

In October 2013 the Group entered into financial debt restructuring process with its lenders under the Override Agreement dated 25 November 2011 (the “Lenders”) to revise the debt amortisation schedule. During the restructuring process the Group continued to settle interest payments and related charges in full. As of 30 June 2014 The Lenders have not indicated any intention to accelerate nor accelerated the amounts owing to them or enforced their rights under the Finance Documents either on the basis of the above events of default.

Although the revenues of the Group deteriorated during 2013, 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 2013. The Group expects a considerable positive impact on its future operating performance from the devaluation of Ukrainian hryvnia by 49% during January – June 2014 against major foreign currencies, given that a significant portion of the Group expenses is denominated in Ukrainian hryvnia and the major portion of revenues is pegged to the foreign currencies. The Group is also actively exploring new geographical markets for its higher margin goods.

In addition to the above, the Group is also exposed to the risks of operating environment which deteriorated after the reporting period. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets and the existence of currency controls which cause the national currency to be illiquid outside of Ukraine. The stability of the Ukrainian economy is significantly impacted by the government’s policies and actions with regard to administrative, fiscal, legal, and economic reforms. As a result, operations in Ukraine involve risks that are not typical for developed markets. The Ukrainian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world.

In November 2013, the former Ukrainian government declined to sign the association agreement with the European Union. This event became a starting point in the escalation of the political situation in the country, which resulted in the dismissal of the president and the government by the parliament, secession of the Autonomous Republic of Crimea from Ukraine and armed confrontations in the Eastern regions of the country. Political crisis was followed by economic turmoil resulting in deterioration of major macroeconomic indicators including devaluation of Ukrainian Hryvnia during January-June 2014. The international rating agencies have downgraded sovereign debt ratings for Ukraine.

The transitional Ukrainian government has initiated a set of anti-crisis measures, aimed at the stabilisation of the political situation, halting of the decline in domestic production, reducing the state budget deficit and deterioration of other macroeconomic indicators. In March 2014, the transitional Government signed a political association with the European Union, followed by the International Monetary Fund making available to Ukraine USD 3.2 billion loan from 17.01 billion two-year Stand-By Arrangement, and is further negotiating additional financial aid from other international financial sources.

In 2013, the Group generated approximately 27% of its revenues from the Russian customers. The dispute over Crimea and Eastern regions of Ukraine and the resulting deterioration in political relations between Ukraine and the Russian Federation may have a considerable negative impact on the trade conditions between the two states and, therefore, may affect the ability of the Group to maintain the historical level of sale revenues from Russian customers.

The combination of the above events relating to the operating environment has resulted in the deterioration of liquidity, much tighter credit conditions where credit is available. The economic effects of these factors on the results of the Group's operations, to the extent they are caused by the past events and are determinable and measurable, have been taken into account in preparing these consolidated financial statements. Management is monitoring the current economic situation and is taking actions where appropriate.

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 implemented. Further negative developments in the operating environment, including the political unrest, could adversely affect the Group's results and financial position in a manner not currently determinable.

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 2014 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.

3. Basis of preparation

Statement of Compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union (EU) as well as in accordance with the requirements of the Cyprus Companies 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 2012, 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 designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in fair values attributable to the risks that are being hedged in effective hedge relationships.

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 5.

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.

The consolidated financial statements provide comparative information in respect of the previous period.

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments to IFRS effective as of 1 January 2013:

IAS 1 Presentation of Financial Statements (Amendment);

IAS 16 Property, Plant and Equipment;

IAS 19 Employee Benefits (Revised 2011);

IAS 32 Financial Instruments: Presentation;

IAS 34 Interim Financial Reporting;

IFRS 7 Financial Instruments: Disclosures;

IFRS 13 Fair Value Measurement;

IAS 36 Impairment of Assets (Amendments).

The adoption of the standards with effect on the financial statement of the Group as at 31 December 2013 is described below:

IAS 1 Presentation of Financial Statements (Amendments)

The amendments relate to other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in Other Comprehensive Income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

IAS 19 Employee Benefits (Revised 2011)

The Group applied IAS 19 (Revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard. The statement of financial position of the earliest comparative period presented and the comparative figures have been accordingly restated.

IAS 19 (Revised 2011) changes, amongst other things, the accounting for defined benefit plans. Some of the key changes that impacted the Group include the following:

- The standard requires past service cost to be recognised immediately in profit or loss and remeasurement of retirement benefit obligation to be recognised immediately in other comprehensive income. This has resulted in unrecognised past service cost and net actuarial losses, net of deferred tax, being recognised, with corresponding decrease recorded in equity. The expense recognised in the income statements for the years ended 31 December 2012 and 31 December 2013 have been reduced, as the charge to profit or loss for recognised actuarial gains and losses is no longer required;
- ‘Deferred tax asset’ as previously reported have been restated at the reporting dates to reflect the effect of the above.

IAS 19 (Revised 2011) has been applied retrospectively, with following permitted exceptions:

- The carrying amounts of other assets have not been adjusted for changes in employee benefit costs that were included before 1 January 2012;
- Sensitivity disclosures for the defined benefit obligation for comparative period (year ended 31 December 2012) have not been provided.

The adoption of the amendments became effective for financial years beginning on or after 1 January 2013 with the following effect on the Group's financial position and performance as well as presentation of the defined benefit pension liability.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**
(in US dollars and in thousands)

Impact on profit or loss and OCI (increase/ (decrease) in profit/OCI):

	2013	2012
<i>Income statement</i>		
Decrease in staff cost	2,731	2,267
Increase in related deferred tax expense	(437)	(363)
Net increase in profit for the period	2,294	1,904
<i>Statement of other comprehensive income</i>		
Re-measurement gains (losses) on defined benefit plans	4,824	(4,524)
Income tax effect	(772)	724
Total other comprehensive income	4,052	(3,800)

Impact on equity (increase/(decrease) in net equity):

	2013	2012	2011
Recognition of unrecognised past service costs	(288)	(243)	(150)
Consequential deferred tax impact	46	39	24
Recognition unrecognised actuarial losses	(20,046)	(27,649)	(25,462)
Consequential deferred tax impact	3,207	4,424	4,074
Translation difference	2	4	60
Net decrease in equity	(17,079)	(23,425)	(21,454)

IFRS 7 Financial Instruments: Disclosures

Amendment to IFRS 7 relates to asset and liability offsetting. This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. This amendment did not have a material effect on the Group's financial statements.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. The standard defines fair value as an exit price. As a result of guidance in the standard, the Group its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures. Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures, where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

Basis of consolidation

The IFRS consolidated financial statements comprise the financial statements of the Company and its subsidiaries at 31 December 2013 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 for the same reporting period as the parent 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, except for those interests, which meet definition of the financial liabilities as referred to below in Note 4 under Financial liabilities.

4. 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 in the financial statements of each entity included in the consolidated financial statements 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 reporting year, the amounts presented in their statements of comprehensive income and cash flows are translated at the quarterly weighted average exchange rates. 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 the 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 a 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, in management's view, allows for a more fair presentation of property, plant and equipment in accordance with the industry specifics. The revaluations were performed by independent appraisers as at 1 July 2008 and 1 July 2012. Subsequently, 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 the 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 was incurred and 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 and 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 the revaluation, the decrease is recognised the consolidated statement of comprehensive income. However, such decrease is taken 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 respective revaluation surplus carried in equity is transferred directly to retained earnings.

Depreciable amount is the cost or revalued amount of the item of property, plant and equipment less estimated residual value at the end of the useful life. 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:

Buildings and structures	3-50 years
Machinery and equipment	1-25 years
Transport and motor vehicles	1-10 years
Fixtures and office equipment	1-7 years

Construction in progress comprises prepayments made and letters of credit issued for purchases of property, plant and equipment, as well as 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 when the item is derecognised.

The Group has the title to certain non-production and social assets, primarily buildings and social infrastructure facilities held by 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 included 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 are incurred. 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 trademarks, 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 the 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 attributable to the asset to the extent that the impairment loss does not exceed the amount of 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 the prior years in the consolidated statement of comprehensive income. After such the reversal, the depreciation charge in future periods is adjusted 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 their 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 at their 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, which is 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 include financial assets held for trading and financial assets designated upon their initial recognition 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 as finance income or finance costs, respectively, in the consolidated statement of comprehensive income. The Group has not designated any financial asset 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 as finance income or finance costs, respectively, in the consolidated statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity and available for sale financial investments

The Group did not have any financial asset held to maturity or available for sale during the years ended 31 December 2013 and 2012.

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 in the consolidated statement of financial position comprise cash in hand, 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.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of the cash and cash equivalents as defined above less outstanding bank overdrafts, if any.

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 plus, in the case of loans and borrowings, directly attributable transaction costs. The Group's financial liabilities include trade and other payables, bank overdrafts, 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 include financial liabilities held for trading and financial liabilities designated upon initial recognition 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 as finance income or finance costs, respectively, in the consolidated 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 as finance income or finance costs, respectively, in the consolidated 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 the consolidated 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 as finance income or finance costs in the consolidated 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 as expenses in the consolidated 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 against the respective expenses in the consolidated 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 as expenses in the consolidated statement of comprehensive income.

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 to finance income or finance costs, respectively, in the consolidated 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 for 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 as finance income or finance costs, respectively, in the consolidated 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.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service cost resulting from introduction of pension benefits is recognised immediately in income.

Contingent liabilities

Contingent liabilities are recognised in the consolidated financial statements if their 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 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 also include warranties and other costs which are to be incurred after the shipment of the goods is made and which can be measured reliably.

Reclassifications

Certain insignificant reclassifications have been made in the accompanying Notes to the consolidated financial statements in respect of information relating to the year ended 31 December 2012 to enhance the disclosures made therein in line with 2013 presentation.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

IAS 27 Separate financial statements

Amendments to IAS 27 (revised 2011) include the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28 Associates and joint ventures

Amendments to IAS 28 (revised 2011) include the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

IAS 36 Impairment of Assets

Amendments to IAS 36 relate to recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures on the recoverable amount of cash-generating units which had been included in IAS 36 by the issue of IFRS 13. The amendment is not mandatory for the Group until 1 January 2014.

IFRS 9 Financial instruments

IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the full impact of the application of IFRS 9. The Group will also consider the impact of the remaining phases of IFRS 9 when completed.

IFRS 10 Consolidated Financial Statements

The amendment to IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This amendment did not impact materially on the Group's financial statements.

IFRS 11 Joint Arrangements

This standard focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. This amendment did have any impact on the Group's financial statements.

IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates, and structured entities. While the Group has subsidiaries with non-controlling interests, there are no unconsolidated structured entities.

IFRIC 21 Levies

IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by government, both for levies which are accounted for in accordance with *IAS 37 Provisions, Contingent Liabilities and Contingent Asset* and those where the timing and amount of the levy is certain. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

5. 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 18.

Valuation of property, plant and equipment

As at 1 July 2012, 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 items 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 the fair value of specific items of property, plant and equipment was determined based on their replacement cost, which is the estimated amount required to reproduce a duplicate or a replica of the item of property, plant and equipment in accordance with current market prices for materials, labour, and manufactured equipment, contractor's overhead and profit, and fee, but without provision for overtime, bonuses for labour, or premiums for material and equipment, less allowances for physical deterioration and functional (or technical) obsolescence and economic (or external) obsolescence.

The fair value of assets determined on the basis of depreciated replacement cost approach was subjected to an adequate profitability test using discounted cash flow techniques, for the purposes of which the assets were allocated to several cash generating units based on the product lines. The discount rate representing pre tax weighted average cost of capital was estimated at 16.6% for pipe producing plants and 15.5% for EAF ("Electric Arc Furnace", for details refer to Note 7).

As at 31 December 2013 and 2012, the carrying amount of property, plant and equipment does not significantly differ from its fair value.

Useful life of property, plant and equipment and residual value

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 ("CGU") 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 also 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 individual CGU.

An impairment of goodwill exists when the carrying value of the cash generating unit exceeds its recoverable amount, which is 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 CGUs, including comments on sensitivity, are further presented in Note 8.

Allowances and net realisable value

The Group makes allowances for doubtful accounts receivable (Note 12). Significant judgment is used to determine doubtful accounts. In determining doubtful accounts and estimating impairment allowance 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 11).

Taxes

Uncertainties may 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 or discloses contingent liability, based on reasonable estimates, for probable or, respectively, possible consequences of audits to be conducted by the tax authorities of the respective countries 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 the tax regulations by the taxable entity and the respective tax authority. Such differences in interpretations may arise relative to a wide variety of issues depending on the conditions prevailing in the respective Group company domicile. When the Group assesses the probability of 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 future performance

Further details on taxes are disclosed in Note 10 and Note 32.

Value-added tax recoverable

Value-added tax ("VAT") recoverable is reviewed at each reporting date and reduced to the extent that it is no longer probable that a refund or VAT liabilities for netting will be available. The Group considers that the amount due from the state as at the reporting date will be either recovered in cash or 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, as well as in determining a possible range of any 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 any new information becomes available, primarily with the support of, as appropriate, internal specialists or outside consultants, such as legal counsel. Revisions to the estimates may significantly affect future operating results (Notes 18 and 32).

6. Segment information

A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

For management purposes, the Group is organised into business units based on its products and services, and has five 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. Steel making segment:
 - Collection and processing of scrap for internal consumption in steel billets production. Surplus of scrap is sold to external customers;
 - Production and distribution of Pipe steel billets – used both for internal production of the extensive range of seamless pipes and distribution to the external customers;
 - Production and distribution of Wheels steel billets – used both for internal production of railway wheels and distribution to the external customers.
5. Other operations segment - production and sales of enamel ware and other by-products and services.

Inter-segment sales primarily consisted of steel billets sold by the “MP “Dneprosteel” LLC to the JSC “Interpipe Niznedneprovsky Tube Rolling Plant” and “Interpipe Niko Tube” LLC, the cost of which was included in the cost of seamless pipes and wheels.

Steel making segment was formed in the year ended 31 December 2013 due to the commencement of the EAF normal capacity operations and respective processed scrap consumption in steel billets production. The comparative information for 2012 was not restated as it is not comparable: this was not a change in the composition of the reportable segments, but completely new reportable segment introduced in 2013.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**
(in US dollars and in thousands)

*Segment revenues and results*

<i>Year ended</i>	<i>Seamless pipes</i>	<i>Welded pipes</i>	<i>Railway wheels</i>	<i>Steel making</i>	<i>Other operations</i>	<i>Total</i>
<i>31 December 2013</i>						
Revenue	929,204	186,204	333,236	648,686	30,819	2,128,149
Elimination of sales to other segments	-	-	-	(607,461)	-	(607,461)
Revenue - external	929,204	186,204	333,236	41,225	30,819	1,520,688
Operating profit / (loss)	34,514	(28,360)	46,189	9,770	(980)	61,133
Finance income						3,076
Finance costs						(137,870)
Non-operating foreign exchange difference						6,728
Share of profit of associates						187
Income tax expense						(6,697)
Loss for the year						(73,443)

For the years ended 31 December 2013 share of profit of associates was attributable to the seamless pipes segment.

The Group measures the performance of its operating segments through a measure of earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA is calculated as operating profit or (loss) plus depreciation and amortisation charge, plus impairment of property, plant, equipment and intangible asset, plus loss / (gain) on disposal of property, plant and equipment, plus operating foreign exchange difference and plus extraordinary losses / (gains).

EBITDA by segments

<i>Year ended</i>	<i>Seamless pipes</i>	<i>Welded pipes</i>	<i>Railway wheels</i>	<i>Steel making</i>	<i>Other operations</i>	<i>Total</i>
<i>31 December 2013</i>						
Operating profit / (loss)	34,514	(28,360)	46,189	9,770	(980)	61,133
Depreciation and amortisation	63,853	10,738	19,520	42,956	27	137,094
Impairment of property, plant and equipment and intangible assets (Note 22)	-	17,525	-	2,810	-	20,335
Loss / (gain) on disposal of property, plant and equipment (Note 25)	794	480	223	271	-	1,768
Operating foreign exchange difference	1,250	(281)	79	2,288	191	3,527
EBITDA	100,411	102	66,011	58,095	(762)	223,857

Segment assets, liabilities and other information

<i>Year ended</i>	<i>Seamless pipes</i>	<i>Welded pipes</i>	<i>Railway wheels</i>	<i>Steel making</i>	<i>Other operations</i>	<i>Total</i>
<i>31 December 2013</i>						
Segment assets	831,235	123,489	197,320	542,077	20,771	1,714,892
Segment liabilities	234,646	22,662	51,116	63,486	6,626	378,536
Investment in associates (Note 9)	3,159	-	-	-	-	3,159
Additions to property, plant and equipment (Note 7)	53,202	4,580	16,357	25,597	111	99,847
Movement in provisions (Note 18)	3,289	919	1,531	360	278	6,377
Other non-cash items	3,221	481	245	1,444	88	5,479
Impairment of property, plant and equipment and intangible assets	-	17,525	-	2,810	-	20,335

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013**
(in US dollars and in thousands)



Segment revenues and results

<i>Year ended</i> <i>31 December 2012</i>	<i>Seamless pipes</i>	<i>Welded pipes</i>	<i>Railway wheels</i>	<i>Other operations</i>	<i>Total</i>
Revenue	1,125,007	240,600	366,653	277,602	2,009,862
Elimination of sales to other segments	-	-	-	(239,838)	(239,838)
Revenue - external	1,125,007	240,600	366,653	37,764	1,770,024
Operating profit / (loss)	36,433	(998)	37,948	1,429	74,812
Finance income					878
Finance costs					(129,838)
Non-operating foreign exchange difference					581
Share of profit of associates					452
Income tax expense					(16,663)
Profit for the year					(69,778)

For the year ended 31 December 2012, share of profit of associates was attributable to seamless pipes segment.

EBITDA by segments

<i>Year ended</i> <i>31 December 2012</i>	<i>Seamless pipes</i>	<i>Welded pipes</i>	<i>Railway wheels</i>	<i>Other operations</i>	<i>Total</i>
Operating profit / (loss)	36,433	(998)	37,948	1,429	74,812
Depreciation and amortisation	56,765	11,338	23,921	127	92,151
Revaluation decrease (Note 22, 25)	101,226	8,865	22,894	4,020	137,005
Loss / (gain) on disposal of property, plant and equipment (Note 25)	433	1,093	91	(57)	1,560
Operating foreign exchange difference	1,230	(131)	283	1	1,383
EBITDA	196,087	20,167	85,137	5,520	306,911

Segment assets, liabilities and other information

<i>Year ended</i> <i>31 December 2012</i>	<i>Seamless pipes</i>	<i>Welded pipes</i>	<i>Railway wheels</i>	<i>Other operations</i>	<i>Total</i>
Segment assets	1,288,479	177,952	409,292	17,027	1,892,750
Segment liabilities	365,301	21,016	92,434	9,100	487,851
Investment in associates (Note 9)	2,972	-	-	-	2,972
Additions to property, plant and equipment (Note 7)	87,432	5,148	36,263	879	129,722
Movement in provisions (Note 18)	4,716	1,007	2,976	524	9,223
Other non-cash items	(10,015)	(1,931)	(2,219)	(285)	(14,450)
Revaluation decrease	92,701	8,865	20,941	4,020	126,527

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(in US dollars and in thousands)

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

	<i>31 December 2013</i>	<i>31 December 2012</i>
Segment assets for reportable segments	1,694,120	1,875,723
Other segments assets	20,772	17,027
Unallocated		
Intangible assets	1,676	1,687
Deferred tax assets	43,645	39,945
Prepaid current income tax	10,644	1,160
Taxes recoverable, other than income tax	29,286	38,870
Other financial assets	54,020	3,746
Cash and cash equivalents	34,516	119,801
Other non-current assets	281	238
	174,068	205,447
Total assets	1,888,960	2,098,197

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

	<i>31 December 2013</i>	<i>31 December 2012</i>
Segment liabilities for reportable segments	371,910	478,751
Other segments liabilities	6,626	9,100
Unallocated		
Deferred tax liabilities	3,670	6,106
Taxes payable, other than income tax	5,739	9,997
Current income tax liabilities	1,559	2,339
Borrowings	1,026,013	1,044,534
Interest payable	14,257	14,531
Dividends payable to non-controlling interest owners	744	814
Other liabilities	1,259	2,248
	1,053,241	1,080,569
Total liabilities	1,431,777	1,568,420

Geographical information
Revenues from external customers

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Russia	405,821	496,988
Ukraine	392,763	531,060
Other CIS countries	252,035	278,442
Europe	177,078	141,190
Americas	152,232	172,828
Middle East and Africa	105,649	109,268
Other countries	35,110	40,248
	1,520,688	1,770,024

Americas region includes the USA, Canada and Latin America countries. Other CIS countries region includes members of the Commonwealth of Independent States, except for Ukraine and Russia, both of which are presented as separate regions.

Non-current assets

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

	<i>31 December 2013</i>	<i>31 December 2012</i>
Ukraine	1,106,429	1,166,670
Europe	165	272
Other countries	294	321
	1,106,888	1,167,263

7. Property, plant and equipment

Movement in property, plant and equipment and related accumulated depreciation for the years ended 31 December 2013 and 2012 was as follows:

	<i>Buildings and structures</i>	<i>Machinery and equipment</i>	<i>Transport and motor vehicles</i>	<i>Fixtures and office equipment</i>	<i>Construction- in-progress and uninstalled equipment</i>	<i>Total</i>
Cost or valuation:						
At 1 January 2012	221,736	541,625	13,977	5,235	575,601	1,358,174
Additions	-	-	-	-	129,722	129,722
Transfers	218,050	258,278	21,104	2,736	(500,168)	-
Disposals and write-offs	(103)	(7,741)	(70)	(187)	(80)	(8,181)
Elimination against gross carrying amount	(116,114)	(375,718)	(10,729)	-	(90,075)	(592,636)
Revaluation	221,680	78,836	13,629	-	18,456	332,601
Translation difference	(287)	(286)	(11)	(3)	(275)	(862)
At 31 December 2012	544,962	494,994	37,900	7,781	133,181	1,218,818
Additions	-	-	-	-	99,847	99,847
Transfers	46,783	110,332	1,132	1,438	(159,685)	-
Disposals and write-offs	(1,065)	(1,594)	(1,213)	(466)	(110)	(4,448)
Impairment (Note 22)	(11,061)	(5,125)	(352)	(100)	(3,697)	(20,335)
Translation difference	(8)	(9)	(1)	-	(1)	(19)
At 31 December 2013	579,611	598,598	37,466	8,653	69,535	1,293,863
Accumulated depreciation and impairment:						
At 1 January 2012	78,111	220,180	7,925	3,133	-	309,349
Depreciation for the year	28,947	60,119	3,080	1,073	-	93,219
Disposals and write-offs	(24)	(6,811)	(24)	(104)	-	(6,963)
Revaluation decrease	28,739	129,106	2,471	-	90,075	250,391
Elimination against gross carrying amount	(116,114)	(375,718)	(10,729)	-	(90,075)	(592,636)
Translation difference	(35)	(87)	(2)	6	-	(118)
At 31 December 2012	19,624	26,789	2,721	4,108	-	53,242
Depreciation for the year	45,654	84,785	4,876	1,404	-	136,719
Disposals and write-offs	(159)	(411)	(272)	(453)	-	(1,295)
Translation difference	(5)	(9)	(1)	-	-	(15)
At 31 December 2013	65,114	111,154	7,324	5,059	-	188,651
Net book value						
At 31 December 2012	525,338	468,205	35,179	3,673	133,181	1,165,576
At 31 December 2013	514,497	487,444	30,142	3,594	69,535	1,105,212

Buildings and structures, machinery and equipment, transport and motor vehicles of the Group were revalued at 1 July 2012. The valuation was carried out by an independent appraiser. All items of property, plant and equipment and office equipment that were not revalued are carried at historical cost which approximates their fair value.

In 2007, the Group commenced construction of EAF. As at 1 January 2012 costs attributable to the project amounting to USD 494,783 thousand were included in the construction-in-progress and uninstalled equipment. As at 1 July 2012 Company conducted revaluation of EAF resulting in revaluation decrease of USD 79,670 thousand. As at 1 November 2012 average quarterly production exceeded 50% of name plate capacity and EAF's property, plant and equipment was put in use although not all performance test were completed. Plant's depreciation commenced and resulted in depreciation charge of USD 4,768 thousand for the year ended 31 December 2012.

For the year ended 31 December 2012 before EAF's property, plant and equipment was put in use, borrowing costs amounting to USD 9,737 thousand were capitalised in property, plant and equipment. The capitalisation rate for the year ended 31 December 2012 comprised 5.28%.

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As at 31 December 2013 and 2012, property, plant and equipment with carrying value of USD 934,625 thousand and USD 950,064 thousand, respectively, were pledged as a security for the Group's borrowings (Note 17).

As at 31 December 2013 and 2012, the cost of fully depreciated items of property, plant and equipment, which remain in use, amounted to USD 16,078 thousand and USD 2,698 thousand, respectively.

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

	<i>Buildings and structures</i>	<i>Machinery and equipment</i>	<i>Transport and motor vehicles</i>	<i>Fixtures and office equipment</i>	<i>Construction- in-progress and uninstalled equipment</i>	<i>Total</i>
31 December 2012	251,789	433,572	24,064	3,556	116,971	829,952
31 December 2013	316,703	445,127	24,276	3,082	53,723	842,911

Impairment test

Impairment was identified and recognized for the CGU consisted of the assets of JSC "Interpipe Novomoskovsk Pipe-Production Plant", a subsidiary.

The recoverable amount has been determined based on value in use by applying cash flow projections from the approved Group's strategy covering the period to 2018 and terminal period.

The pre-tax discount rates applied to cash flow projections are 17.9% as at 31 December 2013. Discount rates reflect estimate of the specific risks relating to the subsidiary.

The growth rate used to extrapolate the cash flows beyond five-year period is 1.0%. This growth rate does not exceed the average real growth rate for the pipes and wheels industries.

As a result of test performed USD 17,525 thousand of impairment of certain property, plant and equipment in the welded pipes segment was identified. Additional impairment charges of USD 2,810 thousand related to certain specific items of property, plant and equipment. The impairment losses were recognised in the statement of profit or loss in cost of sales (Note 22).

8. Intangible assets and goodwill

Movement in intangible assets and goodwill and related accumulated amortisation for the years ended 31 December 2013 and 2012 was as follows:

	<i>Goodwill</i>	<i>Patents and trademark</i>	<i>Accounting software</i>	<i>Other software</i>	<i>Intangible assets under development</i>	<i>Total</i>
Cost						
At 1 January 2012	10,478	102	2,334	2,405	3,949	19,268
Additions	-	2	30	136	358	526
Transfers	-	-	(15)	15	-	-
Disposals	-	(15)	-	(462)	(4)	(481)
Translation difference	-	-	(1)	(1)	(4)	(6)
At 31 December 2012	10,478	89	2,348	2,093	4,299	19,307
Additions	-	-	193	37	197	427
Transfers	-	13	394	358	(765)	-
Disposals	-	(1)	(1)	(10)	(548)	(560)
Translation difference	-	-	-	-	-	-
At 31 December 2013	10,478	101	2,934	2,478	3,183	19,174
Accumulated amortisation and impairment						
At 1 January 2012	-	56	2,065	1,829	3,216	7,166
Amortisation for the year	-	5	83	339	-	427
Disposals	-	(2)	-	(449)	-	(451)
Impairment (Note 25)	10,478	-	-	-	-	10,478
Translation difference	-	-	-	-	-	-
At 31 December 2012	10,478	59	2,148	1,719	3,216	17,620
Amortisation for the year	-	18	132	211	-	361
Disposals	-	-	(1)	(9)	(473)	(483)
Impairment (Note 25)	-	-	-	-	-	-
Translation difference	-	-	-	-	-	-
At 31 December 2013	10,478	77	2,279	1,921	2,743	17,498
Net book value						
At 31 December 2012	-	30	200	374	1,083	1,687
At 31 December 2013	-	24	655	557	440	1,676

Accounting and other software is determined to have finite lives ranging from three to seven years; patents and trademark are determined to have finite lives ranging from three to eight years. Amortisation of intangible assets is included in general and administrative expenses in the consolidated statement of comprehensive income.

For the years ended 31 December 2013 and 2012 there were no internally generated intangible assets included into additions of intangible assets under development.

Goodwill impairment test

For the purpose of impairment testing for the year ended 31 December 2012, goodwill acquired through business combination has been allocated to separate cash generating unit – EAF (Note 7).

EAF CGU included following entities:

- Metallurgical Plant Dneprosteel
- Dneprosteel-Energo
- Dnepropetrovsk Vtormet
- Luganskiy Kombinat Vtormet

The recoverable amount has been determined based on value in use by applying cash flow projections from the approved Group's strategy covering the period to 2015.

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

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

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

Raw materials price inflation – estimates are obtained from published indices or the 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 15.5% as at 1 July 2012. Discount rates reflect estimate of the specific risks relating to the relevant steel-melting industry.

The growth rate used to extrapolate the cash flows beyond three-year period is 2.3%. This growth rate does not exceed the average growth rate for the pipes and wheels industries.

As a result of test performed USD 10,478 thousand impairment of goodwill was identified and recognised in Other operating income and expenses for the year 2012 (Note 25).

9. Investments in associates

The Group’s investments in associates were as follows:

<i>Entity</i>	<i>Activity</i>	<i>% of the Group ownership</i>	<i>31 December 2013</i>	<i>31 December 2012</i>
CJSC “Nikopolsky Repairing Plant”	Repairs	25%	1,305	1,290
CJSC “Nikopolsky Tooling Plant”	Tooling for machines	25%	1,055	1,028
CJSC “Teplogeneratzia”	Utility services	30%	799	654
			3,159	2,972

CJSC “Teplogeneratzia”, CJSC “Nikopolsky Tooling Plant” and CJSC “Nikopolsky Repairing Plant” are entities incorporated in Ukraine. They are private companies not listed on any public exchange.

The following table illustrates summarised financial information of the Group’s investments in associates:

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
At period beginning	2,972	2,522
Share of profit	187	452
Translation difference	-	(2)
At period end	3,159	2,972

The Group’s share in net assets of its associates was as follows:

<i>At 31 December 2013</i>	<i>CJSC “Teplo- generatzia”</i>	<i>CJSC “Nikopolsky Tooling Plant”</i>	<i>CJSC “Nikopolsky Repairing Plant”</i>
Assets	3,009	1,937	2,498
Liabilities	(2,210)	(882)	(1,193)
Net assets – carrying amounts of investments	799	1,055	1,305

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	<i>CJSC “Teplo- generatzia”</i>	<i>CJSC “Nikopolsky Tooling Plant”</i>	<i>CJSC “Nikopolsky Repairing Plant”</i>
<i>At 31 December 2012</i>			
Assets	2,659	2,453	2,474
Liabilities	(2,005)	(1,425)	(1,184)
Net assets – carrying amounts of investments	654	1,028	1,290

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

	<i>For the year ended 31 December 2013</i>		<i>For the year ended 31 December 2012</i>	
	<i>Revenue</i>	<i>Profit / (loss) for the year</i>	<i>Revenue</i>	<i>Profit for the year</i>
CJSC “Teplogeneratzia”	4,059	144	7,438	290
CJSC “Nikopolsky Repairing Plant”	3,587	15	4,655	178
CJSC “Nikopolsky Tooling Plant”	3,261	28	4,023	(16)

10. Income tax

The components of income tax expense for the years ended 31 December 2013 and 2012 were as follows:

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Current income tax expense	(13,596)	(21,328)
Deferred income tax benefit	6,899	4,665
	(6,697)	(16,663)

Income tax benefit / (expense) for the years ended 31 December 2013 and 2012 originated in the following tax jurisdictions:

	<i>Domestic tax rates applicable to individual group entities as at</i>		<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
	<i>31 December 2013</i>	<i>31 December 2012</i>		
Ukraine	19%	21%	(2,663)	(2,358)
Russia	20%	20%	(1,914)	(4,260)
Switzerland	11%	11%	(701)	(950)
The USA	34%	34%	191	(9,821)
Cyprus	12.5%	10%	(1,679)	494
Kazakhstan	20%	20%	69	232
			(6,697)	(16,663)

Starting 1 January 2011 in Ukraine new Tax Code was enforced which superseded a set of tax laws (including VAT, Corporate profit tax and other). Key provisions related to Corporate profit tax are following: tax rate was reduced to 23% starting from 1 April 2011, further reduced to 21% in 2012, to 19% in 2013, and 18% thereafter; harmonisation between tax and financial accounting in respect of profit before tax calculation, and valuation of assets and liabilities.

The tax rate in Cyprus increased to 12.5% from 1 January 2013.

Profit / (loss) before tax for financial reporting purposes is reconciled to tax expense as follows:

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Accounting profit / (loss) before tax	(66,746)	(53,115)
Tax benefit / (charge) calculated at domestic rates applicable to individual Group entities	19,353	11,543
Tax effect of non-deductible expenses	(12,255)	(12,753)
Tax effect of non-taxable incomes	496	424
Recognition of the tax asset relating to the change in an estimate of deductibility of certain temporary difference	-	(2,136)
Effect of change in tax rates in Ukraine (period of recoverability of temporary differences)	(2,206)	(7,804)
Change in previously unrecognised deferred tax assets	(10,485)	(5,040)
Translation difference	15	(17)
Other differences	(1,615)	(880)
	(6,697)	(16,663)

Deferred tax assets and liabilities related to the following:

	<i>31 December 2013</i>	<i>Change recognised in profit or loss</i>	<i>Change recognised in other comprehensive income</i>	<i>Translation difference</i>	<i>31 December 2012</i>
Deferred tax liabilities:					
Taxable differences on intercompany settlements and investments	(5,850)	(98)	-	-	(5,752)
Deferral of revenues and related costs	(784)	(823)	-	-	39
Other deferred tax liabilities	(25)	363	-	-	(388)
	(6,659)	(558)	-	-	(6,101)
Deferred tax assets:					
Revaluation of property, plant and equipment and difference in depreciation	5,631	11,605	-	-	(5,974)
Deductible costs retained in inventories	96	(669)	-	(1)	766
Tax losses carry forward	18,335	33	-	(6)	18,308
Write-down of inventories	1,689	404	-	(3)	1,288
Deductible differences on intercompany settlements and investments	36,391	5,088	-	7	31,296
Accrued liabilities and provisions	11,179	(4,814)	(772)	6	16,759
Loans and interest payable	4,349	(915)	-	18	5,246
Allowance for doubtful accounts	524	468	-	(14)	70
Adjustment for unrealised profits in inventories	2,503	1,038	-	-	1,465
Deferral of deductible expenses	13,342	4,695	-	-	8,647
Other deferred tax assets	1,435	1,009	-	68	358
	95,474	17,942	(772)	75	78,229
Unrecognised deferred tax assets	(48,840)	(10,485)	-	(65)	(38,290)
Deferred income tax benefit from origination and reversal of temporary differences		<u>6,899</u>	<u>(772)</u>		
Reflected in the consolidated statement of financial position as follows:					
Deferred tax assets	43,645				39,944
Deferred tax liabilities	(3,670)				(6,106)
Deferred tax assets, net	39,975				33,838

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	<i>31 December 2012</i>	<i>Change recognised in profit or loss</i>	<i>Change recognised in other comprehensive income</i>	<i>Translation difference</i>	<i>31 December 2011</i>
Deferred tax liabilities:					
Revaluation of property, plant and equipment and difference in depreciation	(5,974)	30,818	(34,712)	(13)	(2,067)
Taxable differences on intercompany settlements and investments	(5,752)	913	-	-	(6,665)
Other deferred tax liabilities	(388)	(368)	-	-	(20)
	(12,114)	31,363	(34,712)	(13)	(8,752)
Deferred tax assets:					
Deductible costs retained in inventories	766	297	-	2	467
Tax losses carry forward	18,308	507	-	(3)	17,804
Write-down of inventories	1,288	(288)	-	(59)	1,635
Deductible differences on intercompany settlements and investments	31,296	1,538	-	(2)	29,760
Accrued liabilities and provisions	16,759	3,799	743	64	12,153
Loans and interest payable	5,246	(4,185)	-	(1)	9,432
Allowance for doubtful accounts	70	(2,491)	-	65	2,496
Adjustment for unrealised profits in inventories	1,465	(3,490)	-	-	4,955
Deferral of deductible expenses	8,647	(16,126)	-	(6)	24,779
Deferral of revenues and related costs	39	(435)	-	-	474
Other deferred tax assets	358	(784)	-	(7)	1,149
	84,242	(21,658)	743	53	105,104
Unrecognised deferred tax assets	(38,290)	(5,040)	-	4	(33,254)
Deferred income tax benefit from origination and reversal of temporary differences		4,665	(33,969)		
Reflected in the consolidated statement of financial position as follows:					
Deferred tax assets	39,944				77,875
Deferred tax liabilities	(6,106)				(14,777)
Deferred tax assets, net	33,838				63,098

The deferred tax effect on tax losses was as follows:

Country of origination	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Ukraine	6,134	7,840
Cyprus	1,614	1,582
US	6,594	4,461
Switzerland	3,993	4,425
	18,335	18,308

Tax losses carry forward are available for offset against future taxable profits of the companies in which the losses arose for 20 years in the USA, for 5 years in Cyprus and indefinitely in all other jurisdictions.

Deferred tax assets were not recognised in respect of write-down of inventories and tax losses carry forward in USA and tax losses carry forward in Cyprus as there are doubts on availability of sufficient taxable profits in future periods against which assets can be utilised.

As at 31 December 2013 and 2012 the Company has not recognised deferred tax liability in respect of temporary differences amounting to USD 49,754 thousand and USD 46,088 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.

11. Inventories

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

	<i>31 December 2013</i>	<i>31 December 2012</i>
Raw materials	117,782	155,096
Work in process	37,473	53,959
Finished goods	151,896	172,106
	307,151	381,161

As at 31 December 2013 and 2012, write down of inventories to net realisable value amounted to USD 7,977 thousand and USD 6,638 thousand, respectively.

As at 31 December 2013 and 2012, raw materials, work in process and finished, were pledged as a security for the Group's borrowings (Note 17)

	<i>31 December 2013</i>	<i>31 December 2012</i>
Raw materials	46,081	32,734
Work in process	17,443	29,289
Finished goods	108,966	124,523
	172,490	186,546

12. Trade and other accounts receivable

Trade and other accounts receivable consisted of the following:

	<i>31 December 2013</i>	<i>31 December 2012</i>
Trade accounts receivable	195,602	266,556
Less allowance for impairment	(6,439)	(3,471)
	189,163	263,085
Other receivables net of allowance for impairment	9,761	4,137
	198,924	267,222

As at 31 December 2013, trade receivables with carrying value of USD 36,181 thousand (2012: USD 60,191 thousand), were pledged as a security for the Group's borrowings (Note 17).

Movement in the allowance for impairment of trade accounts receivable was as follows:

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
At period beginning	3,471	16,081
Charge / (release) for the year (Note 23)	3,040	(13,297)
Utilisation	(18)	366
Translation difference	(54)	321
At period end	6,439	3,471

As at 31 December 2013 and 2012, allowance for impairment of other receivables amounted to USD 1,423 thousand and USD 769 thousand, respectively.

As at 31 December 2013 and 2012, the allowance for impairment of trade accounts receivable included USD 111 thousand and USD 1,434 thousand, respectively, of the allowance that was determined individually in respect of debtors with significant financial difficulties or with estimated high probability of their insolvency.

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

	<i>Total</i>	<i>Neither past due nor impaired</i>	<i>Past due, net of allowance for impairment</i>			
			<i>< 30 days</i>	<i>30 – 60 days</i>	<i>60 – 90 days</i>	<i>>90 days</i>
31 December 2013	198,924	96,279	44,795	17,666	20,591	19,593
31 December 2012	267,222	123,037	60,395	20,113	11,254	52,423

Trade receivables are non-interest bearing and are generally collected within a three-month term. As at 31 December 2013 and 2012, 57% and 63% of trade accounts receivable, respectively, were due from twenty major customers.

13. Prepayments and other current assets

Prepayments and other current assets consisted of the following:

	<i>31 December 2013</i>	<i>31 December 2012</i>
Prepayments to suppliers	97,975	69,213
Prepaid insurance expense	1,392	1,229
Other current assets	763	549
	100,130	70,991

14. Taxes recoverable, other than income tax

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

	<i>31 December 2013</i>	<i>31 December 2012</i>
Value-added tax recoverable	27,798	38,869
Other taxes recoverable	1,488	1
	29,286	38,870

VAT recoverable primarily originated in Ukraine (Note 5).

15. Other financial assets

Other financial assets consisted of the following:

	<i>31 December 2013</i>	<i>31 December 2012</i>
Restricted bank deposit pledged as collateral for loans	45,338	305
Guarantee deposits	3,936	3,441
Available reimbursement related to litigations (Notes 18 and 25)	3,750	4,500
Other	996	-
	54,020	8,246

As at 31 December 2013 and 2012, restricted bank deposits with carrying value of USD 45,338 thousand and USD 305 thousand, respectively, were pledged as a security for the Group's borrowings (Note 17).

As at 31 December 2013 and 2012, the guarantee deposits represented restricted bank deposits relating to letters of credit issued by banks in favour of the Group's suppliers and guarantees issued by banks in favour of the Group's customers.

16. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	<i>31 December 2013</i>	<i>31 December 2012</i>
Current accounts and deposits on demand at banks	34,481	103,822
Cash in hand	26	42
Time deposits at banks	9	15,937
	34,516	119,801

Demand deposits at bank earned interest at rates up to 8% in USD for the year ended 31 December 2013 and up to 6% in UAH for the year ended 31 December 2012.

Time deposits at banks that were placed for periods of up to three months earned interest at rates of up to 8% in EUR for the year ended 31 December 2013 and up to 8.5% in EUR for the year ended 31 December 2012.

As at 31 December 2013 and 2012, cash and cash equivalents with carrying value of USD 5,116 thousand and USD 69,284 thousand, respectively, were pledged as a security for the Group's borrowings (Note 17).

17. Borrowings

Interest bearing borrowings, net of unamortised portion of directly attributable loan origination costs consisted of the following:

	<i>31 December 2013</i>	<i>31 December 2012</i>
<i>Current borrowings</i>		
Interest bearing loans due to banks	824,014	98,938
Bonds issued	198,967	-
Other borrowings	3,032	10,031
<i>Add: current portion of non-current borrowings</i>	-	203,338
	1,026,013	312,307
<i>Non-current borrowings</i>		
Interest bearing loans due to banks	-	736,825
Bonds issued	-	198,740
<i>Less: Current portion of non-current borrowings</i>	-	(203,338)
	-	732,227
	1,026,013	1,044,534

Applicable interest rate and currency split for borrowings were as follows:

<i>Applicable interest rates</i>		<i>31 December 2013</i>	<i>31 December 2012</i>
<i>SACE facilities* subject to restructuring</i>			
<i>USD</i>			
Fixed rate	7.77% - 13.12%	73,849	80,288
Floating rate	LIBOR (3month) + 1.5% - 3.5%	89,883	97,655
Floating rate	LIBOR (3month) + 4.0% - 6.0%	14,867	15,184
		178,599	193,127
<i>Other facilities subject to restructuring</i>			
<i>USD</i>			
Floating rate	LIBOR (3month) + 4.0% - 6.0%	474,766	543,699
		474,766	543,699
<i>Bonds subject to restructuring and facilities outside of restructuring scope</i>			
<i>USD</i>			
Fixed rate	7.00% - 15.75%	220,721	198,740
<i>EUR</i>			
Fixed rate	7.00% - 13.25%	88,809	48,778
<i>EUR</i>			
Floating rate	LIBOR (3month - 12month) + 4.0% - 10.5%	59,774	50,000
<i>RUR</i>			
Fixed rate	7.50% - 8.60%	3,032	10,031
<i>UAH</i>			
Fixed rate	15.00%	312	159
		372,648	307,708
		1,026,013	1,044,534

* SACE - Italian export credit agency; SACE facilities - facilities backed by SACE.

As at 31 December 2013 the Group was in breach of certain financial and non-financial covenants provided by loan agreements and bonds issue undertakings (Note 2). The non-compliance with the covenants provides the lenders with rights to demand accelerated or full immediate repayment of the borrowings. Loan portfolio restructuring process together with amendment to the existing covenants commenced in October 2013 and was not completed as at 31 December 2013.

As at 31 December 2012 the Group was in compliance with the financial and non-financial covenants.

As at 31 December 2013 USD 446,235 thousand of borrowings, which otherwise would be 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.

As at 31 December 2013 and 2012 the nominal value of the Group's loans and borrowings was USD 1,037,140 thousand and USD 1,066,712 thousand, respectively.

In August 2007, Interpipe Limited issued USD 200 million bonds. The bonds are US Dollar denominated and bore coupon interest rate of 10.25%, per annum, payable semi-annually in arrears.

Pledges of assets

A summary of the pledges to secure Group's obligations is set out below:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Carrying values of property, plant and equipment (Note 7)	934,625	950,064
Inventories (Note 11)	172,490	186,546
Other financial assets (Note 15)	48,986	3,545
Trade receivables (Note 12)	36,181	60,191
Cash and cash equivalents (Note 16)	5,116	69,284
Rights/title/interest under property, plant and equipment purchase agreements	125	2,484

As at 31 December 2013 and 2012 shares and participatory interest of subsidiaries as detailed in Note 30, except for acquired during 2011 "META" LLC were pledged as collateral to secure Group's obligation under Restructured facilities.

As at 31 December 2013 and 2012 the participatory interest in the EAF Project companies and "Dneprosteel -Energ" LLC (Note 30) were also pledged in favour of the other Restructured lenders on a second-tier basis vis-a-vis SACE facility lenders.

18. Provisions

Provisions included the following:

	<u>31 December 2013</u>	<u>31 December 2012</u>
Provision for customers' and other claims	8,232	6,286
Defined benefit state pension plan	47,937	49,571
Retirement benefit plan	2,701	3,341
	58,870	59,198
Provision – current portion	(14,640)	(12,481)
Provision – non-current portion	44,230	46,717

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

For the years ended 31 December 2013 and 2012, movements in the provisions were as follows:

	<i>Provision for customers' and other claims</i>	<i>Defined benefit state pension plan</i>	<i>Retirement benefit plan</i>	<i>Total provisions</i>
At 1 January 2012	10,557	43,238	2,770	56,565
Charge for the year	4,205	11,913	997	17,115
Payments and utilisation	(584)	(5,562)	(425)	(6,571)
Reversal	(7,892)	-	-	(7,892)
Translation difference	-	(18)	(1)	(19)
At 31 December 2012	6,286	49,571	3,341	59,198
Charge for the year	6,825	4,461	(159)	11,127
Payments and utilisation	(129)	(6,095)	(481)	(6,705)
Reversal	(4,750)	-	-	(4,750)
Translation difference	-	-	-	-
At 31 December 2013	8,232	47,937	2,701	58,870

For the years ended 31 December 2013 and 2012, interest costs attributable to the provisions and amounting to USD 6,451 thousand and USD 5,591 thousand, respectively, were included in finance costs in the consolidated statement of comprehensive income (Note 28).

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. Reversal, net of charge for the year ended 31 December 2013 in the amount of USD 1,374 thousand (reversal, net of charge for the year ended 31 December 2012 amounted to USD 4,268 thousand), is included in customers' and other claims charges (Note 25) and other finance costs (Note 28) in the consolidated statement of comprehensive income.

As at 31 December 2013 and 2012, insurance coverage and other reimbursements against probable losses amounting to USD 3,750 thousand and USD 4,500 thousand, respectively, were recognised as an asset and included in other financial assets (Note 15) in the consolidated statement of financial position. For the years ended 31 December 2013 and 2012, decrease in insurance coverage of USD 750 thousand and decrease of USD 3,200 thousand, respectively, was credited to customers' and other claims (charges), net of reversals, in other operating income and expenses (Note 25) in the consolidated statement of comprehensive income. Refer to Note 32 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 qualifying 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 definition of a defined benefit plan.

The following tables summarise the components of benefit expense recognised in the consolidated statement of comprehensive income and the amounts recognised in the consolidated statement of financial position with respect to the plan. Benefit expense, with the exception of interest cost, is included in payroll and related expenses within costs of sales (Note 22). Interest cost is included in finance costs (Note 28).

Benefit expense recognised in the consolidated income statement

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Interest cost (Note 28)	6,048	5,259
Current service cost	2,533	2,479
	8,581	7,738

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

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Present value at the beginning of the year	49,571	43,238
Current service cost	2,533	2,479
Interest cost (Note 28)	6,048	5,259
Payment	(6,095)	(5,562)
Re-measurement losses / (gains) on defined benefit plans:		
- changes in financial assumptions	(4,573)	8,054
- experience adjustments	453	(3,879)
Translation difference	-	(18)
Present value at the end of the year	47,937	49,571

The Group's best estimate of contributions expected to be paid to the plan during the year ending 31 December 2014 amounts to USD 6,116 thousand.

Retirement benefit plan

Some production subsidiaries of the Group domiciled in Ukraine have contractual commitments to pay certain lump-sum payments to the retiring employees with a long service period as well as certain other post retirement and employment benefits according to the collective agreements. The following tables summarise the components of benefit expense recognised in the consolidated statement of comprehensive income and the amounts recognised in the statement of financial position with respect to the plan. Benefit expense, with the exception to interest cost, is included in payroll and related expenses within cost of sales (Note 22) and general and administrative expenses (Note 24) as appropriate. Interest cost is included in the finance costs (Note 28).

Benefit expense recognised in the consolidated income statement

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Interest cost (Note 28)	403	332
Current service cost	140	118
Vested past service cost	-	76
	543	526

Changes in the present value of retirement benefit plan

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Present value at the beginning of the year	3,341	2,770
Current service cost	140	118
Past service cost	-	76
Interest cost (Note 28)	403	332
Payment	(481)	(425)
Re-measurement losses / (gains) on defined benefit plans:		
- changes in financial assumptions	(177)	946
- experience adjustments	(525)	(475)
Translation difference	-	(1)
Present value at the end of the year	2,701	3,341

The Group's best estimate of contributions expected to be paid to the plan during the year ending 31 December 2014 amounts to USD 1,081 thousand.

Principal assumptions applicable to all plans

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

	<i>31 December 2013</i>	<i>31 December 2012</i>
Annual discount rate	13.0%	13.0%
Annual salary increase rate	2.0% in 2014, 5.0% afterwards	8.9% in 2013, 10.0% afterwards
Annual pension increase rate	2.0% in 2014, 5.0% afterwards	8.9% in 2013, 10.0% afterwards

Sensitivity analysis

A quantitative sensitivity analysis for significant assumption as at 31 December 2013 is as shown below:

<i>Assumptions</i>	<i>Discount rate</i>		<i>Future salary increases</i>		<i>Inflation</i>		<i>Staff turnover</i>	
	<i>1% increase</i>	<i>1% decrease</i>	<i>1% increase</i>	<i>1% decrease</i>	<i>1% increase</i>	<i>1% decrease</i>	<i>1% increase</i>	<i>1% decrease</i>
Impact on the net defined benefit obligation	(3,620)	4,173	2,203	(1,956)	1,277	(1,223)	84	(91)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

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19. Trade and other accounts payable

Trade and other accounts payable consisted of the following:

	<i>31 December 2013</i>	<i>31 December 2012</i>
Payables to suppliers	207,688	263,333
Interest payable	14,257	14,531
Dividends payable to non-controlling interest owners	744	814
Promissory notes payable	53	25
Other accounts payable	8,015	8,009
	230,757	286,712

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

20. Taxes payable, other than income tax

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

	<i>31 December 2013</i>	<i>31 December 2012</i>
Property tax payable	2,505	2,092
Accrued and withheld taxes on payroll	1,581	2,671
VAT payable	539	4,315
Miscellaneous other taxes payable	1,114	919
	5,739	9,997

21. Advances and other current liabilities

Advances and other current liabilities consisted of the following:

	<i>31 December 2013</i>	<i>31 December 2012</i>
Advances from customers	92,392	146,239
Short-term employee benefits	12,582	13,090
Other current liabilities	114	120
	105,088	159,449

22. Cost of sales

Cost of sales consisted of the following:

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Materials	(677,507)	(897,306)
Energy and utilities	(219,823)	(207,969)
Depreciation	(131,494)	(88,670)
Payroll and related expenses	(102,608)	(93,416)
Repairs and maintenance	(24,909)	(24,082)
Rolling tools and instruments	(23,122)	(32,058)
Impairment of property, plant and equipment / Revaluation decrease (Note 7)	(20,335)	(126,527)
Write down of inventories	(1,836)	(4,692)
Other	(30,188)	(24,016)
	(1,231,822)	(1,498,736)

23. Selling and distribution expenses

Selling and distribution expenses consisted of the following:

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Forwarding and transportation services	(85,422)	(99,903)
Custom services and duties	(20,257)	(1,664)
Storage and packaging expenses	(11,513)	(10,202)
Payroll and related expenses	(10,465)	(7,278)
Sales agency fees	(2,804)	(2,928)
Release / (charge) of accounts receivable impairment allowance (Note 12)	(3,040)	13,297
Professional fees	(1,638)	(746)
Depreciation	(1,497)	(504)
Advertising and promotion	(1,393)	(1,886)
Insurance expense	(381)	(473)
Other	(3,418)	(3,543)
	(141,828)	(115,830)

24. General and administrative expenses

General and administrative expenses consisted of the following:

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Payroll and related expenses	(38,031)	(34,639)
Professional fees	(8,433)	(6,477)
Business trips and transportation	(6,172)	(5,647)
Depreciation and amortisation	(4,103)	(2,977)
Rent	(2,489)	(2,289)
Communication	(1,406)	(1,301)
Taxes, other than income tax	(1,243)	(864)
Bank fees	(1,129)	(1,156)
Repairs and maintenance	(847)	(619)
Insurance expense	(572)	(786)
Other	(3,980)	(3,767)
	(68,405)	(60,522)

Auditors' remuneration

Auditors' remuneration for the year ended 31 December 2013 is included in professional fees above and comprises statutory audit fee for the audit of the consolidated financial statements of the Group and stand alone financial statements of the certain Group entities of USD 805 thousand (2012: USD 852 thousand) as well as non-audit fees of USD 74 thousand (2012: USD 84 thousand).

25. Other operating income and expenses

Other operating income and expenses consisted of the following:

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Maintenance of social assets	(3,175)	(2,156)
Customers' and other claims charges, net of reversals (Note 18)	(2,838)	(1,484)
Loss on disposal of property, plant and equipment and intangible assets	(1,768)	(1,560)
Impairment of other assets	(1,371)	(3,004)
Reversal of / (impairment) of prepayments and other accounts receivable	(895)	421
Loss on disposal of by-products	(864)	(84)
Impairment of intangible assets (Note 8)	-	(10,478)
Other losses	(3,062)	(396)
	(13,973)	(18,741)

26. Operating and non-operating foreign exchange difference

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

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Operating FOREX gains / (losses) originated on		
trade accounts payable	63	(3,515)
trade accounts receivable	(2,150)	2,225
other operating exchange difference	(1,440)	(93)
	(3,527)	(1,383)
Non-operating FOREX gains / (losses) originated on		
loans payable	(3,564)	(2,078)
cash balances	10,292	2,659
	6,728	581

27. Finance income

Finance income consisted of the following:

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Interest income	2,801	572
Other finance income	275	306
	3,076	878

28. Finance costs

Finance costs consisted of the following:

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Interest expense relating to bank loans and bonds issued	(86,499)	(78,940)
Insurance expenses	(39,048)	(37,230)
Defined benefit state pension plan interest costs (Note 18)	(6,048)	(5,259)
Debt restructuring costs	(1,457)	(1,854)
Retirement benefit plan interest costs (Note 18)	(403)	(332)
Other finance costs	(4,415)	(6,223)
	(137,870)	(129,838)

29. 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 the above 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 these discretionary trusts. The trustees engaged to manage the trusts are professional, experienced and reputable trust management companies.

Ordinary shares authorised and issued and fully paid were as follows:

	<i>Shares</i>	<i>USD thousand</i>
At 1 January 2011	4,000,000,000	62,278
Issued in December 2011	1,950,000	26
At 31 December 2011	4,001,950,000	62,304
Issued in 2012	-	-
At 31 December 2012	4,001,950,000	62,304

In December 2011, the Company issued 1,950,000 additional ordinary shares of EUR 0.01 each (equivalent of USD 26 thousand) at a premium of EUR 25 each and a total premium of EUR 48,591 thousand, which is the equivalent of USD 64,974 thousand. The shares of the Company are not listed.

There were no changes in the share capital of the Company for the year ended 31 December 2013.

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 the Group reporting currency.

Dividends payable by the Company and its subsidiaries

There were no dividends declared by the Company that should be paid to the shareholders for the years ended 31 December 2013 and 31 December 2012.

There were no dividends declared by the subsidiaries that should be paid for the years ended 31 December 2013 and 31 December 2012.

30. Principal subsidiaries

The Group included the following subsidiaries as at 31 December 2013 and 2012:

Name of the company	Country of incorporation	Business activities	Effective ownership	
			31 December 2013	31 December 2012
JSC "Interpipe Nizhnedneprovsky Tube Rolling Plant"	Ukraine	Production of seamless and welded pipes and railway wheels	93.93%	93.93%
JSC "Interpipe Novomoskovsk Pipe-Production Plant"	Ukraine	Production of welded pipes	87.79%	87.64%
"Interpipe Niko Tube" LLC	Ukraine	Production of seamless pipes	99.93%	99.93%
"Metallurgical Plant Dneprosteel" LLC	Ukraine	Production of steel billets	100.00%	100.00%
"Dneprosteel-Energo" LLC	Ukraine	Production of steel billets	100.00%	100.00%
"Transkom - Dnepr" LLC	Ukraine	Transportation services	100.00%	100.00%
"Limestone factory" LLC	Ukraine	Production of limestone	93.93%	93.93%
Society "Dishware Novomoskovsk" Ltd	Ukraine	Production of dishware	87.64%	87.64%
"Interpipe Dneprovormet" PJSC	Ukraine	Scrap metal processing	98.67%	98.67%
"Luganskiy Kombinat Vtormet" LLC	Ukraine	Scrap metal processing	98.67%	98.67%
"META" LLC	Ukraine	Scrap metal processing	98.67%	98.67%
"Research and development center "Quality" LLC	Ukraine	Research and development	100.00%	100.00%
"Interpipe Ukraine" LLC	Ukraine	Trading	100.00%	100.00%
"Interpipe Management" LLC	Ukraine	Management services	100.00%	100.00%
"KLW Production" LLC	Ukraine	Production of railway wheels	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"	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%

There were no acquisitions for the year ended 31 December 2013 and 2012.

In 2013, the Group established a new subsidiary "KLW Production" LLC as part of wheels business reorganization. The Group is considering a transfer of all wheels production facilities and related infrastructure as well as production certificates, permits and licences from JSC "Interpipe Nizhnedneprovsky Tube Rolling Plant" to "KLW Production" LLC to improve operating efficiency and transparency of the wheels business. As of 31 December 2013 "KLW Production" LLC did not own any material assets.

31. 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 of related party identification.

During years ended 31 December 2013 and 2012, the Group’s transactions with its related parties comprised those with its associates (Note 9) and key management personnel.

Transactions with associates

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

	<i>For the year ended 31 December 2013</i>	<i>For the year ended 31 December 2012</i>
Sales of the products and other commodities	655	1,008
Purchases of inventories, utilities and other services	21,046	24,103

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

	<i>31 December 2013</i>	<i>31 December 2012</i>
Amounts owed to the Group	2,039	3,686
Amounts owed by the Group	9,040	10,177

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

Terms and conditions of transactions with associates

The sales to and purchases from associates are made at terms equivalent to those that prevail in arm’s length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. For the year ended 31 December 2013, the Group has recorded an impairment charge relating to receivables from the associates and amounting to USD 10 thousand (2012: 9 thousand). This assessment is undertaken each financial year through examining the financial position of the associate and the market in which the associate operates.

Accounts payable to shareholders

As at 31 December 2013, accounts payable to shareholders, included in other accounts payable, amounted to USD 289 thousand, (2012: USD 277 thousand) were interest free and payable on demand.

Compensation to key management personnel

Key management personnel of the Group as at 31 December 2013 comprised:

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

Name	Function
Olexandr Kirichko	Chairman of the Board of Directors of Interpipe Limited
Gennady Gazin	Non-Executive Director
Andrii Dudnyk	Non-Executive Director, Executive Director, Chief Investment Officer of EastOne
Jean Pierre Saltiel	Independent Non-Executive Director, Co-Chairman of Ukrainian Economic Advisory Council of Yalta European Strategy
Ganna Khomenko	Non-Executive Director, CEO of Fiduciana Trust (Cyprus) Limited
Michael Tsarev	Non-Executive Director, Director, Head of Internal Control and Audit Department of EastOne
Yakiv Konstantynivsky	Non-Executive Director, Director of the Dnipropetrovsk brunch of EastOne
Kirill Roubinski	Non-Executive Director, Chief Executive Officer of EastOne
Iuliia Chebotarova	Non-Executive Director, First Deputy of the CEO of EastOne
Oleg Rozenberg	Chief Executive Officer of Interpipe Limited

- Senior Management of the Group as at 31 December 2013 and 2012 comprised fourteen and eighteen persons (including the CEO who is also a member of the Board of Directors), respectively.

For the year ended 31 December 2013, total compensation, comprising short-term employee benefits, to the members of the Board of Directors amounted to USD 366 thousand (2012: USD 645 thousand) and to the members of Senior Management of the Group – to USD 5,580 thousand (2012: USD 4,671 thousand). The compensation 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.

32. Commitments, contingencies and operating risks

Operating environment

The Group's activities had been adversely affected by cancellation of quota regime for pipes in the Customs Union (signed by Russian Federation, Belarus and Kazakhstan) since 1 July 2013, decline in Ukrainian railcar construction industry resulting in lower Group's sales of wheels and 1-year delay in commissioning of EAF (Note 2).

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, these factors had already affected and may have a further effect on the Group's consolidated 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 related to 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 2013 and 2012, North American Interpipe, Inc. and Interpipe Europe LLC were defendants in several litigations relating to quality claims from customers amounting to approximately USD 6,800 thousand and USD 5,800 thousand, respectively. Provision for probable adverse consequences of the above cases amounting to USD 6,800 thousand and USD 5,800 thousand was included in provision for customers' and other claims in the consolidated statement of financial position as at 31 December 2013 and 2012, respectively (Note 18).

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 2013 and 2012, provisions have been made in respect of these cases amounting to USD 1,431 thousand and USD 485 thousand, respectively. Management believes that the ultimate liability arising from such actions or complaints will not have a material adverse effect on the consolidated financial position or the results of future operations of the Group.

Lease of land

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

Contractual commitments for the acquisition of property, plant and equipment

As at 31 December 2013 and 2012, the Group's contractual commitments for acquisition and modernisation of production equipment amounted to USD 23,011 thousand and USD 9,866 thousand, respectively.

33. 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 equivalents. 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:

	<i>100 UAH</i>	<i>1 EUR</i>	<i>100 RUB</i>	<i>1000 KZT</i>
As at 30 June 2014	8.458	1.361	2.9630	5.4496
As at 31 December 2013	12.511	1.318	3.2924	6.6538
As at 31 December 2012	12.516	1.289	3.1231	6.7550

The Group sells its products to Russia, Europe, and other regions; purchases materials from other countries, mainly from Russia; and attracts substantial amounts 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 of the Group's profit before tax to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant:

<i>For the year ended 31 December 2013</i>	<i>High / low limits of change in currency exchange rate, %</i>	<i>Effect on profit before tax</i>
USD/UAH	+0%	-
EUR/UAH	+0%	-
RUB/UAH	+0%	-
USD/KZT	+0%	-
EUR/USD	+2%	1,636
USD/UAH	-48%	(430,054)
EUR/UAH	-46%	11,788
RUB/UAH	-43%	3,659
USD/KZT	-24%	(310)
EUR/USD	-2%	(1,636)

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<i>For the year ended 31 December 2012</i>	<i>High / low limits of change in currency exchange rate, %</i>	<i>Effect on profit before tax</i>
USD/UAH	+0%	-
EUR/UAH	+0%	-
RUB/UAH	+0%	-
USD/KZT	+2%	50
EUR/USD	+10%	5,416
USD/UAH	-10%	(83,766)
EUR/UAH	-15%	1,221
RUB/UAH	-5%	1,284
USD/KZT	-2%	(50)
EUR/USD	-5%	(2,708)

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 the Group entities to achieve optimal financing of business needs of each entity.

As a result of the covenants breach, the lenders became entitled to demand early repayment of any outstanding amounts. Accordingly, the liabilities due or claimable due within 12 months from 31 December 2013 exceeded the Group's current assets as of that date by USD 649,125 thousand (Note 2).

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 2013 (Notes 2 and 17).

<i>As at 31 December 2013</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Borrowings and interest payable	1,037,916	-	-	-	1,037,916
Trade and other accounts payable	172,228	39,574	5,380	-	217,182
	1,210,144	39,574	5,380	-	1,255,098

<i>As at 31 December 2012</i>	<i>Less than 3 months</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Total</i>
Borrowings and interest payable	68,317	310,500	853,472	-	1,232,289
Trade and other accounts payable	272,180	-	-	-	272,180
	340,497	310,500	853,472	-	1,504,469

Credit risk

Financial instruments, which potentially subject the Group to significant concentrations of credit risk, consist principally of bank deposits (Notes 15, 16), trade and other accounts receivable (Note 12).

Cash is placed with 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 already 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.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates (Note 17). The Group's policy is to manage its interest costs by monitoring changes in interest rates with respect to its borrowings. During 2013 and 2012, the Group borrowed at a fixed and floating rates. Floating rates are mostly linked to London Inter Bank Offering Rate ("LIBOR").

The following table demonstrates the annualised sensitivity of the Group's profit before tax to a reasonably possible change in interest rates, with all other variables held constant (through the impact on floating rate borrowings):

<i>For the year ended 31 December 2013</i>	<i>High / low limits of change in interest rate, basic points</i>	<i>Effect on profit before tax</i>
LIBOR (USD)	+ 50	(3,172)
LIBOR (USD)	+ 25	(1,586)
<i>For the year ended 31 December 2012</i>	<i>High / low limits of change in interest rate, basic points</i>	<i>Effect on profit before tax</i>
LIBOR (USD)	+ 50	(3,502)
LIBOR (USD)	+ 25	(1,751)

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 to the shareholders and benefits to 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.

Fair values of financial instruments

The carrying amounts of financial instruments, consisting of cash and cash deposits, short-term accounts receivable and payable, other financial assets, short-term loans and borrowings, derivative financial instruments approximate their fair values.

Long-term bank loans and borrowing predominately bear variable rates, which are based on prevailing market rates. Accordingly, carrying value of the long-term bank loans and borrowings as at the yearend approximates their fair value.

As at 31 December 2013 and 2012, the fair value of bonds issued and traded over-the-counter was based on market quotation and approximated to USD 165,000 thousand and USD 178,000 thousand, respectively.

34. Events after the reporting period

In June 2014 Ulrich Becker was appointed as Non-Executive Director (Note 31).