INTERPIPE

INTERPIPE LIMITED

Consolidated Financial Statements
Year ended 31 December 2012 together with

Independent Auditor's Report

INTERPIPE

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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 2012, 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 2012, the Group generated revenue from sales of USD 1.8 billion and net loss attributable to the equity holders of the Company amounted to USD 69.4 million. The pipe business segment accounted for 77 per cent of the revenue from sales and 78 per cent of the gross profit and the wheel business segment accounted for 21 per cent of the revenues and 23 per cent of the gross profit in 2012. Further segment information is disclosed in Note 5 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 2011 and 2012, 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 2012, the Company did not declare any dividends.

Information relating to dividends payable by the subsidiaries is disclosed in Notes 18 and 28 to the accompanying Consolidated Financial Statements.

Principal Risks and Uncertainties

The Group has significant operations in Ukraine and CIS countries, whose economies continue to display certain characteristics consistent with that of economies in transition. Further discussion about operating risks and uncertainties is presented in Note 32 to the accompanying Consolidated Financial Statements.

Principal financial risks of the Group are discussed in Note 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 2012.

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 2012 composition and responsibilities of the Board of Directors was as follows::

Name	*Function*	*Date of appointment*	*Date of resignation*
Kirill Roubinski	Chairman of the Board of Directors of Interpipe Limited, Chief Executive Officer of EastOne	20 June 2012	
Gennady Gazin	Non-Executive Director	15 October 2007	
Olexandr Kirichko	Chief Executive Officer of Interpipe Limited	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	
Vitaly Sadykov	Independent Non-Executive Director	19 July 2010	25 April 2013
Michael Tsarev	Non-Executive Director, Director, Head of Internal Control and Audit Department of EastOne	11 May 2011	
Yakiv Konstantynivs'ky	Non-Executive Director, Director of the Dnipropetrovsk brunch of EastOne	20 July 2011	
Iuliia Chebotarova	Non-Executive Director, First Deputy of the CEO of EastOne	10 October 2012	

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

Following changes occurred during the year in Board of Directors' constitution and responsibilities allocation:

- In June 2012 Kirill Roubinski was appointed as a Chairman of the Board of Directors of the Company replacing Gennady Gazin, who became Non-Executive Director;
- In October 2012 Iuliia Chebotarova 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 — Olexandr Kirichko

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

25 May 2013

STATEMENT OF THE DIRECTORS' AND MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

INTERPIPE

The following statement is made with a view to specifying the respective responsibilities of the Directors and management in relation to the consolidated financial statements of Interpipe Limited and its subsidiaries (collectively 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 2012, 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 2012 were authorised for issue on 25 May 2013.

Member of the Board, Chief Executive Officer Olexandr Kirichko

Member of the Board, Non-Executive Director Andrii Dudnyk

25 May 2013

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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 (hereinafter collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012, 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 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 2012, 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.

Report on Other Legal Requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements give the information required by the 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 Law of 2009 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
25 May 2013

INTERPIPE LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012
(in US dollars and in thousands)

INTERPIPE

	Notes	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,165,576	1,048,825
Intangible assets and goodwill	7	1,687	12,102
Investments in associates	8	2,972	2,522
Deferred tax assets	9	35,483	73,789
Other non-current assets		567	555
		1,206,285	**1,137,793**
Current assets			
Inventories	10	381,161	324,492
Trade and other accounts receivable	11	267,222	208,227
Prepayments and other current assets	12	70,991	78,846
Prepaid current income tax		1,160	4,554
Taxes recoverable, other than income tax	13	38,870	57,776
Other financial assets	14	8,246	14,019
Cash and cash equivalents	15	119,801	136,997
		887,451	**824,911**
Non-current assets classified as held for sale	6	-	3,390
TOTAL ASSETS		**2,093,736**	**1,966,094**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		62,304	62,304
Share premium		426,065	426,065
Revaluation reserve		356,538	249,730
Accumulated deficit		(39,876)	(30,326)
Foreign currency translation reserve		(288,713)	(290,081)
		516,318	417,692
Non-controlling interests		36,884	31,943
Total equity	28	**553,202**	**449,635**
Non-current liabilities			
Long-term borrowings	16	732,227	898,967
Deferred tax liabilities	9	6,106	14,777
Provisions	17	18,831	15,227
Other non-current liabilities		85	251
		757,249	**929,222**
Current liabilities			
Borrowings	16	312,307	126,619
Trade and other accounts payable	18	286,712	299,270
Advances and other current liabilities	20	159,449	141,239
Current income tax payable		2,339	495
Taxes payable, other than income tax	19	9,997	3,816
Provisions	17	12,481	15,798
		783,285	**587,237**
Total liabilities		**1,540,534**	**1,516,459**
TOTAL EQUITY AND LIABILITIES		**2,093,736**	**1,966,094**

Member of the Board, Chief Executive Officer ____ Olexandr Kirichko

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

25 May 2013

The Notes presented on pages 13 –58 form an integral part of the consolidated financial statements

INTERPIPE LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012
(in US dollars and in thousands)

INTERPIPE

	Notes	2012	2011
Revenue	5	1,770,024	1,669,673
Cost of sales	21	(1,501,030)	(1,359,633)
Gross profit		**268,994**	**310,040**
Selling and distribution expenses	22	(115,830)	(105,955)
General and administrative expenses	23	(60,522)	(53,850)
Other operating income and expenses	24	(18,741)	5,760
Operating foreign exchange difference	25	(1,383)	2,031
Operating profit		**72,518**	**158,026**
Finance income	26	878	2,754
Finance costs	27	(129,838)	(95,516)
Non-operating foreign exchange difference	25	581	(3,093)
Share of profit of associates	8	452	244
(Loss) / profit before tax		**(55,409)**	**62,415**
Income tax benefit / (expense)	9	(16,296)	(21,397)
(Loss) / profit for the year		**(71,705)**	**41,018**
(Loss) / profit attributable to:			
Equity holders of the parent		(69,446)	43,121
Non-controlling interests		(2,259)	(2,103)
		(71,705)	**41,018**
Other comprehensive income / (loss), net of tax:			
Revaluation of property, plant and equipment		208,721	-
Income tax relating to revaluation of property, plant and equipment	9	(34,712)	-
Exchange differences on translation of foreign operations		1,263	(4,260)
		175,272	**(4,260)**
Total comprehensive income for the year, net of tax		**103,567**	**36,758**
Total comprehensive income / (loss) attributable to:			
Equity holders of the parent		98,626	38,930
Non-controlling interests		4,941	(2,172)
		103,567	**36,758**

The Notes presented on pages 13 –58 form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012
(in US dollars and in thousands)

	Attributable to equity holders of the parent							
	Issued capital	Share premium	Revaluation reserve	Accumulated deficit	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
At 1 January 2011	**62,278**	**361,091**	**291,644**	**(115,361)**	**(285,890)**	**313,762**	**34,115**	**347,877**
Profit / (loss) for the year	-	-	-	43,121	-	43,121	(2,103)	41,018
Other comprehensive loss	-	-	-	-	(4,191)	(4,191)	(69)	(4,260)
Total comprehensive income / (loss)	-	-	-	43,121	**(4,191)**	**38,930**	**(2,172)**	**36,758**
Depreciation transfer	-	-	(41,914)	41,914	-	-	-	-
Issue of share capital (Note 28)	26	64,974	-	-	-	65,000	-	65,000
At 31 December 2011	**62,304**	**426,065**	**249,730**	**(30,326)**	**(290,081)**	**417,692**	**31,943**	**449,635**
Loss for the year	-	-	-	(69,446)	-	(69,446)	(2,259)	(71,705)
Other comprehensive income	-	-	166,704	-	1,368	168,072	7,200	175,272
Total comprehensive income / (loss)	-	-	**166,704**	**(69,446)**	**1,368**	**98,626**	**4,941**	**103,567**
Depreciation transfer	-	-	(59,896)	59,896	-	-	-	-
At 31 December 2012	**62,304**	**426,065**	**356,538**	**(39,876)**	**(288,713)**	**516,318**	**36,884**	**553,202**

The Notes presented on pages 13-58 form an integral part of the consolidated financial statements

INTERPIPE LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012
(in US dollars and in thousands)

INTERPIPE

	Notes	2012	2011
(Loss) / profit before tax		**(55,409)**	**62,415**
Adjustments for:			
Depreciation and amortisation	21,22,23	92,151	91,460
Revaluation decrease / Impairment of property, plant and equipment and intangible assets	21, 24	137,005	19,150
Loss / (gain) on disposal of property, plant and equipment and intangible assets	24	1,560	(959)
Finance costs	27	129,838	95,516
Finance income	26	(878)	(2,754)
Movement in provisions less interest cost		(2,105)	(20,694)
Loss on disposal of non-current assets held for disposal		-	91
Share of profit of associates	8	(452)	(244)
Translation difference and foreign exchange difference		1,027	3,429
Operating cash flows before working capital changes		**302,737**	**247,410**
(Increase) / Decrease in inventories		(55,067)	(117,690)
(Increase) / Decrease in trade and other accounts receivable		(60,650)	(119,374)
(Increase) / Decrease in prepayments and other assets		5,427	(63,707)
(Increase) / Decrease in taxes recoverable, other than income tax		18,810	(23,150)
Increase / (Decrease) in trade and other accounts payable		(13,868)	88,894
Increase / (Decrease) in taxes payable, other than income tax		6,107	(1,766)
Increase / (Decrease) in advances and other current liabilities		17,850	102,261
Cash generated from operations		**221,346**	**112,878**
Income tax paid		(15,678)	(7,400)
Interest and other finance costs paid		(94,181)	(135,503)
Net cash inflow / (outflow) from operating activities		**111,487**	**(30,025)**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets		(126,233)	(151,012)
Proceeds from sale of property, plant and equipment		2,636	2,111
Acquisition of subsidiaries, net of cash of acquired	29	(173)	(327)
Interest received		560	2,643
Net cash outflow from investing activities		**(123,210)**	**(146,585)**
Cash flows from financing activities			
Proceeds from borrowings		136,041	180,555
Repayments of borrowings		(145,216)	(6,049)
Release from restricted cash accounts		3,000	20,695
Proceeds from share issue	28	-	65,000
Dividends paid to non-controlling interest holders		(13)	(1,839)
Net cash (outflow) / inflow from financing activities		**(6,188)**	**258,362**
Net change in cash and cash equivalents		(17,911)	81,752
Net foreign exchange difference		715	(694)
Cash and cash equivalents at period beginning		**136,997**	**55,939**
Cash and cash equivalents at period end	15	**119,801**	**136,997**

The Notes presented on pages 13-58 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 5.

The consolidated financial statements of the Group as at 31 December 2012 and for the year then ended were authorised for issue in accordance with a resolution of the Board of Directors on 25 May 2013.

2. 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 Company Law, Cap.113. The entities composing the Group maintain their accounting records in accordance with the accounting and reporting regulations of the countries of their incorporation. Local statutory accounting principles and procedures may differ from those generally accepted under IFRS. Accordingly, the consolidated financial statements, which have been prepared from the Group entities' local statutory accounting records, reflect adjustments necessary for such financial statements to be presented in accordance with IFRS.

The consolidated financial statements have been prepared on a historical cost basis except for property, plant and equipment and construction in progress, which have been measured at fair value as at 1 July 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 hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in fair values attributable to the risks that are being hedged.

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

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

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

Going concern

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

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 2012:

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets;

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters;

IFRS 7 Financial Instruments: Disclosures (Amendments) – Enhanced Derecognition Disclosure Requirements.

The adoption of the standards is described below:

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and had no effect on the Group's financial position, performance or its disclosures.

IFRS 1 First-Time Adoption of International Financial Reporting Standards (Amendment) – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters

The IASB provided guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to hyperinflation. The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment has had no effect on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures (Amendments) – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements. The amendment has had no effect on the financial position or performance of the Group.

Basis of consolidation

The IFRS consolidated financial statements comprise the financial statements of the Company and its subsidiaries at 31 December 2012 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 3 under Financial liabilities.

3. Summary of significant accounting policies

Foreign currency translation

The IFRS consolidated financial statements are presented in the US Dollars ("USD"), which is the Company's functional and presentation currency. Items 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:

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

Construction in progress comprises prepayments made and letters of credit issued for purchases of property, plant and equipment, 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 trademark, accounting and other software acquired separately from business combination and measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. Intangible assets are amortised using straight line method over estimated useful lives from three to ten years.

Investments in associates

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

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment. The consolidated statement of comprehensive income reflects the share of the results of operations of the associate. Where there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

The reporting dates of the associate and the Group are identical and the associates' accounting policies conform to those used by the Group for 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 2012 and 2011.

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.

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

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

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 2011 to enhance the disclosures made therein in line with 2012 presentation.

IFRSs and IFRIC Interpretations not yet effective

Standards issued but not yet effective up to the date of the issuance of the Group's consolidated financial statements are listed below. 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 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 change the grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items that will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012, and will therefore be applied in the Group's first annual report after becoming effective.

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amended standard will impact the net benefit expense as the expected return on plan assets will be calculated using the same interest rate as applied for the purpose of discounting the benefit obligation. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 *Joint Arrangements*, and IFRS 12 *Disclosure of Interests in Other Entities*, IAS 28 *Investments in Associates*, has been renamed to IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The Group expects that the adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 1 Government Loans – Amendments to IFRS 1

These amendments require first-time adopters to apply the requirements of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to IFRS. Entities may choose to apply the requirements of IFRS 9 (or IAS 39, as applicable) and IAS 20 to government loans retrospectively if the information needed to do so had been obtained at the time of initially accounting for that loan. The exception would give first-time adopters relief from retrospective measurement of government loans with a below-market rate of interest. The amendment is effective for annual periods on or after 1 January 2013. The amendment has no impact on the Group.

IFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 Consolidated Financial Statements, IAS 27 Separate Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in *SIC-12 Consolidation — Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. Based on the preliminary analyses performed, IFRS 10 is not expected to have any impact on the currently held investments of the Group. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities — Non-monetary Contributions by Ventures*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The Group expects that the adoption of the new standard will not have a significant impact on its financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The amendment affects disclosures only and will have no impact on the Group's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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 when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal (stripping) costs incurred in surface mining activity, during the production phase of the mine. The interpretation addresses the accounting for the benefit from the stripping activity. The interpretation is effective for annual periods beginning on or after 1 January 2013. The new interpretation will not have an impact on the Group.

Annual Improvements May 2012

These improvements will not have an impact on the Group, but include:

IFRS 1 First-time Adoption of International Financial Reporting Standards

This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

IAS 1 Presentation of Financial Statements

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 Property Plant and Equipment

This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 Financial Instruments, Presentation

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 Interim Financial Reporting

The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

These improvements are effective for annual periods beginning on or after 1 January 2013.

4. Significant accounting judgements and estimates

Estimation of uncertainty

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

Pension obligations under defined benefit plan

The Group collects information relating to its employees in service and pensioners receiving pension benefits and uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. These calculations require the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate and future projected salary). More details are provided in Note 17.

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.

As at 31 December 2012 and 2011, 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 6).

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. This requires an estimation of the value in use of the cash generating units ("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 7.

Allowances and net realisable value

The Group makes allowances for doubtful accounts receivable (Note 11). 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 10).

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 9 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 17 and 32).

5. Segment information

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

1. Seamless pipes segment – production and distribution of:
   - Seamless oil country tubular goods ("OCTG"), used in oil and gas exploration and production;
   - Seamless transportation line pipes, used in 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 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 a wide range of forged wheels used for freight cars, passenger carriages, locomotives and underground trains as well as tyres for wheel sets used on locomotives, underground trains and trams.
4. Other operations segment - production and sales of enamel ware, lime, scrap metal collection and processing, and other by-products and services.

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

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

(in US dollars and in thousands)

Segment revenues and results Year ended 31 December 2012	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
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
Cost of sales	(950,709)	(204,725)	(305,499)	(40,097)	(1,501,030)
Gross profit	**174,298**	**35,875**	**61,154**	**(2,333)**	**268,994**
Selling and distribution expenses	(85,007)	(21,302)	(11,449)	1,928	(115,830)
General and administrative expenses	(38,242)	(12,769)	(8,729)	(782)	(60,522)
Other operating income and expenses	(13,386)	(2,933)	(2,745)	323	(18,741)
Operating foreign exchange difference	(1,230)	131	(283)	(1)	(1,383)
Operating profit / (loss)	**36,433**	**(998)**	**37,948**	**(865)**	**72,518**
Finance income					878
Finance costs					(129,838)
Non-operating foreign exchange difference					581
Share of profit of associates					452
Profit before tax					**(55,409)**
Income tax expense					(16,296)
Profit for the year					**(71,705)**

For the years ended 31 December 2012 and 2011, 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 Year ended 31 December 2012	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Operating profit / (loss)	36,433	(998)	37,948	(865)	72,518
Depreciation and amortisation	56,765	11,338	23,921	127	92,151
Revaluation decrease (Note 21, 24)	101,226	8,865	22,894	4,020	137,005
Loss / (gain) on disposal of property, plant and equipment (Note 24)	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**	**3,226**	**304,617**

Segment assets, liabilities and other information Year ended 31 December 2012	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Segment assets	1,288,479	177,952	409,292	17,027	1,892,750
Segment liabilities	347,667	18,761	85,328	8,209	459,965
Investment in associates (Note 8)	2,972	-	-	-	2,972
Addition to property, plant and equipment (Note 6)	87,432	5,148	36,263	879	129,722
Movement in provisions (Note 17)	3,534	476	2,537	319	6,866
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

(in US dollars and in thousands)

Segment revenues and results *Year ended* *31 December 2011*	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Revenue	1,008,592	216,023	311,086	222,297	1,757,998
Elimination of sales to other segments	-	-	-	(88,325)	(88,325)
Revenue - external	1,008,592	216,023	311,086	133,972	1,669,673
Cost of sales	(795,881)	(179,100)	(250,158)	(134,494)	(1,359,633)
Gross profit	**212,711**	**36,923**	**60,928**	**(522)**	**310,040**
Selling and distribution expenses	(71,213)	(24,081)	(9,279)	(1,382)	(105,955)
General and administrative expenses	(32,867)	(12,227)	(5,924)	(2,832)	(53,850)
Other operating income and expenses	7,360	(356)	(854)	(390)	5,760
Operating foreign exchange difference	1,309	(189)	812	99	2,031
Operating profit / (loss)	**117,300**	**70**	**45,683**	**(5,027)**	**158,026**
Finance income					2,754
Finance costs					(95,516)
Non-operating foreign exchange difference					(3,093)
Share of profit of associates					244
Profit before tax					**62,415**
Income tax expense					(21,397)
Profit for the year					**41,018**

For the year ended 31 December 2011, share of profit of associates was attributable to seamless pipes segment.

EBITDA by segments *Year ended* *31 December 2011*	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Operating profit / (loss)	117,300	70	45,683	(5,027)	158,026
Depreciation and amortisation	57,032	11,331	21,746	1,351	91,460
Impairment of property, plant and equipment and intangible assets (Note 21, 24)	12,553	1,546	5,051	-	19,150
Loss on disposal of property, plant and equipment (Note 24)	(830)	285	(394)	(20)	(959)
Customer's claim (Note 24)	(12,182)	-	-	-	(12,182)
Operating foreign exchange difference	(1,309)	189	(812)	(99)	(2,031)
EBITDA	**172,564**	**13,421**	**71,274**	**(3,795)**	**253,464**

Segment assets, liabilities and other information *Year ended* *31 December 2011*	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Segment assets	1,145,646	144,528	349,487	41,741	1,681,402
Non-current assets classified as held for sale	3,390	-	-	-	3,390
Segment liabilities	338,861	34,148	66,338	16,110	455,457
Investment in associates (Note 8)	2,522	-	-	-	2,522
Addition to property, plant and equipment (Note 6)	127,155	327	57,793	3,726	189,001
Movement in provisions (Note 17)	(7,971)	302	284	150	(7,235)
Other non-cash items	(9,770)	389	(2,317)	370	(11,328)
Impairment of property, plant and equipment and intangible assets	(12,553)	(1,546)	(5,051)	-	(19,150)

(in US dollars and in thousands)

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

	31 December 2012	31 December 2011
Segment assets for reportable segments	**1,875,723**	**1,639,661**
Other segments assets	**17,027**	**41,741**
Non-current assets classified as held for sale	**-**	**3,390**
Unallocated		
Intangible assets	1,687	1,624
Deferred tax assets	35,483	73,789
Prepaid current income tax	1,160	4,554
Taxes recoverable, other than income tax	38,870	57,776
Other financial assets	3,746	6,319
Cash and cash equivalents	119,801	136,997
Other non-current assets	239	243
	200,986	**281,302**
Total assets	**2,093,736**	**1,966,094**

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

	31 December 2012	31 December 2011
Segment liabilities for reportable segments	**451,756**	**439,347**
Other segments liabilities	**8,209**	**16,110**
Unallocated		
Deferred tax liabilities	6,106	14,777
Taxes payable, other than income tax	9,997	3,816
Current income tax liabilities	2,339	495
Borrowings	1,044,534	1,025,586
Interest payable	14,531	10,907
Dividends payable to non-controlling interest owners	814	827
Other liabilities	2,248	4,594
	1,080,569	**1,061,002**
Total liabilities	**1,540,534**	**1,516,459**

Geographical information

Revenues from external customers

	For the year ended 31 December 2012	For the year ended 31 December 2011
Ukraine	531,060	608,321
Russia	496,988	413,306
Other CIS countries	278,442	239,474
NAFTA	172,828	148,956
Europe	141,190	185,602
Middle East and Africa	109,268	71,026
Other countries	40,248	2,988
	1,770,024	**1,669,673**

NAFTA region includes the USA, Canada and Mexico. 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.

(in US dollars and in thousands)

Non-current assets

Non-current assets comprising property, plant and equipment, intangible assets and goodwill 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.

	31 December 2012	*31 December 2011*
Ukraine	1,166,670	974,748
Europe	272	85,895
Other countries	321	284
	1,167,263	**1,060,927**

As at 31 December 2011 non-current assets allocated to Europe are primarily attributable to the construction of an electric arc furnace ("EAF" or "EAF Project") (Notes 6 and 32).

(in US dollars and in thousands)

6. Property, plant and equipment

Movement in property, plant and equipment and related accumulated depreciation for the years ended 31 December 2012 and 2011 was as follows:

	Buildings and structures	*Machinery and equipment*	*Transport and motor vehicles*	*Fixtures and office equipment*	*Construction-in-progress and uninstalled equipment*	*Total*
Cost or valuation:						
At 1 January 2011	**215,718**	**510,600**	**12,629**	**4,879**	**444,934**	**1,188,760**
Additions	-	-	-	-	189,001	189,001
Transfers	6,468	46,388	2,063	577	(55,496)	-
Disposals and write-offs	(310)	(13,505)	(660)	(200)	-	(14,675)
Impairment (Note 21)	-	-	-	-	(937)	(937)
Acquisitions of a subsidiaries	624	-	-	-	-	624
Translation difference	(764)	(1,858)	(55)	(21)	(1,901)	(4,599)
At 31 December 2011	**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**
Accumulated depreciation and impairment:						
At 1 January 2011	**50,970**	**156,185**	**6,705**	**2,594**	-	**216,454**
Depreciation for the year	19,838	70,554	1,653	736	-	92,781
Disposals and write-offs	(121)	(12,855)	(404)	(183)	-	(13,563)
Impairment (Note 21)	7,663	7,017	-	-	-	14,680
Translation difference	(239)	(721)	(29)	(14)	-	(1,003)
At 31 December 2011	**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**
Net book value						
At 31 December 2011	143,625	321,445	6,052	2,102	575,601	1,048,825
At 31 December 2012	525,338	468,205	35,179	3,673	133,181	1,165,576

(in US dollars and in thousands)

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 31 December 2011 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 for the year ended 31 December 2012.

As at 31 December 2011, the Group has assessed certain property, plant and equipment items relating to open-hearth furnace workshop ("OHF") for impairment. Management had intentions to decommission OHF by the end of 2012. The recoverable amount was determined as the remaining value in use plus scrap value assessed by professional appraisers. The impairment charge relating to OHF and amounting to USD 14,680 thousand was recognised in cost of sales (Note 21).

As at 31 December 2012 and 2011, property, plant and equipment with carrying value of USD 950,064 thousand and USD 849,337 thousand, respectively, were pledged as a security for the Group's borrowings (Note 16).

For the years ended 31 December 2012 and 2011, borrowing costs amounting to USD 9,737 thousand and USD 13,149 thousand, respectively, were capitalised in property, plant and equipment. The capitalisation rate for the years ended 31 December 2012 and 2011 comprised 5.28% and 4.87%, respectively.

As at 31 December 2012 and 2011, the cost of fully depreciated items of property, plant and equipment, which remain in use, amounted to USD 2,698 thousand and USD 13,729 thousand, respectively.

As at 31 December 2011, non-current assets held for sale were represented by production equipment located in the USA. In October 2010, the agreement for its sale was signed with expected disposal date in August 2011. The net book value of the equipment amounting to USD 5,775 thousand was written down to its selling price of USD 3,481 thousand and was reclassified to non-current assets held for sale. The impairment charge relating to the assets and amounting to USD 2,294 thousand was recognised in other operating income and expenses in 2010. In August 2011 the sale agreement was revised with the settlement date reset to 2012 and the final price decreased to USD 3,390 thousand. As the result of the revision, the carrying value of the equipment was written down by further USD 91 thousand, recognised in other operating income and expenses in 2011. In March 2012 equipment was sold for the consideration equal to its carrying value.

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

	Buildings and structures	*Machinery and equipment*	*Transport and motor vehicles*	*Fixtures and office equipment*	*Construction-in-progress and uninstalled equipment*	*Total*
31 December 2011	43,468	185,670	3,678	2,303	575,601	810,720
31 December 2012	251,789	433,572	24,064	3,556	116,971	829,952

(in US dollars and in thousands)

7. Intangible assets and goodwill

Movement in intangible assets and goodwill and related accumulated amortisation for the years ended 31 December 2012 and 2011 was as follows:

	Goodwill	*Patents and trademark*	*Accounting software*	*Other software*	*Intangible assets under development*	*Total*
Cost						
At 1 January 2011	**10,478**	**99**	**2,248**	**2,226**	**3,836**	**18,887**
Additions	-	9	92	199	127	427
Disposals	-	(5)	-	(10)	-	(15)
Translation difference	-	(1)	(6)	(10)	(14)	(31)
At 31 December 2011	**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**
Accumulated amortisation and impairment						
At 1 January 2011	-	**46**	**1,313**	**1,480**	-	**2,839**
Amortisation for the year	-	15	440	365	-	820
Disposals	-	(5)	-	(9)	-	(14)
Impairment (Note 24)	-	-	317	-	3,216	3,533
Translation difference	-	-	(5)	(7)	-	(12)
At 31 December 2011	-	**56**	**2,065**	**1,829**	**3,216**	**7,166**
Amortisation for the year	-	5	83	339	-	427
Disposals	-	(2)	-	(449)	-	(451)
Impairment (Note 24)	10,478	-	-	-	-	10,478
Translation difference	-	-	-	-	-	-
At 31 December 2012	**10,478**	**59**	**2,148**	**1,719**	**3,216**	**17,620**
Net book value						
At 31 December 2011	**10,478**	**46**	**269**	**576**	**733**	**12,102**
At 31 December 2012	**-**	**30**	**200**	**374**	**1,083**	**1,687**

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.

Impairment charge for the year ended 31 December 2011 related to capitalised costs and licenses attributable to the implementation of the management information system. Financing of the project was suspended in early 2009 and the management decided against any further pursuits to develop that project as at 31 December 2011.

For the years ended 31 December 2012 and 2011 there were no internally generated intangible assets included into additions of intangible assets under development.

Goodwill impairment test

For the purpose of impairment testing goodwill acquired through business combination has been allocated to separate cash generating unit – EAF (Note 6), as opposed to test performed as at 31 December 2011, when it was allocated to 2 CGUs – wheels and seamless pipes. This change relates to put in use of EAF and closure of OHF (Note 6).

EAF CGU included following entities:

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

(in US dollars and in thousands)

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 (Note 24).

8. Investments in associates

The Group's investments in associates were as follows:

Entity	*Activity*	*% of the Group ownership*	*31 December 2012*	*31 December 2011*
CJSC "Nikopolsky Repairing Plant"	Repairs	25%	1,290	1,113
CJSC "Nikopolsky Tooling Plant"	Tooling for machines	25%	1,028	1,044
CJSC "Teplogeneratzia"	Utility services	30%	654	365
			2,972	**2,522**

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:

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
At period beginning	2,522	2,287
Share of profit	452	244
Translation difference	(2)	(9)
At period end	**2,972**	**2,522**

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

	CJSC "Teplo-generatzia"	*CJSC "Nikopolsky Tooling Plant"*	*CJSC "Nikopolsky Repairing Plant"*
At 31 December 2012			
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**

(in US dollars and in thousands)

	CJSC "Teplo-generatzia"	*CJSC "Nikopolsky Tooling Plant"*	*CJSC "Nikopolsky Repairing Plant"*
At 31 December 2011			
Assets	3,610	2,182	2,407
Liabilities	(3,245)	(1,138)	(1,294)
Net assets – carrying amounts of investments	**365**	**1,044**	**1,113**

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

	For the year ended 31 December 2012		*For the year ended 31 December 2011*	
	Revenue	*Profit / (loss) for the year*	*Revenue*	*Profit for the year*
CJSC "Teplogeneratzia"	7,438	290	5,798	89
CJSC "Nikopolsky Repairing Plant"	4,655	178	4,828	149
CJSC "Nikopolsky Tooling Plant"	4,023	(16)	3,228	6

9. Income tax

The components of income tax expense for the years ended 31 December 2012 and 2011 were as follows:

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Current income tax expense	(21,328)	(23,066)
Deferred income tax benefit	5,032	1,669
	(16,296)	**(21,397)**

Income tax benefit / (expense) for the years ended 31 December 2012 and 2011 originated in the following tax jurisdictions:

	Domestic tax rates applicable to individual group entities as at			
	31 December 2012	*31 December 2011*	*For the year ended 31 December 2012*	*For the year ended 31 December 2011*
Ukraine	21%	23.5%	(1,991)	(18,015)
Russia	20%	20%	(4,260)	(3,708)
Switzerland	11%	11%	(950)	(3,034)
The USA	34%	34%	(9,821)	5,660
Cyprus	10%	10%	494	(1,102)
Kazakhstan	20%	20%	232	(1,198)
			(16,296)	**(21,397)**

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 and will be further reduced to 21% in 2012, to 19% in 2013, and 16% 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 is expected to increase to 12,5% from 1 January 2013.

(in US dollars and in thousands)

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

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Accounting profit / (loss) before tax	(55,409)	62,415
Tax benefit / (charge) calculated at domestic rates applicable to individual Group entities	11,910	(8,376)
Tax effect of non-deductible expenses	(12,753)	(11,420)
Tax effect of non-taxable incomes	424	1,058
Recognition of the tax asset relating to the change in an estimate of deductibility of certain temporary difference	(2,136)	1,369
Effect of change in tax rates in Ukraine (period of recoverability of temporary differences)	(7,804)	(3,585)
Change in previously unrecognised deferred tax assets	(5,040)	253
Translation difference	(17)	(26)
Other differences	(880)	(670)
	(16,296)	**(21,397)**

Deferred tax assets and liabilities related to the following:

	31 December 2012	*Change recognised in profit or loss*	*Change recognised in other comprehensive income*	*Translation difference*	*31 December 2011*
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	12,298	4,166	-	65	8,067
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
	79,781	**(21,291)**	**-**	**54**	**101,018**
Unrecognised deferred tax assets	(38,290)	(5,040)		4	(33,254)
Deferred income tax benefit from origination and reversal of temporary differences		5,032	(34,712)		
Reflected in the consolidated statement of financial position as follows:					
Deferred tax assets	35,483				73,789
Deferred tax liabilities	(6,106)				(14,777)
Deferred tax assets, net	**29,377**				**59,012**

(in US dollars and in thousands)

	31 December 2011	*Change recognised in profit or loss*	*Translation difference*	*31 December 2010*
Deferred tax liabilities:				
Revaluation and deemed cost adjustments of property, plant and equipment and difference in depreciation	(2,067)	11,401	(11)	(13,457)
Taxable differences on intercompany settlements and investments	(6,665)	8,741	1	(15,407)
Other deferred tax liabilities	(20)	7	1	(28)
	(8,752)	**20,149**	**(9)**	**(28,892)**
Deferred tax assets:				
Deductible costs retained in inventories	467	4,075	4	(3,612)
Tax losses carry forward	17,804	(15,793)	(79)	33,676
Write-down of inventories	1,635	(889)	8	2,516
Deductible differences on intercompany settlements and investments	29,760	(14,993)	2	44,751
Accrued liabilities and provisions	8,067	(3,436)	(36)	11,539
Loans and interest payable	9,432	(3,510)	(11)	12,953
Allowance for doubtful accounts	2,496	(1,742)	(103)	4,341
Adjustment for unrealised profits in inventories	4,955	1,901	-	3,054
Deferral of tax deductible expenses	24,779	16,001	(69)	8,847
Deferral of revenues and related costs	474	(78)	(2)	554
Other deferred tax assets	1,149	(269)	27	1,391
	101,018	**(18,733)**	**(259)**	**120,010**
Unrecognised deferred tax assets	(33,254)	253	(25)	(33,482)
Deferred income tax benefit from origination and reversal of temporary differences		**1,669**		
Reflected in the consolidated statement of financial position as follows:				
Deferred tax assets	73,789			69,002
Deferred tax liabilities	(14,777)			(11,366)
Deferred tax assets, net	**59,012**			**57,636**

The deferred tax effect on tax losses was as follows:

Country of origination	*For the year ended 31 December 2012*	*For the year ended 31 December 2011*
Ukraine	7,840	8,630
Cyprus	1,582	3,900
US	4,461	167
Switzerland	4,425	4,452
Kazakhstan	-	655
	18,308	**17,804**

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, Capitalised transaction costs and Tax losses carry forward in Cyprus as there're doubts on availability of sufficient taxable profits in future periods against which assets can be utilised.

As at 31 December 2012 and 2011 the Company has not recognised deferred tax liability in respect of temporary differences amounting to USD 46,088 thousand and USD 36,333 thousand, respectively, associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

(in US dollars and in thousands)

10. Inventories

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

	31 December 2012	*31 December 2011*
Raw materials	155,096	108,635
Work in process	53,959	50,059
Finished goods	172,106	165,798
	381,161	**324,492**

As at 31 December 2012 and 2011, write down of inventories to net realisable value amounted to USD 6,638 thousand and USD 7,379 thousand, respectively.

As at 31 December 2012 and 2011, certain inventories were pledged as a security for the Group's borrowings (Note 16)

	31 December 2012	*31 December 2011*
Raw materials	32,734	28,624
Work in process	29,289	22,688
Finished goods	124,523	95,590
	186,546	**146,902**

11. Trade and other accounts receivable

Trade and other accounts receivable consisted of the following:

	31 December 2012	*31 December 2011*
Trade accounts receivable	266,556	221,936
Less allowance for impairment	(3,471)	(16,081)
	263,085	205,855
Other receivables net of allowance for impairment	4,137	2,372
	267,222	**208,227**

As at 31 December 2012, trade receivables with carrying value of USD 60,192 thousand (2011: USD 23,517 thousand), were pledged as a security for the Group's borrowings (Note 16).

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

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
At period beginning	16,081	23,245
Release for the year (Note 22)	(13,297)	(4,090)
Utilisation	366	(2,556)
Translation difference	321	(518)
At period end	**3,471**	**16,081**

As at 31 December 2012 and 2011 allowance for impairment of other receivables amounted to USD 769 thousand and USD 1,233 thousand, respectively.

As at 31 December 2012 and 2011, the allowance for impairment of trade accounts receivable included USD 1,434 thousand and USD 2,590 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:

		Neither past due nor impaired	*Past due, net of allowance for impairment*			
	Total		*< 30 days*	*30 – 60 days*	*60 – 90 days*	*>90 days*
31 December 2012	**267,222**	123,037	60,395	20,113	11,254	52,423
31 December 2011	**208,227**	129,965	23,911	22,103	3,165	29,083

Trade receivables are non-interest bearing and are generally collected within a three-month term. As at 31 December 2012 and 2011, 63% and 66% of trade accounts receivable, respectively, were due from twenty major customers.

(in US dollars and in thousands)

12. Prepayments and other current assets

Prepayments and other current assets consisted of the following:

	31 December 2012	*31 December 2011*
Prepayments to suppliers	69,213	73,694
Prepaid insurance expense	1,229	2,872
Other current assets	549	2,280
	70,991	**78,846**

13. Taxes recoverable, other than income tax

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

	31 December 2012	*31 December 2011*
Value-added tax recoverable	38,869	57,773
Other taxes recoverable	1	3
	38,870	**57,776**

VAT recoverable primarily originated in Ukraine (Note 4).

14. Other financial assets

Other financial assets consisted of the following:

	31 December 2012	*31 December 2011*
Available reimbursement related to litigations (Notes 17 and 24)	4,500	7,700
Guarantee deposits	3,441	3,014
Restricted bank deposit pledged as collateral for loans	305	3,305
	8,246	**14,019**

As at 31 December 2012 and 2011, 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.

As at 31 December 2012 and 2011, restricted bank deposits and guarantee deposits with carrying value of USD 3,545 thousand and USD 6,226 thousand, respectively, were pledged as a security for the Group's borrowings (Note 16).

15. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	31 December 2012	*31 December 2011*
Current accounts and deposits on demand at banks	103,822	134,689
Time deposits at banks	15,937	2,285
Cash in hand	42	23
	119,801	**136,997**

As at 31 December 2012 and 2011, demand deposits at banks earned interest at rates of up to 6% per annum and were UAH denominated. Time deposits at banks that were placed for periods of up to three months earned interest at rates of up to 8.5% in EUR for the year ended 31 December 2012 and up to 0.5% in UAH for the year ended 31 December 2011.

As at 31 December 2012 and 2011, cash and cash equivalents with carrying value of USD 69,284 thousand and USD 79,943 thousand, respectively, were pledged as a security for the Group's borrowings (Note 16).

(in US dollars and in thousands)

16. Borrowings

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

	31 December 2012	31 December 2011
Current borrowings		
Interest bearing loans due to banks	98,938	40,000
Other borrowings	10,031	23,517
Add: current portion of non-current borrowings	203,338	63,102
	312,307	**126,619**
Non-current borrowings		
Interest bearing loans due to banks	736,825	763,534
Bonds issued	198,740	198,535
Less: Current portion of non-current borrowings	(203,338)	(63,102)
	732,227	898,967
	1,044,534	**1,025,586**

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

	Applicable interest rates	31 December 2012	31 December 2011
Restructured SACE facilities			
USD			
Fixed rate	7.77% - 11.12%	80,288	78,477
Floating rate	LIBOR (3month) + 1.5%	97,655	89,022
Floating rate	LIBOR (3month) + 4.0%	15,184	18,738
		193,127	186,237
Restructured facilities			
USD			
Floating rate	LIBOR (3month) + 4.0%	543,699	577,059
		543,699	577,059
Bonds restructured and facilities outside of restructuring scope			
USD			
Fixed rate	10.70% – 13.00%	198,740	238,773
USD			
Floating rate	LIBOR (3month - 12month) + 7,5% - 10,5%	50,000	-
EUR			
Fixed rate	7.75% – 11.00%	48,778	-
RUR			
Fixed rate	7.50% – 8.60%	10,031	23,517
UAH			
Fixed rate	15.00%	159	-
		307,708	262,290
		1,044,534	**1,025,586**

As at 31 December 2012 and 2011 the nominal value of the Group's loans and borrowings was USD 1,066,712 thousand and USD 1,065,390 thousand, respectively.

By 31 December 2011, the Group has completed a major restructuring of its borrowings. The restructuring process, as detailed further below in this Note, has been commenced in early 2009 in response to the breach by the Group of certain financial and non-financial covenants provided by then existing loan agreements and bonds issue undertakings. The non-compliance with the covenants provided the lenders and bondholders with the right to demand an accelerated or full immediate repayment of the borrowings.

Debt restructuring

The main purpose of the debt restructuring was to match the Group's principal repayment and interest payment obligations with its cash generating capacity in a sustainable manner while allowing to complete its ongoing capital expenditure projects (mainly – the EAF Project) as well as to maintain proper level of safety and maintenance expenditures. The debt restructuring sought to do this by: (1) deferring the maturity dates of the Group's principal repayment obligations; (2) providing for earlier repayments of a principal only out of the excess cash flows, the proceeds from asset disposals and other debt raisings, subject to certain carve-outs aimed to preserve the Group's cash balance position; and (3) providing for the capitalisation of portion of the Group's interest payment obligations in the form of payment-in-kind ("PIK") interest until the final repayment of the restructured debt obligations or, if earlier, immediately after cessation of the PIK interest accrual.

In November 2011, the Group executed restructuring documentation with its lenders and bondholders. In order to give effect to the restructuring in a uniform manner, the lenders under various bilateral and syndicated facility agreements (the "Restructured facilities"), the lenders under the EAF project finance facilities backed by SACE (the "SACE facilities") and the Group have entered into one overriding agreement which contains provisions to amend and override certain clauses (including various rights and obligations of the parties) set out in each of the Restructured facilities and the SACE facilities (the "Override agreement") which has entered into full force and effect on 16 December 2011. The Override agreement acts as an umbrella amendment agreement applicable to each of the Restructured facilities and the SACE facilities.

SACE facilities restructuring

As part of the debt restructuring arrangements, SACE (Italian export credit agency – the "ECA") and SACE facilities lenders have provided total additional commitment of USD 135,743 thousand of project finance dedicated to fund the EAF Project out of which USD 117,052 thousand in nominal value was drawn in 2011 and USD 16,798 thousand drawn in 2012 (available against specific eligible EAF Project costs) and remaining commitment of USD 1,893 thousand was cancelled at 1 November 2012.. The new commitment, amongst other things, has entitled SACE to a premium of USD 10,000 thousand, which was paid upfront as a condition precedent to the Override agreement effectiveness and accounted for as transaction costs for the purposes of these consolidated financial statements.

The additional commitments under the SACE facilities on a floating rate basis are subject to interest rate cap acquired by the Group from a bank capping LIBOR to maximum of 2.00% for the entire life of the SACE facilities and replicating the expected outstanding exposure under the SACE facilities. The initial premium of the cap in amount of USD 1,220 thousand is included in finance costs (Note 27) in the consolidated statements of comprehensive income. As at 31 December 2012, the fair value of the cap is USD 175 thousand.

Margins and restructuring fees

As part of the restructuring process the Group and its lenders revised margins and fees applicable to various facilities. The Group paid an upfront fee to the lenders, participating in the restructuring, including 0.75% of the lenders' exposure in cash and additional commitments as at the effective date of the Override agreement as well as committed to pay a further exit fee of 0.75% calculated on the same basis and payable with a final tranche of each of the Restructured facilities and the SACE facilities. The Restructured facilities and the SACE facilities bear interest at the base rate plus a margin of 4% and a PIK component that initially was set at a level of 1% margin and decreases following reduction of total net debt to EBITDA ratio.

Accounting for the restructuring

On the date of the restructuring the Group assessed whether the transaction should be accounted for as an extinguishment of debt. For this purpose the Group discounted expected cash flows under the loans and other agreements subsequent to the restructuring at the effective interest rates established for each facility prior to the restructuring. As the difference between the discounted amount and the carrying value of the existing facilities has not exceeded 10%, the restructuring has not been accounted for as an extinguishment. Therefore, the qualifying transaction costs of USD 21,638 thousand incurred on the restructuring were deducted from the carrying values of existing facilities and will be amortised over the remaining term of the restructured liabilities at the new effective interest rates defined for the facilities and bonds.

Covenants

Restructured facilities and bonds issued are subject to certain restrictive covenants including, but not limited to:

(a) restrictions in respect of certain finance ratios relating, but not limited to:

- leverage (total net debt to EBITDA),
- debt service (EBITDA to total debt repayment and interest),
- capital structure (debt to equity), and
- liquidity (current ratio);

(b) limitations on scope of permitted capital expenditure which terminates provided leverage ratio is maintained at 2.5:1 or less than and after at least USD 200,000 thousand out of the Restructured facilities is repaid;

(in US dollars and in thousands)

(c) limitations on the incurrence of additional indebtedness (limited to a maximum of USD 100,000 thousand until EAF Project taking over, USD 150,000 thousand – hereafter and USD 250,000 thousand – simultaneously with permitted capital expenditure limitation fallout);

(d) mergers or acquisitions;

(e) negative pledge and disposal of assets (permitted only to the assets, specifically excluded or free from the pledge in favour of Restructured facilities, and is limited to 1:2 loan to value limitation based on carrying value of the assets under IFRS);

(f) transactions with Shareholders' affiliates;

(g) payment of dividends and other distributions (as described below);

(h) guarantees and sureties issued to other parties;

(i) minimum treasury cash balance pledged by the Group in the amount not less than USD 50,000 thousand at the end of each quarter decreasing to USD 30,000 thousand after the following conditions are met:

- the EAF Project completion has occurred;
- 30% of SACE facilities and 34% of other Restructured facilities are repaid;
- no event of default has occurred and is continuing;

(j) cash balance in the EAF Project in amount not less than construction budget requirements for the next quarter until the EAF Project completion at the end of each relevant quarter.

The Group is also required to continue providing, on a periodic basis, various reports, certificates and other supporting documentation to the lenders subsequent to the Restructuring Date. The monitoring accountant, appointed by the Restructured facilities lenders, carries out periodical reviews of the Group performance (until leverage ratio exceeds 2:1). A role of independent Board of Directors observer was also established to allow the Restructured lenders greater transparency in the Group strategic affairs (until leverage ratio exceeds 1:5:1 and 50% of Restructured facilities is repaid).

As at 31 December 2012 and 2011, the Group was in compliance with the financial and non-financial covenants.

Prepayment and cash sweep

Fixed amortisation schedule for the principal, cash and PIK interest as referred to above is set by the Override agreement. The Group has the option to refinance any amount of the outstanding indebtedness on pro-rata basis at any point in time upon consent of a required majority of the lenders.

Net proceeds raised from asset disposals, insurance compensation proceeds (if not reinvested) and cash sweep of 50% of the excess cashflow must be applied to repay the Group's outstanding Restructured facilities and the SACE facilities on a pro-rata basis, after the EAF Project completion has occurred. This provision terminates when and if leverage ratio is maintained at 2.5:1 or less and after at least USD 200,000 thousand out of the Restructured facilities and the SACE facilities is repaid.

Equity Injection and Shareholders' Support and Undertakings

As a condition precedent for the Override agreement effectiveness, the shareholders of the Company injected USD 65,000 thousand of equity (Note 28) and provided additional stand-by financial means in the form of a letter of credit in amount of USD 40,000 thousand aiming to secure funding for the EAF Project completion.

The Override agreement prohibits the Company to distribute dividends or make any other form of distribution in favour of its shareholders. In addition, the Company's subsidiaries with the effective ownership of less than 100% (Note 30) are prohibited to declare and pay dividends unless required by law. Steel.One Limited is specifically restricted to distribute dividends until all obligation under the SACE facilities are extinguished.

Pledges of assets

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

	31 December 2012	*31 December 2011*
Carrying values of property, plant and equipment (Note 6)	950,064	849,337
Inventories (Note 10)	186,546	146,902
Trade receivables (Note 11)	60,191	23,517
Cash and cash equivalents (Note 15)	69,284	79,943
Rights/title/interest under property, plant and equipment purchase agreements	2,484	30,752
Other financial assets (Note 14)	3,545	6,226

As at 31 December 2012 and 2011 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 2012 and 2011 the participatory interest in the EAF Project companies and "Dneprosteel -Energo" LLC (Note 30) were also pledged in favour of the other Restructured lenders on a second-tier basis vis-a-vis SACE facility lenders.

The Group pledged major part of property, plant and equipment of JSC "Interpipe Niznedneprovsky Tube Rolling Plant" and "Interpipe Niko Tube" LLC as well as all existing and future movable and immovable property of "Metallurgical Plant Dneprosteel" LLC. Certain property, plant and equipment owned by "Interpipe Niko Tube" LLC shall be released after the Taking Over Date while remaining non-current assets of JSC "Interpipe Niznedneprovsky Tube Rolling Plant" and "Interpipe Niko Tube" LLC will be released after each of the following conditions is satisfied:

- the EAF Project completion has occurred;
- for the two consecutive quarters end dates the leverage ratio was equal to or less than 1.5:1;
- at least 50% of the Restructured facilities are repaid; and
- no event of default has occurred and is continuing.

Release of security over the property of "Metallurgical Plant Dneprosteel" LLC requires fulfilment of additional conditions including the Group total sales and assets covenants, the debt to equity and EBITDA to debt service ratios, specific EAF stand-alone covenants, debt amortization and other.

Following the Restructuring Date, the Group has pledged USD 42,000 thousand of its inventories in Ukraine and all inventory in the US in favour of Restructured facilities lenders. The inventory security will be released after each of the following conditions is satisfied:

(a) the EAF Project completion has occurred;

(b) for the two consecutive quarters end dates the leverage ratio was equal to or less than 1.5:1;

(c) at least 40% of the Restructured facilities was repaid; and

(d) no event of default has occurred and is continuing.

The Group is also to procure the pledge of rights, including all monies and claims, arising out of certain intra-group sales contracts between certain of the Group's trading subsidiaries for the total minimal annual value of USD 270,000 thousand, as well as rights, arising out of sales contracts between certain of the Group's trading subsidiaries and ultimate customers for the total minimal annual value of USD 160,000 thousand, were assigned to secure Restructured facilities. The receivables security will be released after each of the following conditions is satisfied:

(a) the EAF Project completion has occurred;

(b) for the two consecutive quarters end dates the leverage ratio was equal to or less than 2.5:1;

(c) at least 50 % of the Restructured facilities was repaid; and

(d) no event of default has occurred and is continuing.

Compliance with these obligations is monitored on a periodic basis (annual, quarterly and monthly, respectively).

Events of Default

The events of default include payment default and non-compliance with financial covenants, repayment requirements and conditions subsequent. In addition the events of default include customary conditions such as government intervention, insolvency/insolvency proceedings, the agreement/compliance with the agreement becoming unlawful, change of business, change of control, misrepresentation, cross-default (subject to a threshold of USD 20,000 thousand) and any event or circumstance with material adverse effect to the Group financial position and performance. The events of default also include situations when there is a creditors' process in relation to any member of the Group having an aggregate book value of USD 20,000 thousand (or its equivalent) or more, which is not discharged or dismissed within 20 days; a final judgment for the payment of money aggregating in excess of USD 20,000 thousand is made against any member of the Group and that judgment is not discharged or appealed stayed within 60 days.

The occurrence of an event of default may lead to acceleration and enforcement by the lenders of the security provided, if the required majority of lenders so elects.

(in US dollars and in thousands)

17. Provisions

Provisions included the following:

	31 December 2012	*31 December 2011*
Provision for customers' and other claims	6,286	10,557
Defined benefit state pension plan	23,036	18,673
Retirement benefit plan	1,990	1,795
	31,312	**31,025**
Provision – current portion	(12,481)	(15,798)
Provision – non-current portion	**18,831**	**15,227**

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

For the years ended 31 December 2012 and 2011, movements in the provisions were as follows:

	Provision for customers' and other claims	*Defined benefit state pension plan*	*Retirement benefit plan*	*Total provisions*
At 1 January 2011	22,804	21,507	1,213	45,524
Charge for the year	3,655	1,696	696	6,047
Payments and utilisation	(2,613)	(4,462)	(112)	(7,187)
Reversal	(13,282)	-	-	(13,282)
Translation difference	(7)	(68)	(2)	(77)
At 31 December 2011	**10,557**	**18,673**	**1,795**	**31,025**
Charge for the year	4,205	9,933	620	14,758
Payments and utilisation	(584)	(5,562)	(425)	(6,571)
Reversal	(7,892)	-	-	(7,892)
Translation difference	-	(8)	-	(8)
At 31 December 2012	**6,286**	**23,036**	**1,990**	**31,312**

For the years ended 31 December 2012 and 2011, interest costs attributable to the provisions and amounting to USD 5,591 thousand and USD 5,425 thousand, respectively, were included in finance costs in the consolidated statement of comprehensive income (Note 27).

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 2012 in the amount of USD 4,268 thousand (reversal, net of charge for the year ended 31 December 2011 amounted to USD 9,627 thousand), is included in customers' and other claims charges (Note 24) and other finance costs (Note 27) in the consolidated statement of comprehensive income.

As at 31 December 2012 and 2011, insurance coverage and other reimbursements against probable losses amounting to USD 4,500 thousand and USD 7,700 thousand, respectively, were recognised as an asset and included in other financial assets (Note 14) in the consolidated statement of financial position. For the years ended 31 December 2012 and 2011, decrease in insurance coverage of USD 3,200 thousand and increase of USD 2,550 thousand, respectively, was credited to customers' and other claims (charges), net of reversals, in other operating income and expenses (Note 24) 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 21). Interest cost is included in finance costs (Note 27).

(in US dollars and in thousands)

Benefit expense

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Current service cost	2,479	2,743
Interest cost (Note 27)	5,259	5,250
Past service cost	(106)	(6,540)
Curtailment	-	(1,181)
Actuarial losses	2,301	1,424
	9,933	**1,696**

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

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Present value at the beginning of the year	43,359	42,633
Current service cost	2,479	2,743
Past service cost	-	(11,501)
Interest cost (Note 27)	5,259	5,250
Payment	(5,562)	(4,462)
Actuarial losses	4,054	10,790
Curtailment gains	-	(2,094)
Translation difference	(18)	-
Present value at the end of the year	**49,571**	**43,359**

Pension benefit liability

	31 December 2012	*31 December 2011*
Present value of unfunded obligation	49,571	43,359
Unrecognised past service cost	472	578
Unrecognised actuarial losses	(27,013)	(25,213)
Translation difference	6	(51)
	23,036	**18,673**
Benefit liability – current	(4,964)	(4,381)
Benefit liability – non-current	**18,072**	**14,292**

Experience adjustments

	31 December 2012	*31 December 2011*	*31 December 2010*	*31 December 2009*	*31 December 2008*
Present value of unfunded obligation	49,571	43,359	42,633	25,026	25,883
Experience adjustments on plan liabilities	(3,879)	(4,432)	(4,368)	5,186	(6,265)

Past service cost reversal as at 31 December 2011 resulted from certain changes in the Ukrainian pension legislation, which occurred during the reporting year and which provided for retrospective pension age increase for women, changes in calculation of remuneration and recalculation of pensions for working pensioners.

The Group's best estimate of contributions expected to be paid to the plan during the year ending 31 December 2013 amounts to USD 5,612 thousand.

(in US dollars and in thousands)

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 21) and general and administrative expenses (Note 23) as appropriate. Interest cost is included in the finance costs (Note 27).

Benefit expense

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Current service cost	118	68
Interest cost (Note 27)	332	175
Vested past service cost	87	438
Actuarial losses	83	16
	620	**697**

Changes in the present value of retirement benefit plan

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Present value at the beginning of the year	2,778	1,463
Current service cost	118	68
Past service cost	76	1,140
Interest cost (Note 27)	332	175
Payment	(425)	(112)
Actuarial losses	470	122
Curtailment gains	-	(17)
Translation difference	(8)	(61)
Present value at the end of the year	**3,341**	**2,778**

Post-employment defined benefit liability

	31 December 2012	*31 December 2011*
Present value of unfunded obligation	3,341	2,778
Unrecognised past service cost	(715)	(728)
Unrecognised net actuarial losses	(636)	(249)
Translation difference	-	(6)
	1,990	**1,795**
Benefit liability – current	(1,231)	(859)
Benefit liability – non-current	**759**	**936**

Experience adjustments

	31 December 2012	*31 December 2011*	*31 December 2010*	*31 December 2009*	*31 December 2008*
Post-employment defined benefit liability	3,341	2,778	1,463	855	955
Experience adjustments on plan liabilities	(475)	(125)	(308)	160	796

The Group's best estimate of contributions expected to be paid to the plan during the year ending 31 December 2013 amounts to USD 1,249 thousand.

(in US dollars and in thousands)

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:

	31 December 2012	*31 December 2011*
Annual discount rate	13.0%	13.0%
Annual salary increase rate	8.9% in 2013, 10.0% afterwards	20.0% in 2012, 10.0% afterwards
Annual pension increase rate	8.9% in 2013, 10.0% afterwards	20.0% in 2012, 10.0% afterwards

18. Trade and other accounts payable

Trade and other accounts payable consisted of the following:

	31 December 2012	*31 December 2011*
Payables to suppliers	263,333	280,642
Interest payable	14,531	10,907
Dividends payable to non-controlling interest owners	814	827
Promissory notes payable	25	50
Other accounts payable	8,009	6,844
	286,712	**299,270**

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

19. Taxes payable, other than income tax

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

	31 December 2012	*31 December 2011*
VAT payable	4,315	51
Accrued and withheld taxes on payroll	2,671	1,545
Property tax payable	2,092	1,198
Miscellaneous other taxes payable	919	1,022
	9,997	**3,816**

20. Advances and other current liabilities

Advances and other current liabilities consisted of the following:

	31 December 2012	*31 December 2011*
Advances from customers	146,239	128,317
Short-term employee benefits	13,090	12,838
Other current liabilities	120	84
	159,449	**141,239**

(in US dollars and in thousands)

21. Cost of sales

Cost of sales consisted of the following:

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Materials	(897,306)	(951,687)
Energy and utilities	(207,969)	(179,191)
Revaluation decrease / Impairment of property, plant and equipment (Note 6)	(126,527)	(15,617)
Payroll and related expenses	(95,710)	(67,732)
Depreciation	(88,670)	(87,970)
Rolling tools and instruments	(32,058)	(26,433)
Repairs and maintenance	(24,082)	(13,612)
(Write down of inventories) / reversal of write down to net realisable value	(4,692)	7,383
Insurance expenses	-	(4,266)
Other	(24,016)	(20,508)
	(1,501,030)	**(1,359,633)**

22. Selling and distribution expenses

Selling and distribution expenses consisted of the following:

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Forwarding and transportation services	(99,903)	(85,284)
Storage and packaging expenses	(10,202)	(8,802)
Payroll and related expenses	(7,278)	(6,400)
Sales agency fees	(2,928)	(1,613)
Advertising and promotion	(1,886)	(1,035)
Custom services	(1,664)	(2,450)
Professional fees	(746)	(623)
Depreciation	(504)	(537)
Insurance expense	(473)	(579)
Release of accounts receivable impairment allowance (Note 11)	13,297	4,090
Other	(3,543)	(2,722)
	(115,830)	**(105,955)**

23. General and administrative expenses

General and administrative expenses consisted of the following:

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Payroll and related expenses	(34,639)	(31,356)
Professional fees	(6,477)	(4,999)
Business trips and transportation	(5,647)	(4,580)
Depreciation and amortisation	(2,977)	(2,953)
Rent	(2,289)	(1,934)
Communication	(1,301)	(1,154)
Bank fees	(1,156)	(1,023)
Taxes, other than income tax	(864)	(575)
Insurance expense	(786)	(1,659)
Repairs and maintenance	(619)	(573)
Other	(3,767)	(3,044)
	(60,522)	**(53,850)**

Auditors' remuneration

Auditors' remuneration for the year ended 31 December 2012 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 852 thousand (2011: USD 804 thousand) as well as non-audit fees of USD 84 thousand (2011: USD 103 thousand).

(in US dollars and in thousands)

24. Other operating income and expenses

Other operating income and expenses consisted of the following:

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Impairment of intangible assets (Note 7)	(10,478)	(3,533)
Impairment of other assets	(3,004)	(1,852)
Maintenance of social assets	(2,156)	(1,941)
(Loss) / gain on disposal of property, plant and equipment and intangible assets	(1,560)	959
Customers' and other claims charges, net of reversals (Note 17)	(1,484)	11,929
Reversal of / (impairment) of prepayments and other accounts receivable	421	(829)
(Loss) / gain on disposal of by-products	(84)	993
Other (losses) / gains	(396)	34
	(18,741)	**5,760**

25. Operating and non-operating foreign exchange difference

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

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Operating FOREX gains / (losses) originated on		
trade accounts payable	(3,515)	5,526
trade accounts receivable	2,225	(5,524)
other operating exchange difference	(93)	2,029
	(1,383)	**2,031**
Non-operating FOREX gains / (losses) originated on		
loans payable	(2,078)	(4,671)
cash balances	2,659	1,578
	581	**(3,093)**

26. Finance income

Finance income consisted of the following:

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Interest income	572	2,422
Other finance income	306	332
	878	**2,754**

(in US dollars and in thousands)

27. Finance costs

Finance costs consisted of the following:

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Interest expense relating to bank loans and bonds issued	(78,940)	(50,537)
Insurance expenses	(37,230)	(27,197)
Defined benefit state pension plan interest costs (Note 17)	(5,259)	(5,250)
Debt restructuring costs	(1,854)	(7,620)
Retirement benefit plan interest costs (Note 17)	(332)	(175)
Other finance costs	(6,223)	(4,737)
	(129,838)	**(95,516)**

28. 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:

	Shares	***USD thousand***
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**

There were no changes in the share capital of the Company for the year ended 31 December 2012.

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.

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 2012 and 31 December 2011.

There were no dividends declared by the subsidiaries that should be paid for the years ended 31 December 2012 and 31 December 2011.

(in US dollars and in thousands)

29. Business combinations

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

Acquisition of "Meta" LLC

In 2011, OJSC "Dnepropetrovsk Vtormet" acquired 99.9% of participatory interests in "Meta" LLC ("Meta"), a company based in Kharkiv and specialising in scrap metal collection. The Group acquired Meta in order to expand its regional metal scrap capacities.

The acquired business contributed revenues of USD 377 thousand and net loss of USD 62 thousand to the Group for the period from 1 October 2011 to 31 December 2011. If the acquisition had occurred on 1 January 2011, the Group's revenue would have been USD 1,670,281 thousand, and profit after tax would have been USD 40,905 thousand.

The fair value of the identifiable assets and liabilities of Meta as at the date of acquisition were:

	Provisional fair value recognised on acquisition
Property, plant and equipment	625
Cash and cash equivalents	-
Total assets	**625**
Net assets	625
Attributable to minority interest	(1)
Net assets acquired by the Group	**624**
Goodwill arising on acquisition (Note 7)	-
Total consideration	**624**

Meta did not report under IFRS prior to the acquisition by OJSC "Dnepropetrovsk Vtormet". The total consideration payable amounts to USD 624 thousand. Cash in the amount of USD 327 thousand was paid during the year ended 31 December 2011, USD 173 thousand was paid during the year ended 31 December 2012, and USD 124 thousand remains due and is included into other accounts payable in the consolidated statement of financial position as at 31 December 2012.

Cash flow related to Meta acquisition was as follows:

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Purchase consideration – Cash paid	173	327
Net cash acquired with the subsidiary	-	-
Net cash outflow	**173**	**327**

(in US dollars and in thousands)

30. Principal subsidiaries

The Group included the following subsidiaries as at 31 December 2012 and 2011:

Name of the company	*Country of incorporation*	*Business activities*	*Effective ownership* 31 December 2012	*Effective ownership* 31 December 2011
JSC "Interpipe Niznedneprovsky 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	87.64%	87.64%
"Interpipe Niko Tube" LLC	Ukraine	Production of seamless pipes	99.93%	99.93%
"Metallurgical Plant Dneprosteel" LLC	Ukraine	Construction of electric arc furnace	100.00%	100.00%
"Dneprosteel-Energo" LLC	Ukraine	Construction of electric arc furnace	100.00%	100.00%
"Transkom - Dnepr" LLC	Ukraine	Transportation services	100.00%	100.00%
"Limestone factory" LLC	Ukraine	Production of limestone	93.93%	93.93%
Society "Dishware Novomoskovsk" Ltd	Ukraine	Production of dishware	87.64%	87.64%
"Interpipe Dneprovtormet" 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%
"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%

In 2011, the Group established a new subsidiary "Dneprosteel-Energo" LLC, which procures and re-sells electricity for the EAF. The subsidiary was established to ensure compliance of the Group with the Ukrainian regulations and licensing requirements for the entities operating at the Ukrainian electric energy distribution market.

(in US dollars and in thousands)

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 2012 and 2011, the Group's transactions with its related parties comprised those with its associates (Note 8) and key management personnel.

Transactions with associates

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

	For the year ended 31 December 2012	*For the year ended 31 December 2011*
Sales of the products and other commodities	1,008	11,513
Purchases of inventories, utilities and other services	24,103	22,620

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

	31 December 2012	*31 December 2011*
Amounts owed to the Group	3,686	7,180
Amounts owed by the Group	10,177	11,972

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 2012, the Group has recorded an impairment charge relating to receivables from the associates and amounting to USD 9 thousand (2011: 127 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 2012, accounts payable to shareholders, included in other accounts payable, amounted to USD 277 thousand, (2011: USD 272 thousand) were interest free and payable on demand.

Compensation to key management personnel

Key management personnel of the Group as at 31 December 2012 comprised:

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

Name	Function
Kirill Roubinski	Chairman of the Board of Directors of Interpipe Limited, Chief Executive Officer of EastOne
Gennady Gazin	Non-Executive Director
Olexandr Kirichko	Chief Executive Officer of Interpipe Limited
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
Vitaly Sadykov	Independent Non-Executive Director
Michael Tsarev	Non-Executive Director, Director, Head of Internal Control and Audit Department of EastOne
Yakiv Konstantynivs'ky	Non-Executive Director, Director of the Dnipropetrovsk brunch of EastOne
Iuliia Chebotarova	Non-Executive Director, First Deputy of the CEO of EastOne

- Senior Management of the Group as at 31 December 2012 and 2011 comprised eighteen and seventeen persons (including the CEO who is also a member of the Board of Directors), respectively.

For the year ended 31 December 2012, total compensation, comprising short-term employee benefits, to the members of the Board of Directors amounted to USD 645 thousand (2011: USD 645 thousand) and to the members of Senior Management of the Group – to USD 4,671 thousand (2011: USD 5,048 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 has significant operations in Ukraine as well as in Russia and some other CIS countries, whose economies while deemed to be of market status continue to display certain characteristics consistent with those of an economy in transition. These characteristics include, but are not limited to low levels of liquidity in the capital markets, relatively high inflation and the existence of currency controls which cause the national currencies to be illiquid outside of these countries. These countries continue economic reforms and development of their legal, tax and regulatory frameworks as required by a market economy. The future stability of the economies is largely dependent upon the success of these reforms and the effectiveness of economic, financial and monetary measures undertaken by their governments. As a result, operations in Ukraine, Russia and other CIS countries involve risks that are not typical for developed markets.

The Ukrainian, Russian and other CIS economies are vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in a decline in the gross domestic product, devaluation of national currencies against major currencies, capital markets instability, and significant deterioration in the liquidity in the banking sector, tighter credit conditions within these countries. As discussed in Note 2 "Basis of Preparation", these factors had already affected and may have a further effect on the Group's 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 2012 and 2011, North American Interpipe, Inc. and Interpipe Europe LLC were defendants in several litigations relating to quality claims from customers amounting to approximately USD 5,800 thousand and USD 25,798 thousand, respectively. Provision for probable adverse consequences of the above cases amounting to USD 5,800 thousand and USD 9,700 thousand was included in provision for customers' and other claims in the consolidated statement of financial position as at 31 December 2012 and 2011, respectively (Note 17).

In addition to the specific cases mentioned above, in the ordinary course of business the Group is subject to legal actions and complaints. As at 31 December 2012 and 2011, provisions have been made in respect of these cases amounting to USD 485 thousand and USD 857 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.

(in US dollars and in thousands)

Contractual commitments for the acquisition of property, plant and equipment

During the year ended 31 December 2012, the Group continued to maintain a capital commitment under EUR 280,240 thousand (equivalent of approximately USD 369,440 thousand as at 31 December 2012) under a turn-key contract with a leading equipment supplier to construct the EAF with a production capacity of 1.32 million ton of billets annually. As at 31 December 2012 and 2011, unpaid capital commitments were EUR 28,497 thousand (or USD 37,567 thousand) and EUR 38,268 thousand (or USD 49,324 thousand) thousand, respectively (Note 6).

As at 31 December 2012 and 2011, the Group's other contractual commitments for acquisition and modernisation of production equipment amounted to USD 9,866 thousand and USD 25,622 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:

	100 UAH	*1 EUR*	*100 RUB*	*1000 KZT*
As at 25 May 2013	12.511	1.289	3.1775	6.6317
As at 31 December 2012	12.511	1.318	3.2924	6.6538
As at 31 December 2011	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:

For the year ended 31 December 2012	*High / low limits of change in currency exchange rate, %*	*Effect on profit before tax*
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

(in US dollars and in thousands)

For the year ended 31 December 2011	*High / low limits of change in currency exchange rate, %*	*Effect on profit before tax*
USD/UAH	+0%	-
EUR/UAH	+0%	-
RUB/UAH	+0%	-
USD/KZT	+2%	(177)
EUR/USD	+10%	(2,356)
USD/UAH	-10%	77,438
EUR/UAH	-15%	(2,027)
RUB/UAH	-5%	173
USD/KZT	-2%	177
EUR/USD	-5%	1,178

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.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

As at 31 December 2012	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
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**

As at 31 December 2011	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Borrowings and interest payable	70,551	132,895	853,077	241,870	1,298,393
Trade and other accounts payable	261,274	27,089	-	-	288,363
	331,825	**159,984**	**853,077**	**241,870**	**1,586,756**

Credit risk

Financial instruments, which potentially subject the Group to significant concentrations of credit risk, consist principally of bank deposits (Notes 14, 15), trade and other accounts receivable (Note 11).

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.

(in US dollars and in thousands)

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 16). The Group's policy is to manage its interest costs by monitoring changes in interest rates with respect to its borrowings. During 2012 and 2011, 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):

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

For the year ended 31 December 2011	*High / low limits of change in interest rate, basic points*	*Effect on profit before tax*
LIBOR (USD)	+ 50	(3,542)
LIBOR (USD)	+ 25	(1,771)

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.

As a result of the restructuring completed in December 2011 (Note 16), the Company, its subsidiaries and the Group were subjected to externally imposed capital requirements.

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 2012 and 2011, the fair value of bonds issued was based on market quotation and approximated to USD 178,000 thousand and USD 140,000 thousand, respectively.

34. Events after the reporting period

On 25 March 2013, the Republic of Cyprus and the Eurogroup reached an understanding on a package of measures for financial support needed among others to recapitalize the banking sector which suffered significant losses on its investments in Greek Government bonds as well as their Greek operations. The Group's assets domiciled in Cyprus are not significant, and on this basis the directors and management do not anticipate any material impact on the future recovery of the Groups assets from the resolution of this issue.

In April 2013 Vitaly Sadykov, a Non-Executive Director of Interpipe Limited Board of Directors has resigned (Note 31).