INTERPIPE LIMITED

Consolidated Financial Statements
Year Ended 31 December 2007 together with

Independent Auditor's Report

INTERPIPE LIMITED

TABLE OF CONTENTS

Statement of management's responsibilities for the preparation and approval of the consolidated financial statements for the year ended 31 December 2007 3

INDEPENDENT AUDITOR'S REPORT 4

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007
Consolidated balance sheet 5
Consolidated income statement 6
Consolidated statement of changes in equity 7
Consolidated statement of cash flows 8

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
1. Corporate information 9
2. Basis of preparation 9
3. Summary of significant accounting policies 10
4. Significant accounting judgements and estimates 18
5. Segment information 20
6. Property, plant and equipment 24
7. Intangible assets 25
8. Investments in associates 26
9. Other non-current assets 27
10. Income tax 27
11. Inventories 29
12. Trade and other accounts receivable 29
13. Prepayments and other current assets 30
14. Taxes recoverable, other than income tax 30
15. Cash and bank deposits 30
16. Non-current assets classified as held for sale 31
17. Borrowings 31
18. Provisions 33
19. Trade and other accounts payable 36
20. Taxes payable, other than income tax 36
21. Advances and other current liabilities 36
22. Cost of sales 36
23. Selling and distribution expenses 37
24. General and administrative expenses 37
25. Other operating income and expenses 37
26. Finance costs 38
27. Equity 38
28. Principal subsidiaries 40
29. Related party transactions 40
30. Commitments, contingencies, and operating risks 42
31. Financial risk management 43
32. Events after the balance sheet date 46

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

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group at 31 December 2007, the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

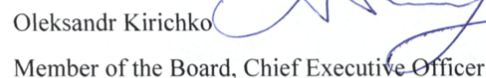
In preparing the consolidated financial statements, management is responsible for:

- 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
- preparing 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.

Management, within its competencies, is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2007 were authorised for issue on 31 March 2008.



Oleksandr Kirichko

Member of the Board, Chief Executive Officer

31 March 2008

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INDEPENDENT AUDITOR'S REPORT

To the Members and the Board of Directors of Interpipe Limited

We have audited the accompanying consolidated financial statements of Interpipe Limited and its subsidiaries (hereinafter collectively referred to as the "Group"), which comprise the consolidated balance sheets as at 31 December 2007 and 2006, and the income statements, statements of changes in equity and cash flow statement for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 present fairly, in all material respects, the financial position of the Group as of 31 December 2007 and 2006, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

31 March 2008

A member firm of Ernst & Young Global Limited

INTERPIPE LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2007
(in US dollar and in thousands)

	Notes	31 December 2007	31 December 2006
ASSETS			
Non-current assets			
Property, plant and equipment	6	531,874	492,900
Intangible assets	7	4,649	1,353
Investments in associates	8	3,426	2,627
Other non-current assets	9	5,267	878
Deferred tax assets	10	6,095	2,932
		551,311	**500,690**
Current assets			
Inventories	11	235,553	154,115
Trade and other accounts receivable	12	227,512	185,651
Prepayments and other current assets	13	67,521	12,647
Current income tax assets		4,848	22,195
Taxes recoverable, other than income tax	14	70,715	69,492
Cash and bank deposits	15	66,978	96,969
		673,127	**541,069**
Non-current assets classified as held for sale	16	-	8,711
TOTAL ASSETS		**1,224,438**	**1,050,470**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		11	11
Share premium		361,091	361,091
Accumulated profits		26,238	206,710
Foreign currency translation reserve		553	40
		387,893	567,852
Minority interests		37,491	101,185
Total equity	27	**425,384**	**669,037**
Non-current liabilities			
Deferred tax liabilities	10	27,427	60,646
Borrowings	17	364,171	12,311
Provisions	18	12,642	9,179
		404,240	**82,136**
Current liabilities			
Trade and other accounts payable	19	45,079	53,004
Current income tax liabilities		4,673	4,004
Taxes payable, other than income tax	20	3,556	2,721
Advances and other current liabilities	21	67,325	58,676
Borrowings	17	215,385	175,940
Liability attributable to minority participants	27	47,000	-
Provisions	18	11,796	4,952
		394,814	**299,297**
Total liabilities		**799,054**	**381,433**
TOTAL EQUITY AND LIABILITIES		**1,224,438**	**1,050,470**

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

Oleksandr Kirichko

Member of the Board, Chief Executive Officer

The Notes presented on pages 9 – 46 form an integral part of the consolidated financial statements.

	Notes	For the year ended 31 December 2007	For the year ended 31 December 2006
Revenue	5	1,792,042	1,441,588
Cost of sales	22	(1,242,796)	(936,759)
Gross profit		**549,246**	**504,829**
Other operating income	25	6,614	3,606
Selling and distribution expenses	23	(95,393)	(119,217)
General and administrative expenses	24	(61,048)	(52,871)
Other operating expenses	25	(28,483)	(31,420)
Operating profit		**370,936**	**304,927**
Finance income		2,960	2,620
Finance costs	26	(34,615)	(10,338)
Share of profits of associates	8	864	120
Profit before tax		**340,145**	**297,329**
Income tax expense	10	(84,571)	(79,850)
Profit for the year		**255,574**	**217,479**
Attributable to:			
Equity holders of the parent		243,358	202,416
Minority interests		12,216	15,063
		255,574	**217,479**

The Notes presented on pages 9 – 46 form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2007

(in US dollar and in thousands)

	Attributable to equity holders of the parent						
	Issued capital	Share premium	Accumulated profits	Foreign currency translation reserve	Total	Minority interests	Total equity
At 1 January 2006	**2**	**-**	**603,881**	**-**	**603,883**	**113,703**	**717,586**
Effect of exchange rate changes	-	-	-	40	40	-	40
Total income and expense for the year recognised directly in equity	-	-	-	40	40	-	40
Profit for the year	-	-	202,416	-	202,416	15,063	217,479
Total income and expense for the year	-	-	202,416	40	202,456	15,063	217,519
Capital restructuring (Note 27)	9	361,091	(599,499)	-	(238,399)	-	(238,399)
Acquisition of minority interest (Note 27)	-	-	(88)	-	(88)	(1,652)	(1,740)
Dividends by subsidiaries of the Group to the minority owners of subsidiaries (Note 27)	-	-	-	-	-	(25,929)	(25,929)
At 31 December 2006	**11**	**361,091**	**206,710**	**40**	**567,852**	**101,185**	**669,037**
Effect of exchange rate changes	-	-	-	513	513	-	513
Total income and expense for the year recognised directly in equity	-	-	-	513	513	-	513
Profit for the year	-	-	243,358	-	243,358	12,216	255,574
Total income and expense for the year	-	-	243,358	513	243,871	12,216	256,087
Merger of subsidiaries (Note 27)	-	-	(2,296)	-	(2,296)	(44,704)	(47,000)
Acquisition of minority interest (Note 27)	-	-	(534)	-	(534)	(19,466)	(20,000)
Dividends by subsidiaries of the Group to the minority owners of subsidiaries (Note 27)	-	-	-	-	-	(11,740)	(11,740)
Dividends (Note 27)	-	-	(421,000)	-	(421,000)	-	(421,000)
At 31 December 2007	**11**	**361,091**	**26,238**	**553**	**387,893**	**37,491**	**425,384**

The Notes presented on pages 9 – 46 form an integral part of the consolidated financial statements.

INTERPIPE LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2007

(in US dollar and in thousands)

	Note	For the year ended 31 December 2007	For the year ended 31 December 2006
Profit before tax		340,145	297,329
Adjustments for:			
Depreciation and amortisation	22, 24	61,404	58,858
Impairment of property plant and equipment	25	-	5,250
(Release)/charge of allowance for receivables impairment	12, 23	(1,291)	6,691
(Gain)/loss on disposal of property, plant and equipment and intangible assets	25	(1,410)	5,861
Finance costs	26	34,615	10,338
Finance income		(2,960)	(2,620)
Movement in provisions less interest cost		7,567	(373)
Translation difference and foreign exchange difference		(1,060)	312
Gain on disposal of non-current assets held for sale	16	(1,390)	-
Share of profits of associates	8	(864)	(120)
Operating cash flows before working capital changes		434,756	381,526
Increase in inventories		(80,586)	(43,099)
Increase in trade and other accounts receivable		(53,399)	(56,009)
(Increase) / decrease in prepayments and other assets		(8,386)	8,465
Increase in taxes recoverable, other than income tax		(1,223)	(50,964)
Decrease in trade and other accounts payable		(7,057)	(31,248)
Increase / (decrease) in taxes payable, other than income tax		835	(65)
Increase in advances and other current liabilities		8,689	17,870
Cash generated from operations		293,629	226,476
Income tax paid		(102,958)	(131,715)
Interest and other finance costs paid		(34,516)	(8,260)
Net cash inflow from operating activities		156,155	86,501
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible Assets		(105,967)	(25,469)
Proceeds from sale of property, plant and equipment		2,204	564
Proceeds from sale of investments		-	38,521
Proceeds from disposal of non-current assets held for disposal	16	10,101	-
Loans originated		-	(8,325)
Proceeds from repayment of loans originated	12	14,599	18,647
Acquisition of minority interests	9, 27	(68,787)	(1,740)
Proceeds from guarantee deposits		-	2,163
Interest received		2,906	2,620
Dividends from associates	8	65	-
Net cash (outflow) / inflow from investing activities		(144,879)	26,981
Cash flows from financing activities			
Proceeds from borrowings		607,837	239,736
Repayments of borrowings		(208,699)	(141,610)
Dividends	27	(421,000)	-
Other distributions paid to equity holders of the parent	27	-	(238,399)
Dividends paid to minority equity holders	21, 27	(20,484)	(15,456)
Net cash outflow from financing activities		(42,346)	(155,729)
Net change in cash and cash equivalents		(31,070)	(42,247)
Net foreign exchange difference		1,079	(162)
Cash and cash equivalents at period beginning		96,969	139,378
Cash and cash equivalents at period end	15	**66,978**	**96,969**
Supplemental disclosure on non-cash transactions:			
Issue of shares in exchange for non-cash contribution	27	-	361,100

The Notes presented on pages 9 – 46 form an integral part of the consolidated financial statements.

1. Corporate information

Principal activities of Interpipe Limited (referred to herein as the "Company") and its subsidiaries (together – the "Group") include design, manufacture and distribution of steel pipes and solid-rolled railway wheels. The holding company of the Group was incorporated under the name Ramelton Holdings Limited in accordance with the Companies Law of Cyprus as a limited liability company on 30 December 2005. It was renamed to Interpipe Limited on 15 May 2007. The registered office and principal place of business of the Company is Office 401, Athienitis Building, 8 Kennedy Street, 1087 Nicosia, Cyprus. Its principal activity is the holding of ownership interests in its subsidiaries, their financing and strategic management. The Group operates through a number of subsidiaries in various jurisdictions (the list of the subsidiaries is disclosed in Note 28) and has a concentration of its business in Ukraine, where its production facilities are located.

The Group was formed in April – September 2006, through a number of transactions resulting in the transfer to the Company of controlling ownership interest in the subsidiaries from entities which were under common control at the time of the reorganisation, which is further described in Note 27. As the Group has been formed through the reorganisation of entities under common control, these consolidated financial statements have been presented as if the transfers of the ownership interests in subsidiaries had occurred on the beginning of the earliest period presented (1 January 2006) through the application of the pooling of interest method as at that date.

The IFRS consolidated financial statements of the Group as at 31 December 2007 and for the year then ended were authorised for issue on 31 March 2008.

2. Basis of preparation

The Group consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). 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 Group adopted IFRS as its reporting framework as at 1 January 2006 and this is the first set of consolidated financial statements of the Group in accordance of IFRS. IFRS 1 "First-time Adoption of International Financial Reporting Standards" requires a first-time adopter to disclose reconciliations that give sufficient detail to enable users to understand the material adjustments to the balance sheet and requires specific reconciliations of equity reported under previous GAAP to its equity under IFRS. No reconciliation is presented in the notes to the consolidated financial statements because no consolidated financial statements have been prepared by the Group in the past.

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

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

The consolidated financial statements have been prepared on a historical cost basis except for certain items of property, plant and equipment and construction in progress which have been measured at fair value recognised as deemed cost as at 1 January 2006, investment in associates accounted for using the equity method, post-employment benefits measured at fair value and certain financial instruments measured in accordance with the requirements of IAS 39 "Financial instruments: recognition and measurement".

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 Dollar ("USD") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The IFRS consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2007 and for the year then ended. The financial statements of the subsidiaries are prepared as at the same reporting date as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

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

3. Summary of significant accounting policies

Foreign currency translation

The IFRS consolidated financial statements are presented in the US Dollars ("USD"), which is the Company's functional and presentation currency. Ukrainian hryvnia is the functional currency of the subsidiaries domiciled in Ukraine. Items included in the financial statements of each entity are measured using the functional currency determined for that entity. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences upon remeasurement are recognised in income statement. 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.

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

Property, plant and equipment

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

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

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 useful life of the asset as follows:

Buildings and improvement	5-78 years
Machinery and equipment	2-25 years
Transport and motor vehicles	5-20 years
Fixtures and office equipment	5-25 years

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. An item of property, plant and equipment is 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 income statement in the year the item is derecognised.

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

Borrowing costs capitalisation

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset, otherwise they are recognised as an expense when incurred.

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

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

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Impairment losses of continuing operations are recognised in income statement.

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

Investments and other financial assets

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

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

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

Loans and receivables

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

Available-for-sale financial assets

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

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the first-in, first-out ("FIFO") basis, except for cost of work-in-process (comprising unfinished products and metal billets) which is determined on weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Taxes recoverable

Taxes recoverable represent mainly value-added tax ("VAT") recoverable, paid to suppliers of goods and services. VAT is recoverable from the tax authorities by offset against VAT payable to the tax authorities on the revenue or by direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value-added tax.

Cash and cash equivalents

Cash and bank deposits are considered cash and cash equivalents for the purposes of cash flows statement and comprise cash in hand and cash at bank and highly liquid demand deposits (with 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.

Non-current assets held for sale

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

Trade and other payables

Trade and other payables are initially recognised at cost being the fair value of the consideration received, net of transaction costs incurred. Subsequently, instruments with fixed maturity are re-measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any transaction costs, and any discount or premium on settlement.

Borrowings

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

Liability attributable to minority participants

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

Guarantees issued

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

Derecognition of financial assets and liabilities

Financial assets

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

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

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Financial liabilities

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

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

Available-for-sale financial assets

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

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. 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 a) 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 b) 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 balance sheet date. Actual results could vary from estimates made to the date.

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

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

Contingent liabilities

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

Income tax

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

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

Revenue recognition

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

Cost of sales and other expenses recognition

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

IFRSs and IFRIC Interpretations not yet effective

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

IFRS 2 “Share based payments” – Amended

IFRS 3 “Business combinations” – Revised

IFRS 8 “Operating Segments”

IAS 1 “Presentation of Financial Statements” – Revised

IAS 23 “Borrowing Costs” – Amended

IAS 27 “Consolidated and Separate Financial Statements” – Revised

IAS 32 “Financial Instruments” – Amended

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

IFRIC 12 “Service Concession Arrangements”

IFRIC 13 “Customer Loyalty Programmes”

IFRIC 14 “IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

IFRS 2 amendments restrict the definition of “vesting condition” to a condition that includes an explicit and implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity granted. In the case that the award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share based payment schemes. An entity shall apply this revised IFRS in its annual financial statements for periods beginning on or after 1 January 2009.

IFRS 3 revised provides a greater emphasis on the use of fair value, increasing the judgement and subjectivity around business combination accounting, introduces a number of changes in the accounting for goodwill recognised, the reported results in the period when acquisition occurs and future reported results. The revised standard is mandatory for business combinations in annual financial statements beginning on or after 1 July 2009.

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

IAS 1 has been revised to enhance the usefulness of information presented in the financial statements through implementation of statement of comprehensive income and modifying of statement of changes in equity through separation of owner and non-owner changes in equity. When the revised standard is first applied, the disclosures must be made for all comparative periods presented. An entity shall apply this revised IFRS in its annual financial statements for periods beginning on or after 1 January 2009.

IAS 27 has been consequentially amended in line with revision of IFRS 3 as described above. IAS 27 revised requires that a change in the ownership interest in subsidiary is accounted for as an equity transaction.

IAS 23 amendments eliminate the option of expensing all borrowing costs and require borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. The amendments apply to borrowing costs incurred on qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

IAS 32 amendments require certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain conditions are met. An entity shall apply this revised IFRS in its annual financial statements for periods beginning on or after 1 January 2009.

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

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

IFRIC 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction; the consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. If the cost of fulfilling the awards is expected to exceed the consideration received, the entity will have an onerous contract and a liability for the excess must be recognised. If changes in accounting policies are required, they are applied retrospectively in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". An entity shall apply this interpretation for annual periods beginning on or after 1 July 2008.

IFRIC 14 addresses how to assess the limit under IAS 19 "Employee Benefits", on the amount of the surplus that can be recognised as an asset, in particular, when a minimum funding requirement exists. An entity must apply the Interpretation from the beginning of the first year presented in the first financial statements to which the Interpretation is applied. Any initial adjustment arising from the application of the Interpretation is recognised in retained earnings at the beginning of that period. An entity shall apply this interpretation for annual periods beginning on or after 1 January 2008.

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's result of operations and financial position in the period of initial application. The adoption of IFRS 8 will affect the disclosures relating to segment information as presented in the notes to these financial statements.

Reclassifications

Certain reclassifications have been made to the preliminary consolidated financial statements for the year ended 31 December 2006 to conform to 2007 presentation.

4. Significant accounting judgements and estimates

Estimation uncertainty

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

Pension obligations under defined benefit plan

The Group collects information relating to its employees in service and pensioners receiving pension benefits and uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. These calculations require the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate and future projected salary). More details are provided in Note 18.

Valuation of property, plant and equipment

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

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

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

Useful life of property, plant and equipment

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

Impairment of property, plant and equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. This requires an estimation of the value in use of the cash generating units to which the item is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In 2006, the Group reassessed its product sales forecasts resulting in a decrease of operating cash flows for certain cash generating units. The Group assessed value in use for the cash generating unit producing large diameter welded pipes that was affected by this change in forecasts. This cash generating unit was included in the welded pipe business segment of the Group (Note 5). The discount rate used in determining value in use of this cash generating unit was 16%. The difference between value in use and carrying value of plant and machinery amounting to USD 5,250 thousand was recognised as impairment loss for the year ended 31 December 2006 (Note 6).

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

Allowances

The Group makes allowances for doubtful accounts receivable (Note 12). Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the financial statements.

Inventory is carried at lower of cost and net realisable value. Estimates of net realisable value of raw materials, work in progress and finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period (Note 11).

Deferred income tax assets

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance (Note10).

Value-added tax recoverable

Value-added tax recoverable is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that refund or VAT liabilities will be available within twelve months from the balance sheet date. The Group considers that the amount due from the state will be either recovered in cash or will be reclaimed against the VAT liabilities related to sales.

Litigations

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation or arbitration, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as legal counsel. Revisions to the estimates may significantly affect future operating results (Notes 18 and 30).

5. Segment information

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

Primary reporting format – business segments

The Group's primary segment reporting format is the dominant source for disclosure of its operating activities in the financial statements. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

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

Seamless pipes segment – production and distribution of:

- Seamless oil country tubular goods ("OCTG"), used for oil and gas exploration and production;
- Seamless transportation line pipes, used for oil and gas transportation in severe pressure and temperature conditions;
- Seamless industrial pipes, used in a large variety of infrastructure and industrial applications;
- Seamless special applications pipes, used in various applications by the machine-building, power and heat generation and petrochemical industries, among others.

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.

Railway wheels segment - production and distribution of extensive range of forged wheels used for freight cars, passenger carriages, locomotives and underground trains as well as tyres for wheel sets used on locomotives, underground trains and trams.

Other operations segment - production and sales of enamel ware, lime, other by-products and services.

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

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

Segment revenues and results

Year ended 31 December 2007	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Revenue	1,101,470	296,736	371,419	22,417	1,792,042
Cost of sales	(773,759)	(218,419)	(231,002)	(19,616)	(1,242,796)
Gross profit	327,711	78,317	140,417	2,801	549,246
Other operating income	1,685	1,561	954	2,414	6,614
Selling and distribution expenses	(65,692)	(20,499)	(9,109)	(93)	(95,393)
General and administrative expenses	(39,047)	(11,751)	(9,428)	(822)	(61,048)
Other operating expenses	(15,250)	(2,375)	(9,941)	(917)	(28,483)
Operating profit	209,407	45,253	112,893	3,383	370,936
Finance income					2,960
Finance costs					(34,615)
Share of profits of associates					864
Profit before tax					**340,145**
Income tax expense					(84,571)
Profit for the year					**255,574**

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

Segment assets, liabilities and other information

Year ended 31 December 2007	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Unallocated*	*Total*
Segment assets	765,942	143,686	184,839	4,869	125,102	1,224,438
Segment liabilities	140,395	16,490	16,277	2,428	623,464	799,054
Investment in associates	3,426	-	-	-	-	3,426
Addition to property, plant and equipment and intangible assets	63,271	12,012	27,734	4,060	-	107,077
Depreciation and amortisation	44,010	5,502	11,195	697	-	61,404
Movement in provisions	8,845	528	934	-	-	10,307

Segment revenues and results

Year ended 31 December 2006	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Total*
Revenue	891,317	237,213	300,854	12,204	1,441,588
Cost of sales	(571,345)	(173,638)	(181,756)	(10,020)	(936,759)
Gross profit	319,972	63,575	119,098	2,184	504,829
Other operating income	2,781	87	187	551	3,606
Selling and distribution expenses	(85,723)	(22,426)	(10,809)	(259)	(119,217)
General and administrative expenses	(28,414)	(11,952)	(10,762)	(1,743)	(52,871)
Other operating expenses	(21,458)	(7,360)	(2,579)	(23)	(31,420)
Operating profit	187,158	21,924	95,135	710	304,927
Finance income					2,620
Finance costs					(10,338)
Share of profits of associates					120
Profit before tax					**297,329**
Income tax expense					(79,850)
Profit for the year					**217,479**

For the year ended 31 December 2006, share of profits of associates was attributable to seamless pipes segment.

Segment assets, liabilities and other information

Year ended 31 December 2006	*Seamless pipes*	*Welded pipes*	*Railway wheels*	*Other operations*	*Unallocated*	*Total*
Segment assets	590,726	165,901	150,491	2,355	140,997	1,050,470
Segment liabilities	131,719	24,335	11,702	3,194	210,483	381,433
Investment in associates	2,627	-	-	-	-	2,627
Addition to property, plant and equipment and intangible assets	19,824	3,149	2,245	4,130	-	29,348
Depreciation and amortisation	38,824	10,290	9,742	2	-	58,858
Impairment loss of property, plant and equipment	-	5,250	-	-	-	5,250
Movement in provisions	112	331	728	-	-	1,171

Secondary reporting format – geographical segments

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

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
Russia	561,815	404,797
Ukraine	517,700	411,161
Other CIS countries	297,099	189,684
Europe	177,877	179,293
Middle East and Africa	172,594	137,822
NAFTA	42,107	93,874
Other countries	22,850	24,957
	1,792,042	**1,441,588**

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

As at 31 December 2007 and 2006, assets attributable to entities located in Ukraine comprised 73.7% and 85.0% of total assets, respectively. No other geographical segments contribute 10% or more to the total assets as at 31 December 2007 and 2006. Assets attributable to geographical segments other than Ukraine are mostly represented by finished goods and trade accounts receivable.

The costs incurred to acquire property, plant, equipment, and intangible assets for the years ended 31 December 2007 and 2006 by entities located in Ukraine exceed 99% of the respective costs incurred by the Group.

6. Property, plant and equipment

Movement in property, plant and equipment and related accumulated depreciation for the years ended 31 December 2007 and 2006 was as follows:

	Buildings and improvements	*Machinery and equipment*	*Transport and motor vehicles*	*Fixtures and office equipment*	*Construction -in-progress and uninstalled equipment*	*Total*
Cost						
At 1 January 2006	78,507	435,290	10,258	2,517	9,642	536,214
Additions	1,011	5,543	24	628	21,215	28,421
Transfers	1,021	9,467	431	817	(11,736)	-
Disposals	(760)	(4,587)	(181)	(160)	(1,367)	(7,055)
Translation difference	-	1	2	18	-	21
At 31 December 2006	79,779	445,714	10,534	3,820	17,754	557,601
Additions	3,561	26,581	390	1,668	71,156	103,356
Transfers	1,358	1,530	32	122	(3,042)	-
Disposals	(100)	(1,213)	(1,011)	(56)	(240)	(2,620)
Translation difference	-	2	6	9	-	17
At 31 December 2007	**84,598**	**472,614**	**9,951**	**5,563**	**85,628**	**658,354**
Accumulated depreciation and impairment						
At 1 January 2006	-	-	72	25	-	97
Depreciation for the year	12,060	44,859	2,267	792	-	59,978
Disposals	(37)	(535)	(33)	(26)	-	(631)
Impairment loss (Note 4)	-	5,250	-	-	-	5,250
Translation difference	-	2	-	5	-	7
At 31 December 2006	12,023	49,576	2,306	796	-	64,701
Depreciation for the year	10,527	48,492	2,474	901	-	62,394
Disposals	(20)	(437)	(141)	(24)	-	(622)
Translation difference	-	1	2	4	-	7
At 31 December 2007	**22,530**	**97,632**	**4,641**	**1,677**	**-**	**126,480**
Net book value						
At 31 December 2006	67,756	396,138	8,228	3,024	17,754	492,900
At 31 December 2007	**62,068**	**374,982**	**5,310**	**3,886**	**85,628**	**531,874**

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

During the year ended 31 December 2007, the Group commenced construction of an electric arc furnace. As at 31 December 2007, costs attributable to the project amounting to USD 39,141 thousand were included in the construction-in-progress and uninstalled equipment and comprised of site preparation costs and prepayment under the contract for equipment delivery (Note 30). Other costs included in construction-in-progress and uninstalled equipment represented primarily unfinished installation works and uninstalled equipment on existing production sites.

As at 31 December 2007 and 2006, property, plant and equipment amounting to USD 205,755 thousand and USD 136,172 thousand, respectively, were pledged as a security for the bank loans (Note 17).

For the years ended 31 December 2007 and 2006, borrowing costs were capitalised to property, plant and equipment amounting to USD 1,144 thousand and nil, respectively. The capitalization rate for the year 2007 comprised 8.9%.

As at 31 December 2007 and 2006, the cost of fully depreciated items of property, plant and equipment in use amounted to USD 3,266 thousand and USD 634 thousand, respectively.

7. Intangible assets

Movement in intangible assets and related accumulated amortisation for the years ended 31 December 2007 and 2006 was as follows:

	Patents and trademark	*Accounting software*	*Other software*	*Intangible assets under development*	*Total*
Cost					
At 1 January 2006	-	390	405	40	835
Additions	48	281	391	207	927
Disposals	-	(3)	-	-	(3)
Translation difference	-	1	-	-	1
At 31 December 2006	48	669	796	247	1,760
Additions	14	907	969	1,831	3,721
Disposals	(2)	(42)	(30)	-	(74)
Translation difference	-	-	-	-	-
At 31 December 2007	**60**	**1,534**	**1,735**	**2,078**	**5,407**
Accumulated amortisation					
At 1 January 2006	-	107	163	-	270
Amortisation for the year	8	65	65	-	138
Disposals	-	(2)	-	-	(2)
Translation difference	-	1	-	-	1
At 31 December 2006	8	171	228	-	407
Amortisation for the year	15	195	161	-	371
Disposals	(1)	(16)	(3)	-	(20)
Translation difference	-	-	-	-	-
At 31 December 2007	**22**	**350**	**386**	**-**	**758**
Net book value					
At 31 December 2006	40	498	568	247	1,353
At 31 December 2007	**38**	**1,184**	**1,349**	**2,078**	**4,649**

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

Intangible assets under development mostly comprised capitalised costs attributable to management information system implementation.

For the years ended 31 December 2007 and 2006, into additions of intangible assets under development were included internally generated intangible assets amounting to USD 909 thousand and nil, respectively.

8. Investments in associates

Investments in associates were as follows:

Entity	*Activity*	*% of the Group ownership*	*31 December 2007*	*31 December 2006*
CJSC "Teplogeneratzia"	Utility services	30%	1,556	1,360
CJSC "Nikopolsky Tooling Plant"	Tooling for machines	25%	924	678
CJSC "Nikopolsky Repairing Plant"	Repairs	25%	946	589
			3,426	**2,627**

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

The Group's associates are private companies not listed on any public exchange. The following table illustrates summarised financial information of the Group's investments in associates as at 31 December 2007 and 2006:

	CJSC "Teplo-generatzia"	*CJSC "Nikopolsky Tooling Plant"*	*CJSC "Nikopolsky Repairing Plant"*
At 31 December 2007			
Assets	1,796	1,748	1,651
Liabilities	(240)	(824)	(705)
Net assets – carrying amounts of investments	**1,556**	**924**	**946**
At 31 December 2006			
Assets	2,840	1,666	1,113
Liabilities	(1,480)	(988)	(524)
Net assets – carrying amounts of investments	**1,360**	**678**	**589**

The following table illustrates the Group's share of revenues and profit or loss of associates for the years ended 31 December 2007 and 2006:

Year ended 31 December 2007	*CJSC "Teplo-generatzia"*	*CJSC "Nikopolsky Tooling Plant"*	*CJSC "Nikopolsky Repairing Plant"*
Revenue	1,810	3,626	4,185
Profit for the year	196	246	422

Year ended 31 December 2006	*CJSC "Teplo-generatzia"*	*CJSC "Nikopolsky Tooling Plant"*	*CJSC "Nikopolsky Repairing Plant"*
Revenues	1,692	2,960	3,189
Profit / (loss) for the year	(53)	15	158

For the years ended 31 December 2007 and 2006, dividends were received from CJSC "Nikopolsky Repairing Plant" amounting to USD 65 thousand and nil, respectively.

9. Other non-current assets

Other non-current assets consisted of the following:

	31 December 2007	*31 December 2006*
Prepayment for JSC "Interpipe Niznedneprovsky Tube Rolling Plant" shares (Note 27)	1,787	-
Other non-current assets	3,480	878
	5,267	**878**

10. Income tax

The components of income tax expense for the years ended 31 December 2007 and 2006 were as follows:

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
Current income tax expense	120,974	101,506
Deferred income tax benefit	(36,403)	(21,656)
	84,571	**79,850**

Income tax expense for the years ended 31 December 2007 and 2006 originated in the following tax jurisdictions:

	Domestic rates applicable to individual group entities	*For the year ended 31 December 2007*	*For the year ended 31 December 2006*
Ukraine	25%	79,564	77,479
Russia	24%	3,588	608
Switzerland	12%	2,957	1,674
The United States of America	34%	(2,130)	29
Cyprus	10%	14	-
Kazakhstan	30%	578	60
		84,571	**79,850**

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

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
Accounting profit before tax	340,145	297,329
Tax at domestic rates applicable to individual Group entities	81,896	72,659
Write off of the tax asset relating to the change in an estimate of deductibility of certain temporary difference	-	511
Tax effect of non deductible expenses	10,262	6,680
Revaluation of property, plant and equipment for tax purposes	(3,716)	-
Recognition of the tax asset due to change in tax ruling	(3,871)	-
	84,571	**79,850**

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

As at 31 December 2007 due to change in Ukrainian tax ruling the Group recognised deferred tax asset arising on defined benefit state pension plan (Note 18).

Deferred tax assets and liabilities related to the following:

	31 December 2007	*Change recognised in income statement*	*Translation difference*	*31 December 2006*	*Change recognised in income statement*	*Translation difference*	*1 January 2006*
Deferred tax liabilities:							
Deemed cost adjustment of property, plant and equipment and difference in depreciation	(48,625)	18,304	-	(66,929)	18,088	-	(85,017)
Deductible prepayments to Group companies and suppliers	(39,209)	(23,027)	-	(16,182)	(13,956)	-	(2,226)
Deductible costs retained in inventories	(4,157)	(211)	-	(3,946)	(2,416)	-	(1,530)
Deferral of revenues and related costs	(380)	(369)	(11)	-	-	-	-
Other deferred tax liabilities	(229)	47	-	(276)	265	-	(541)
	(92,600)	**(5,256)**	**(11)**	**(87,333)**	**1,981**	**-**	**(89,314)**
Deferred tax assets:							
Taxable advances from Group companies and customers	49,605	28,372	-	21,233	19,693	-	1,540
Accrued liabilities and provisions	14,069	11,307	9	2,753	1,059	12	1,682
Adjustment for unrealised profits in inventories	4,237	286	17	3,934	(341)	42	4,233
Write-down of inventories	1,458	1,399	3	56	(883)	2	937
Allowance for doubtful accounts	1,113	97	(40)	1,056	757	35	264
Deferral of revenues and related costs	-	(587)	-	587	(610)	(10)	1,207
Other deferred tax assets	786	785	1	-	-	-	-
	71,268	**41,659**	**(10)**	**29,619**	**19,675**	**81**	**9,863**
Deferred income tax benefit from origination and reversal of temporary differences		**36,403**			**21,656**		

Reflected in the consolidated balance sheet as follows:			
Deferred tax assets	6,095	2,932	4,133
Deferred tax liabilities	(27,427)	(60,646)	(83,584)
Deferred tax liabilities, net	**(21,332)**	**(57,714)**	**(79,451)**

As at 31 December 2007 and 2006, the Company has not recognised deferred tax liability in respect of temporary differences amounting to USD 57,598 thousand and USD 30,211 thousand, respectively, associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

11. Inventories

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

	31 December 2007	*31 December 2006*
Raw materials	104,852	57,476
Work in process	33,707	26,673
Finished goods	96,994	69,966
	235,553	**154,115**

As at 31 December 2007 and 2006, amount of write down of inventories to net realisable value comprised USD 6,725 thousand and USD 4,886 thousand, respectively. There were no reversals of write downs.

As at 31 December 2006 finished goods and raw materials with carrying value of USD 31,316 thousand were pledged as a security for the bank loans (Note 17).

12. Trade and other accounts receivable

Trade and other accounts receivable consisted of the following:

	31 December 2007	*31December 2006*
Trade accounts receivable	232,924	176,983
Less — allowance for impairment	(8,193)	(9,484)
	224,731	167,499
Short-term non-interest bearing loans	-	14,599
Other receivables net of allowance for impairment	2,781	3,553
	227,512	**185,651**

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

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
At period beginning	9,484	3,296
(Release)/charge for the year (Note 23)	(1,291)	6,691
Amounts written off	-	(503)
At period end	**8,193**	**9,484**

Allowance for impairment of other receivables as at 31 December 2007 and 2006 comprised USD 350 thousand and USD 960 thousand, respectively.

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 day*	*>90 day*
31 December 2007	**227,512**	131,366	60,725	18,396	6,702	10,323
31 December 2006	**185,651**	116,222	45,141	11,012	4,503	8,773

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

As at 31 December 2007 and 2006, trade accounts receivable and contract amounts of future proceeds under sales agreements to ultimate customers amounting to USD 50,176 thousand and USD 29,330 thousand, respectively, were pledged as a security for the bank loans obtained by the Group (Note 17).

As at 31 December 2007 and 2006, 53% and 50% of trade accounts receivable, respectively, was due from 20 major customers.

13. Prepayments and other current assets

Prepayments and other current assets consisted of the following:

	31 December 2007	*31 December 2006*
Prepayment to settle the liability attributable to minority participants of "Interpipe Niko Tube" LLC (Note 27)	47,000	-
Prepayments to suppliers	14,141	9,135
Guarantee deposits	4,378	510
Available reimbursement related to litigations (Notes 18 and 25)	1,591	1,500
Prepaid insurance expense	232	1,166
Other current assets	179	336
	67,521	**12,647**

As at 31 December 2007 and 2006, the guarantee deposits represented restricted bank deposits relating to letters of credit issued by banks in favour of the Group's suppliers and bank guarantees issued by banks in favour of the Group's customers.

14. Taxes recoverable, other than income tax

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

	31 December 2007	*31 December 2006*
Value-added tax ("VAT") recoverable	70,685	69,090
Other taxes recoverable	30	402
	70,715	**69,492**

VAT recoverable originated primarily in Ukraine (Note 4).

15. Cash and bank deposits

Cash and bank deposits consisted of the following:

	31 December 2007	*31 December 2006*
Current accounts and deposits on demand at banks	35,980	31,388
Time deposits at banks	30,963	65,559
Cash in hand	35	22
	66,978	**96,969**

As at 31 December 2007 and 2006, demand deposits at banks earned interest at rates of up to 3% and 1% per annum, respectively. Time deposits at banks that were placed for periods of up to three months earned interest at rates of up to 9% per annum and 9% - 14% per annum for the years ended 31 December 2007 and 2006.

As at 31 December 2007 cash and bank deposits with carrying value of USD 880 thousand were pledged as a security for the bank loans (Note 17).

As at 31 December 2006, a short-term deposit, included in time deposits in banks, amounting to USD 13,979 thousand was pledged by the Group as a security for a third party loan and was released from the pledge and returned to the Group in January 2007.

16. Non-current assets classified as held for sale

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

	% of the Group's ownership interest	*31 December 2007*	*31 December 2006*
"Credit-Dnepr" Bank associate previously accounted for under the equity method	25%	-	7,023
Other equity investments		-	1,688
		-	**8,711**

In June 2007, the ownership interest in "Credit-Dnepr" Bank was disposed of with a gain of USD 1,390 thousand, recognised in other operating income for the period. In May 2007, the Group disposed of its share in another investee at price of USD 1,688 thousand equalling the carrying value of this investment.

The non-current assets classified as held for sale were reported as unallocated in the segment information (Note 5).

17. Borrowings

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

	31 December 2007	*31 December 2006*
Current borrowings		
Interest bearing loans due to banks	174,841	173,344
Borrowings from non financial institutions	3,546	2,596
Add: Current portion of non-current borrowings	36,998	-
	215,385	**175,940**
Non-current borrowings		
Interest bearing loans due to banks	205,193	12,311
Bonds issued	195,976	-
Less: Current portion of non-current borrowings	(36,998)	-
	364,171	**12,311**
Total borrowings	**579,556**	**188,251**

As at 31 December 2007 and 2006, the Group's interest bearing loans due to banks represent loan arrangements, revolving credit facilities and financing under letters of credit.

As at 31 December 2007 and 2006, the amount of undrawn credit facilities comprised USD 210,483 thousand and USD 117,000 thousand, respectively.

Bonds issued

In August 2007, Interpipe Limited issued USD 200 million bonds, maturing in August 2010. The bonds are US Dollar denominated and bear interest of 8.75%, per annum, payable semi-annually in arrears. The bonds are listed on the Luxemburg Stock Exchange. The bonds are jointly and severally guaranteed by JSC "Interpipe Niznedneprovsky Tube Rolling Plant" ("NTRP"), Interpipe Niko Tube and Interpipe Ukraine. The effective interest rate on the bonds is 9.88 % per annum.

As at 31 December 2007 and 2006, effective interest rate and currency split for borrowings were as follows:

	Effective interest rate	*31 December 2007*	*31 December 2006*
USD			
Floating rate	LIBOR (1month - 1year) + 3%-7%	359,557	116,176
Fixed rate	8.32%-11.50%	195,976	57,010
Other		3,310	2,596
		558,843	175,782
EUR			
Floating rate	EURIBOR (1month - 1year) + 3.12%-6.30%	15,562	8,131
Floating rate	6.5%-8.3%	2,317	3,262
Fixed rate	4.8%-11.5%	578	1,018
		18,457	12,411
RUB			
Floating rate	MOSPRIME O/N + 3.5%	1,082	-
Fixed rate	20%	231	-
Other		236	-
		1,549	-
UAH			
Fixed rate	12%-16%	707	58
Total borrowings		**579,556**	**188,251**

Pledges

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

	31 December 2007	*31 December 2006*
Carrying values of property, plant and equipment (Note 6)	205,755	136,172
Contract amounts of future proceeds under sales agreements to Group companies	30,577	31,523
Contract amounts of property rights under property, plant and equipment purchase agreements	53,663	5,082
Carrying values of trade accounts receivable and contract amounts of future proceeds under sales agreements to ultimate customers (Note 12)	50,176	29,330
Carrying values of inventories (Note 11)	-	31,316
Cash and bank deposits (Note 15)	880	-

Covenants

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

18. Provisions

As at 31 December 2007 and 2006, the provisions comprised:

	31 December 2007	*31 December 2006*
Provision for customers' and other claims	8,966	3,170
Defined benefit state pension plan	13,924	9,510
Retirement benefit plan	1,548	1,451
	24,438	**14,131**
Provision – current portion	(11,796)	(4,952)
Provision – non-current portion	**12,642**	**9,179**

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

For the years ended 31 December 2007 and 2006, movement in the provisions was as follows:

	Provision for customers' and other claims	*Defined benefit state pension plan*	*Retirement benefit plan*	*Total provisions*
At 1 January 2006	5,388	7,028	544	12,960
Charge for the year	13,641	3,690	1,108	18,439
Payments and utilisation	(15,761)	(1,208)	(201)	(17,170)
Reversal	(98)	-	-	(98)
At 31 December 2006	3,170	9,510	1,451	14,131
Charge for the year	11,994	6,545	333	18,872
Payments and utilisation	(4,728)	(2,131)	(236)	(7,095)
Reversal	(1,470)	-	-	(1,470)
At 31 December 2007	**8,966**	**13,924**	**1,548**	**24,438**

For the years ended 31 December 2007 and 2006, interest cost, credited to provision account, amounting to USD 2,740 thousand and USD 1,544 thousand, respectively, was recorded in the finance costs in the income statement (Note 26).

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. As at 31 December 2007 and 2006, virtually certain insurance coverage and other reimbursements against probable losses amounting to USD 1,591 thousand and USD 1,500 thousand, respectively, was recognised as an asset and included in other current assets (Note 13). For the years ended 31 December 2007 and 2006, increase in virtually certain insurance coverage of USD 91 thousand and USD 500 thousand, respectively, was credited to customers' and other claims charges, net of reversals, in other operating expenses (Note 25). Refer to Note 30 for further details on the provision relating to litigation.

Defined benefit state pension plan

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

At 31 December 2007 and 2006, total number of the plan participants accounted for 7,934 and 7,495 people, respectively, including 1,388 and 1,387 retired employees receiving the benefit, respectively. The following tables summarise the components of benefit expense recognised in the consolidated income statement and amounts recognised in the consolidated balance sheet for the plan. Benefit expense, with the exception of interest cost, is included in payroll and related expenses within cost of sales. Interest cost is included in finance cost.

Benefit expense

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
Current service cost	2,758	1,666
Interest cost (Note 26)	2,539	1,450
Past service cost	554	555
Actuarial losses	694	19
	6,545	**3,690**

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

	31 December 2007	*31 December 2006*
Present value at the beginning of the year	26,459	14,496
Current service cost	2,758	1,666
Interest cost	2,539	1,450
Payment	(2,131)	(1,208)
Actuarial losses	6,173	10,055
Present value at the end of the year	**35,798**	**26,459**

Pension benefit liability

	31 December 2007	*31 December 2006*
Present value of unfunded obligation	35,798	26,459
Unrecognised past service cost	(4,807)	(5,363)
Unrecognised actuarial losses	(17,067)	(11,586)
	13,924	**9,510**
Benefit liability – current	(2,573)	(1,565)
Benefit liability – non-current	**11,351**	**7,945**

For the years ended 31 December 2007 and 2006, experience adjustments resulted in the increase of plan liabilities by 9% and 13%, respectively.

The Group's best estimate of contributions expected to be paid to the plan during the year ended 31 December 2008 amounts to USD 2,610 thousand.

Retirement benefit plan

Some production subsidiaries of the Group in Ukraine have contractual commitments to pay lump-sum payments to the retiring employees with the long service and certain post retirement and employment benefits according to collective agreements. As at 31 December 2007 and 2006, this unfunded benefit plan covered 14,452 and 15,629 employees, respectively. The following tables summarise the components of benefit expense recognised in the consolidated income statement and amounts recognised in the consolidated balance sheet for the plan. Benefit expense, with the exception to interest cost, is included in payroll and related expenses within cost of sales and general and administrative expenses. Interest cost is included in the finance costs.

Benefit expense

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
Current service cost	82	43
Interest cost (Note 26)	201	94
Vested past service cost	-	946
Actuarial losses	50	25
	333	**1,108**

Changes in the present value of retirement benefit plan

	31 December 2007	*31 December 2006*
Present value at the beginning of the year	2,135	940
Current service cost	82	43
Interest cost	201	94
Payment	(236)	(201)
Vested past service cost	-	946
Actuarial losses	473	313
Present value at the end of the year	**2,655**	**2,135**

Post-employment defined benefit liability

	31 December 2007	*31 December 2006*
Post-employment defined benefit liability	2,655	2,135
Unrecognised net actuarial losses	(1,107)	(684)
	1,548	**1,451**
Benefit liability – current	(257)	(217)
Benefit liability – non-current	**1,291**	**1,234**

For the years ended 31 December 2007 and 2006, experience adjustments resulted in the increase plan liabilities by 4% and nil, respectively.

The Group's best estimate of contributions expected to be paid to the plan during the year ended 31 December 2008 amounts to USD 261 thousand.

Principal assumptions applicable to all plans

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

	31 December 2007	*31 December 2006*
Annual discount rate	10.0%	10.0%
Annual salary increase rate	9.0%	9.0%
Annual pension increase rate	8.5%	7.5%

19. Trade and other accounts payable

Trade and other accounts payable consisted of the following:

	31 December 2007	*31 December 2006*
Payables to suppliers	44,866	48,466
Promissory notes payable	213	4,538
	45,079	**53,004**

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

20. Taxes payable, other than income tax

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

	31 December 2007	*31 December 2006*
Accrued and withheld taxes on payroll	3,184	2,220
VAT payable	171	90
Miscellaneous other taxes payable	201	411
	3,556	**2,721**

21. Advances and other current liabilities

Advances and other current liabilities consisted of the following:

	31 December 2007	*31 December 2006*
Advances from customers	40,715	30,698
Accrued employee benefits	12,046	10,022
Interest payable	9,238	534
Dividends payable to minority owners	1,843	10,587
Other	3,483	6,835
	67,325	**58,676**

22. Cost of sales

Cost of sales consisted of the following:

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
Materials	886,680	637,153
Energy and utilities	110,878	80,222
Payroll and related expenses	73,283	65,488
Depreciation	59,951	57,084
Rolling tools and instruments	44,741	33,336
Repairs and maintenance	36,551	34,729
Other	30,712	28,747
	1,242,796	**936,759**

23. Selling and distribution expenses

Selling and distribution expenses consisted of the following:

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
Forwarding and transportation services	67,045	55,929
Storage and packaging expenses	13,413	8,355
Payroll and related expenses	7,119	3,725
Customs services	4,968	3,766
Sales agency fees	3,908	17,435
Insurance expense	1,688	21,924
Advertising and promotion	1,059	1,052
Professional fees	356	1,472
Foreign exchange gains, net of losses	(3,637)	(1,811)
(Release)/charge of accounts receivable allowance (Note 12)	(1,291)	6,691
Other	765	679
	95,393	**119,217**

24. General and administrative expenses

General and administrative expenses consisted of the following:

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
Payroll and related expenses	24,478	23,145
Professional fees	17,742	11,700
Business trips and transportation	4,765	2,360
Bank fees	2,860	2,507
Taxes, other than income tax	2,356	771
Depreciation and amortisation	1,453	1,774
Repairs and maintenance	1,281	2,449
Communication	1,201	1,023
Rent	867	824
Insurance expense	132	1,275
Other	3,913	5,043
	61,048	**52,871**

25. Other operating income and expenses

Other operating income consisted of the following:

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
Gains from sales of other assets	1,582	-
Gain on disposal of property, plant and equipment and intangible assets	1,410	-
Gain on disposal of non-current assets held for disposal	1,390	-
Fines and penalties received	-	1,718
Other	2,232	1,888
	6,614	**3,606**

Other operating expenses consisted of the following:

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
Customers' and other claims charges, net of reversals (Notes 13 and 18)	10,433	13,043
Sales agreement violation claim settlement charge	9,896	-
Maintenance of social assets	3,654	2,423
Loss on disposal of property, plant and equipment and intangible assets	-	5,861
Impairment of property, plant and equipment (Note 6)	-	5,250
Charge for prepayments and other accounts receivable allowance	45	960
Other	4,455	3,883
	28,483	**31,420**

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

26. Finance costs

Finance costs consisted of the following:

	For the year ended 31 December 2007	*For the year ended 31 December 2006*
Interest expense relating to bank loans and bonds issued	30,940	7,996
Defined benefit state pension plan interest cost (Note 18)	2,539	1,450
Retirement benefit plan interest cost (Note 18)	201	94
Other	935	798
	34,615	**10,338**

27. Equity

Issued capital and capital distribution

As referred to in Note 1, the Group was formed in April – September 2006 through a series of transactions that ultimately resulted in the Company obtaining controlling ownership interest in the subsidiaries from entities which were under common control at the time of reorganisation. As part of the reorganisation all the shares of the Company have been transferred to and, as at 31 December 2006 and 2007, were ultimately held by a number of discretionary trusts established to operate the Group as well as certain other investments. Mr. Viktor M. Pinchuk, a citizen of Ukraine, and his family members are beneficiaries of such discretionary trusts. The trustees engaged to manage the trusts are professional, experienced and reputable trust management companies.

As at 1 January 2006, authorised capital of the Company comprised 5,000 shares of 1.00 Cyprus pound each, of which 1,000 shares (equivalent of USD 2 thousand) were issued and fully paid.

The Company issued additional 4,000 shares to its current shareholders on 22 December 2006 and paid cash of USD 238,399 thousand in exchange for the controlling ownership interests in subsidiaries, which have been transferred to the Company in the process of the reorganisation of the Group conducted during 2006. The excess of the registered capital contribution over the nominal amount of the shares amounting to USD 361,091 thousand was recorded as share premium. The cash payment represented capital distributions and was presented as a reduction in accumulated profits in the financial statements for the year ended 31 December 2006.

As at 31 December 2007 and 2006, the number of shares authorised, issued and fully paid comprised 5,000 shares.

The shares of the Company were not listed at 31 December 2007.

Acquisitions of minority interests in NTRP

During the years ended 31 December 2007 and 2006, the Company acquired additional 4.81% minority interest in NTRP. The excess of the consideration paid over the carrying value of the minority interests, which amounted to USD 534 thousand and USD 88 thousand for the years ended 31 December 2007 and 2006, respectively, was charged to accumulated profits.

In October 2007, a prepayment was made for 0.08% of minority interest in NTRP (Note 9). Upon completion of the transaction the Company's interest in the subsidiary will be increased to 91.92%.

Merger of subsidiaries and settlement of liability attributable to minority participants

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

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

In December 2007, Interpipe Limited signed an agreement and made a prepayment of total consideration under the agreement amounting to USD 47,000 thousand (Note 13) to settle the liability attributable to minority participants in Interpipe Niko Tube. The ownership of the Group in Interpipe Niko Tube will increase by 27.42% and comprise 100% upon the completion of the transaction. The transaction will be completed after respective amendments to the statutory documents of Interpipe Niko Tube will be registered according to Ukrainian legislation.

Dividends payable by subsidiaries of the Group

The portion of dividends declared by subsidiaries of the Group that were paid to the minority interests were recorded as a reduction in minority interests of USD 11,740 thousand and USD 25,929 thousand for the years ended 31 December 2007 and 2006, respectively.

Dividends payable by the Company

During the year ended 31 December 2007, the Company declared and paid to the shareholders dividends attributable to profits accumulated as at 31 December 2006 together with interim dividends for 2007 amounting to USD 421,000 thousand and comprising USD 84.2 thousand per share. During the year ended 31 December 2006, no dividends have been declared and paid.

28. Principal subsidiaries

The Group's included the following subsidiaries as at 31 December 2007 and 2006:

Name of the company	*Country of incorporation*	*Business activities*	*Ownership* 31 December 2007	*Ownership* 31 December 2006
JSC "Interpipe Niznedneprovsky Tube Rolling Plant"	Ukraine	Production of seamless and welded pipes and railway wheels	91.84%	87.03%
JSC "Interpipe Novomoskovsk Pipe-Production Plant"	Ukraine	Production of welded pipes	86.47%	86.47%
"Interpipe Niko Tube" LLC	Ukraine	Production of seamless pipes	72.58%	-
CJSC "Interpipe Nikopolsky seamless tubes plant "Niko Tube"	Ukraine	Production of seamless pipes	-	75.00%
JSC "Interpipe Nikopol Tube Company"	Ukraine	Production of seamless pipes	-	60.02%
"Interpipe Ukraine" LLC	Ukraine	Trading	100.00%	100.00%
"Interpipe Management" LLC	Ukraine	Services	100.00%	100.00%
"Interpipe-M" LLC	Russia	Trading	100.00%	100.00%
"Interpipe Kazakhstan" LLC	Kazakhstan	Trading	100.00%	100.00%
"Interpipe Europe" LLC	Switzerland	Trading	100.00%	100.00%
"Klw-Wheelco" LLC	Switzerland	Trading	100.00%	100.00%
"North American Interpipe, Inc" LLC	United States	Trading	100.00%	100.00%
"Interpipe Middle East" FZE with limited liability	United Arab Emirates	Trading	100.00%	-
"Metallurgical Plant Dneprosteel" LLC	Ukraine	Construction of electric arc furnace	100.00%	100.00%
"Transkom - Dnepr" LLC	Ukraine	Transportation services	100.00%	-
Steel.One Limited	Cyprus	Subholding	100.00%	100.00%
Saleks Investments Limited	Cyprus	Subholding	100.00%	-

On 24 December 2007 assets and liabilities of CJSC "Interpipe Nikopolsky seamless tubes plant "Niko Tube" and JSC "Interpipe Nikopol Tube Company" were transferred into newly created company "Interpipe Niko Tube" LLC (Note 27).

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

29. Related party transactions

The Group defines related parties in accordance with IAS 24 "Related Party Disclosures". IAS 24 focuses significantly on the concept of "control" (including common control) and "significant influence" as primary methods to identify related parties. IAS 24 also identifies "key management personnel", close family members and post employment plans as related parties.

As a result of the reorganization of the Group described in Notes 1 and 27, certain entities that may have been considered to be "related parties" under the IAS 24 definition in the past are no longer considered to be related parties.

The Group made such reassessment upon completion of its reorganisation. For the year ended 31 December 2006, the Group's transactions with entities, which at that time were treated as related parties, but ceased to be related according to the Group's reassessment performed in 2007, in particular comprised of sales of products, purchase of agency and other services, purchase of raw materials and other supplies as well as financial services, resulted in net finance income, have been reported as related party transactions. In 2006, such transactions amounted to USD 10,067 thousand, USD 36,930 thousand, USD 53,964 thousand and USD 285 thousand, respectively. The respective trade accounts receivable and prepayments of USD 31,001 thousand and trade accounts payable and other current liabilities of USD 3,495 thousand, outstanding as at 31 December 2006, as well as the short-term borrowings of USD 2,596 thousand and bank deposits of USD 1,002 thousand had all been settled or repaid in the normal course of business.

Furthermore, in 2006 and 2007, the Group sales and purchase functions partially outsourced in the past to the above entities, have been fully assumed by the Group entities and residual transactions and outstanding balances as at 31 December 2007 are not material, except for the procurement of scrap metals.

In 2007, the Group's transactions with its related parties comprise those with its associates (Note 8) and key management personnel.

Transactions with associates

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

			31 December 2007		*31 December 2006*	
	For the year ended 31 December 2007	*For the year ended 31 December 2006*	*Amounts owed to the Group*	*Amounts owed by the Group*	*Amounts owed to the Group*	*Amounts owed by the Group*
Sales of the products and other commodities	7,748	6,271	996	-	1,197	-
Purchases of inventories, utilities and other services	15,144	10,455	1,649	2,134	145	1,432
Bank deposits and related finance income	-	365	-	-	25,545	-
Short-term borrowings and related finance expense	-	863	-	-	-	107

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

Terms and conditions of transactions with the related parties are similar to those that are available to parties not related with the Group.

For the years ended 31 December 2007 and 2006, the Group has not recorded any impairment of receivables relating to the outstanding amounts presented in the table above.

Finance income and expenses for the year ended 31 December 2006 as well as outstanding balances as at that date related to cash deposited with and short term borrowing from the associated bank at prevailing market rates, in which one of the Group subsidiaries previously had a 25% equity interest. As at 31 December 2006, this asset was classified as a non-current asset held for disposal. In 2007, the sale of the interest in associate was completed (Note 16).

Compensation to key management personnel

Key management personnel of the Group as at 31 December 2007 comprised:

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

Name	**Function**
Gennady G. Gazin	Non-Executive Director, Chairman of the Board of Directors of Interpipe Limited, Chairman of Strategy and Advisory Committee of EastOne Group Limited
Oleksandr I. Kirichko	Executive Director, Chief Executive Officer of Interpipe Limited
Andrii P. Dudnyk	Non-Executive Director, Member of Strategy and Advisory Committee of EastOne Group Limited
Alexandre R. Gorodetsky	Non-Executive Director, Member of Strategy and Advisory Committee of EastOne Group Limited
Gkana Khomenko Eracleous	Non-Executive Director, Director of IFG Trust Limited (Note 32)
Nikolay V. Tsekhomskiy	Independent Non-Executive Director, Senior Vice President of VTB Bank
Jean Pierre Saltiel	Independent Non-Executive Director, Co-Chairman of Ukrainian Economic Advisory Council of Yalta European Strategy

- Senior Executive Management of the Group, as at 31 December 2007 and 2006 comprising thirteen and ten persons (including the CEO who is also a member of the Board of Directors), respectively.

For the years ended 31 December 2007 and 2006, total compensation representing short-term employee benefits to the Board of Directors and key management personnel comprised USD 4,348 thousand and USD 1,363 thousand, respectively, and was included in general and administrative expenses in the consolidated income statement. In addition to the above no other incentives were attributable to the Board of Directors and key management personnel.

30. Commitments, contingencies, and operating risks

Operating environment in Ukraine, Russia, and Kazakhstan

The Group has significant operations in Ukraine, Russia, and Kazakhstan whose economies continue to display certain characteristics consistent with that of economies in transition. Whilst there have been improvements in the economic situation, these countries continue economic reforms and development of their legal, tax and regulatory frameworks as required by a market economy. Whereas in Russia the restrictive currency controls have been removed, they still exist in Ukraine and Kazakhstan which cause the Ukrainian and Kazakhstani national currencies to be illiquid outside of these countries. The future stability of the economies is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by their governments.

Tax and other regulatory compliance in Ukraine, Russia, and Kazakhstan

Ukrainian, Russian, and Kazakhstani legislations and regulations regarding taxation and other operational matters, including currency exchange control, custom regulations and transfer pricing, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

Litigation

As at 31 December 2007 and 2006, North American Interpipe, Inc LLC was defendant in several litigations relating to quality claims from customers amounting to approximately USD 16,726 thousand and USD 20,478 thousand, respectively. Provision for probable adverse consequences of the above cases amounting to USD 8,166 thousand and USD 2,800 thousand was included in provision for customers' and other claims for the years ended 31 December 2007 and 2006, respectively (Note 18).

In addition to the specific cases mentioned above, in the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

Pledges and guarantees issued

In January 2007, the Company pledged its 100% ownership in Saleks Investments Limited and 60% of the shares in NTRP held by Saleks Investments Limited to secure obligations under a USD 150,000 thousand loan facility made available to the Group and other borrowers by an international bank. No draw downs were made by the Group entities during the period and the pledge has been eventually released in February 2008.

As at 31 December 2007 and 2006, the Group had issued guarantees amounted to USD 1,500 thousand and nil, respectively, in favour of various financial institutions with respect to short-term financing provided to the associated companies.

The fair value of issued guarantees on initial recognition is negligible and, therefore, has not been recognised in these financial statements.

Lease of land

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

Contractual commitments for the acquisition of property, plant and equipment

During the year ended 31 December 2007, the Group entered into a capital commitment of EUR 274,816 thousand (equivalent of approximately USD 403,760 thousand as at the year end) under a turn-key contract with a leading equipment supplier to construct the electric arc furnace with a production capacity of 1.3 million ton of billets annually. As at 31 December 2007, prepayment amounting to USD 37,037 thousand was made under the commitment (Note 6).

As at 31 December 2007, the Group's contractual commitments for acquisition and modernisation of production equipment amounted to USD 78,706 thousand and acquisition and implementation of management information systems amounted to USD 6,624 thousand.

31. Financial risk management

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

The 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 Swiss franc ("CHF"), the Russian rouble ("RUB") and the Kazakhstani tenge ("KZT").

The exchange rates for those currencies to USD 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*	*1 CHF*
As at 31 December 2007	19.8020	1.4692	4.0750	8.2952	0.8848
As at 31 December 2006	19.8020	1.3170	3.7980	7.8752	0.8196

The Group exports its products to Russia, Europe, and other countries; purchases materials from other countries, mainly from Russia; and attracts substantial amount of foreign currency denominated short-term and long term borrowings, and is, thus, exposed to foreign exchange risk. Foreign currency denominated trade receivables and payables, and borrowings give rise to foreign exchange exposure. As at 31 December 2007 and 2006, the Group has not entered into transactions designed to hedge against these foreign currency risks.

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

For the year ended 31 December 2007	*Increase "+" / decrease "-" in currency exchange rate, %*	*Effect on profit before tax*
EUR/USD	+ 5.0%	704
USD/UAH	+ 5.0%	(22,768)
EUR/USD	- 5.0%	(704)
USD/UAH	- 5.0%	22,768

For the year ended 31 December 2006	*Increase "+" / decrease "-" in currency exchange rate, %*	*Effect on profit before tax*
EUR/UAH	+ 5.0%	342
USD/UAH	+ 5.0%	(6,691)
EUR/UAH	- 5.0%	(342)
USD/UAH	- 5.0%	6,691

Liquidity risk

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

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

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 based on contractual undiscounted payments:

At 31 December 2007	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Borrowings	25,047	231,772	429,150	685,969
Trade and other accounts payable	44,370	709	-	45,079
Other current liabilities	18,852	7,758	-	26,610
	88,269	**240,239**	**429,150**	**757,658**

At 31 December 2006	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*Total*
Borrowings	50,249	136,894	16,397	203,540
Trade and other accounts payable	53,004	-	-	53,004
Other current liabilities	27,978	-	-	27,978
	131,231	**136,894**	**16,397**	**284,522**

Credit risk

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

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

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

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

Interest rate risk

During 2007 the Group borrowed at a fixed and floating rates mostly linked to London Inter Bank Offering Rate ("LIBOR") or European Inter Bank Offering Rate ("EURIBOR").

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

For the year ended 31 December 2007	*Increase "+" / decrease "-" in interest rate, basic points*	*Effect on profit before tax*
LIBOR (USD)	+20	(727)
EURIBOR (EUR)	+20	(31)
LIBOR (USD)	-20	727
EURIBOR (EUR)	-20	31

For the year ended 31 December 2006	*Increase "+" / decrease "-" in interest rate, basic points*	*Effect on profit before tax*
LIBOR (USD)	+20	(16)
EURIBOR (EUR)	+20	(205)
LIBOR (USD)	-20	16
EURIBOR (EUR)	-20	205

There were no financial instruments which possible fluctuations of interest rates could have affected direct charges to the Group's equity for the years ended 31 December 2007 and 2006.

Capital risk management

The Group considers its debt and shareholders' equity as the primary capital sources. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and the Group's development strategy.

The Group's capital management policies aim to ensure and maintain an optimal capital structure, to reduce the overall cost of capital and to provide flexibility relating to the Group's access to capital markets. Furthermore, the Group makes its investment decisions taking into consideration its capital structure.

As at 31 December 2006, the Group's net debt-to-total capital ratio was, as shown in the table below, 12.0%. In the view of both management and shareholders, this represented lower than economically efficient level of leverage. Such capital structure had higher cost of capital compared to a more leveraged one and, thus, it might have precluded the Group from pursuing otherwise attractive investment opportunities.

To benefit from those investment opportunities, management performed a strategic review of capital structure existing as at 31 December 2006 and developed a program aiming at the reduction of the overall cost of capital. In course of the program implementation, the Group distributed a part of its equity replacing it with additional borrowings and brining the Group's net debt-to-total capital ratio to 54.6% as at 31 December 2007:

	31 December 2007	*31 December 2006*
Long-term borrowings	364,171	12,311
Short-term borrowings	215,385	175,940
Cash and bank deposits	(66,978)	(96,969)
Net debt	512,578	91,282
Total equity	425,384	669,037
Total capital	**937,962**	**760,319**
Net debt-to-total capital ratio	54.6%	12.0%

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

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

Management monitors on an ongoing basis that the restrictive covenants attributable to bank borrowings and bonds issued are fulfilled in due course. Management believes the Group is fully compliant with the restrictive covenants as at 31 December 2007 and 2006.

Fair values of financial instruments

The carrying amounts of financial instruments, consisting of cash and cash deposits, short-term accounts receivable and payable, liability attributable to minority participants, loans and borrowings approximate their fair values. Long-term interest bearing bank loans are predominately variable rate, using market rates as of year end the carrying value of the long-term bank loans approximates their fair value. As at 31 December 2007, the fair value of bonds issued was based on market quotation and approximated to USD 195,000 thousand. As at that date, the carrying value of bonds issued and interest payable on bonds issued comprised USD 195,976 thousand and USD 7,292 thousand, respectively.

32. Events after the balance sheet date

In March 2008, Interpipe Limited signed an agreement for the purchase of 95.95% of OJSC "Dnepropetrovsk Vtormet" for USD 39,723 thousand. The transfer of ownership to Interpipe Limited is subject to preliminary consent of the Antimonopoly Committee of Ukraine. In 2007, the Group procured essentially all volumes of scrap metals consumed in the pipe and wheel production from this entity. Volume of such transactions in 2007 and 2006 comprised USD 67,861 thousand and USD 56,228 thousand, respectively.

In March 2008, Gkana Khomenko Eracleous, a Non-Executive Director of Interpipe Limited Board of Directors resigned and Richard Norris was appointed as an Independent Non-Executive Director instead (Note 29).