INTERPIPE LIMITED

Consolidated Financial Statements
Year ended 31 December 2018 together with

Independent Auditor's Report

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The directors present their Report together with the accompanying Consolidated Financial Statements (the "Consolidated Financial Statements") of Interpipe Limited (referred to herein as the "Company") and its subsidiaries (collectively referred to herein as the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Principal Activity and Subsidiaries

The Company was incorporated under the Companies Law of Cyprus under the name of Ramelton Holdings Limited as a limited liability company on 30 December 2005 and changed its name to Interpipe Limited on 15 May 2007. The registered office and the principal place of business of the Company is Mykinon 8, P.C. 1065 Nicosia, Cyprus.

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

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

Development and Performance of the Business

The Group is the largest vertically integrated manufacturer of steel billets, steel pipes and railway wheels in Ukraine. The Group is a significant player in (i) the steel pipes international market supplying it's products to customers in more than 70 countries globally, and (ii) in the railway wheels market being the number one wheels' exporter in the world, with a presence in more than 20 countries globally and significant market share in every important geographical region.

Since political and economic crisis in Ukraine and global collapse of oil prices in 2014 the Group worked to maintain its operation amid fairly turbulent economic and geopolitical conditions in all major markets. In response to the negative trends, the management developed and implemented a set of measures in order to maintain the Group's liquidity position and its operational sustainability. Through 2016 and 2017 Interpipe has developed and started implementation of the major strategic initiatives to transform its operational set up, improve its competiveness in a short and longer term. Such initiatives include inter alia a strategic investment programme, which aims to increase capacity for pipes and wheels production and improve significantly quality of the producing products. In 2018 Interpipe continued transformation, notably through the establishment of a new organisational structure where Interpipe has started to be organised into three separate divisions: steel, which delivers the raw material for the other two divisions, pipes and railway wheels. One of the strategic initiatives in developing of its European market lead Interpipe to enter into the Joint Venture with Vallourec Tubes S.A.S., a global leader in manufacturing of premium tubular solutions. Owing to good market conditions across the key strategic markets and thanks to the result of the different strategic initiatives in 2018 Group delivered sound operational performance and strong financial results.

In 2018, the Group generated revenue from sales of USD 1,074.2 million and net loss attributable to the equity holders of the Company amounted to USD 48.0 million. The pipes business segment accounted for 70 per cent of the revenue from sales, wheel business segment accounted for 26 per cent of the revenues and steel making segment accounted for 2 per cent of the revenues in 2018. Further segment information is disclosed in Note 6 to the accompanying Consolidated Financial Statements.

Issued Capital and Capital Distributions

Upon its incorporation on 30 December 2005, the Company issued to the subscribers of its Memorandum of Association 1,000 ordinary shares of CY£1 each at par. On 22 December 2006 the Company issued 4,000 additional ordinary shares of CY£1 each at a premium of CY£ 41,033 each for a total premium of CY£164,132 thousand, which is equivalent to USD 361,091 thousand translated at historic rate.

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

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

As a result of the above mentioned transactions, as at 31 December 2017 and 2018, the number of shares equalled to 4,001,950 thousand ordinary shares of EUR 0.01 each and the authorised, issued and fully paid capital of the Company amounted to EUR 40,019 thousand (equivalent of USD 62,304 thousand).

During the year ended 31 December 2018, the Company did not declare any dividends.

Information relating to dividends payable by the subsidiaries is disclosed in Notes 22 and 32 to the accompanying Consolidated Financial Statements.

Principal Risks and Uncertainties

The Group is largely exposed to the risks of operating environment in Ukraine. The country continues to experience the consequences of the political and economic turmoil, which broke in 2014. Bilateral relations with the Russian Federation remain damaged over the annexation of Crimea by the latter and its alleged role in the continuing support of separatists in certain parts of the Donetsk and Lugansk regions. Signing of the Association Agreement between Ukraine and the EU in 2014 caused Russian Federation to implement various trade barriers, including embargos, for key Ukrainian export products with the Group's ones among them. All these events resulted in higher inflation in the country, devaluation of the national currency against major foreign currencies, illiquidity of the financial and capital markets, deterioration of public finances.

All the earlier noted negative developments in Ukraine and on key commodity markets increased uncertainties of the Group's business. The ultimate outcome of the political and economic instability in Ukraine and its impact are difficult to predict, but it may have further negative implications on the Ukrainian economy and Group's operations.

The Group operates in a highly competitive global market for steel pipes, particularly in the oil and gas sector. In its home market of Ukraine, the Group's pipe shipments face competition from global manufacturers (including Chinese producers), which may have significantly larger overall manufacturing bases and financial resources. In the rest of the world, the Group faces intense competition from incumbent producers and global players, with key competitors varying depending on the market, local product demand, and other factors. As a result, the Group may not be able to compete effectively against existing or potential producers and preserve its current shares of geographical or product markets, which could adversely affect the Group's business, results of operations and financial condition.

All of the Group's principal production facilities are located in Ukraine, with 70 per cent. of the Group's revenue in each of 2017 and 2018 having been obtained from export sales. As a result, the Group is subject to protective tariffs, duties and quotas imposed by certain countries into which the Group exports its steel products, which could reduce its competitiveness in, and limit its access to, certain markets. The Group's future sales in any of its key markets could be affected by these evolving trade restrictions. When new measures are introduced by any country, even if these measures do not immediately impact the Group, the retaliating steps taken by other countries could subsequently affect the sales of Group's products. Further, existing tariffs could be increased or additional duties or import tariffs introduced that directly impact the Group's sales.

The Group generates a significant portion of its sales from a limited number of customers, and the loss of any of these customers, or any significant loss of business from these customers or failure by such customers to pay for the Group's products could materially adversely affect the Group. The loss of one or more of the Group's customer, such as state-owned company JSC UkrGasVydobuvannya, or a reduction in their capital or operating expenditure budgets or if they were to cease operations, could adversely affect demand for the Group's products, which could have a material adverse effect on the Group's business, results of operations and financial condition.

In late 2013, the Group breached certain financial covenants and missed scheduled principal repayments of USD 106 million under some of its debt facilities, which triggered further cross-defaults. As a result, the Group's lenders became entitled to demand early repayment of all outstanding amounts. During the period of 2014-2017, USD 545 million of the scheduled principal repayments were also missed and as at 31 December 2018 the carrying amount of the borrowings in default amounted to USD 1,067,339 thousand (USD 1,044,904 thousand as at 31 December 2017). Accordingly, the liabilities due or claimable within 12 months from 31 December 2018 and 2017 exceeded the Group's current assets as of that dates by USD 1,089,315 thousand and USD 1,074,411 thousand, respectively. See Note 20 – Borrowings for further details.

As at 31 December 2018 and 2017, the Group's net equity deficit amounted to USD 669,499 thousand and USD 857,357 thousand, respectively. The deficit was caused, to a material extent, by the significant foreign exchange losses incurred by the Group during 2014-2016.

Further discussion on the operating environment and related risks of the Group as well as discussion of Group's going concern are included in Note 2 to the Consolidated Financial Statements.

Other principal operating and financial risks of the Group are discussed in Notes 35 and 37 to the accompanying Consolidated Financial Statements.

Main Strategic Objectives

The Group's key strategic objectives are to diversify its geographical presence and product mix in order to enhance its position as a leading producer of pipes and wheels in the CIS region and to expand presence of its products in the global markets. The Group intends to pursue this strategy by increasing its seamless pipe and wheel production, enhancing its product mix, improving quality of its products and services, expanding its global presence and working more closely with its customers to deliver higher value-added products and services while improving profit margins. The Group has launched its strategic investment programme which should enable our products to meet more challenging and demanding quality requirement in the new markets. The success of this initiative is viewed as the key success factor for the Group in penetrating new markets and diversifying the customer base to compensate for a significant reduction of demand in our traditional geographical segments, in particular in CIS.

The directors believe that debt restructuring process will ultimately be finalised in 2019, contributing to the sustainability of Group's capital structure, supporting our long-term business strategy and allowing the Group to focus on managing various other business risks in the current uncertain and volatile environment. For more information on operating environment and risks of the Group, refer to Note 2 to the accompanying Consolidated Financial Statements.

Research and Development

The Company did not carry out any material research and development activities in 2018.

Events after the Reporting period

Events after the reporting period date are disclosed in Note 38 to the accompanying Consolidated Financial Statements.

Board of Directors

As at 31 December 2018 composition and responsibilities of the Board of Directors was as follows:

Name	*Function*	*Date of appointment*
Andrii Dudnyk	Non-Executive Director	15 October 2007
Ganna Khomenko	Non-Executive Director	9 December 2009
Michael Tsarev	Non-Executive Director	11 May 2011
Yakiv Konstantynivs'ky	Non-Executive Director	20 July 2011
Iuliia Chebotarova	Non-Executive Director	10 October 2012
Ulrich Becker	Independent Non-Executive Director	1 June 2014
Philippe Bideau	Independent Non-Executive Director	15 June 2016
Fadi Khraybe	Chief Executive Officer of Interpipe Limited	1 November 2016
Oleksandr Kirichko	Non-Executive Director	1 December 2018

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

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

- In December 2018, Oleksandr Kirichko was appointed as Non-executive Director;
- In March 2019, Michael Tsarev, Non-Executive Director of Interpipe Limited Board of Directors resigned;
- In May 2019, Ulrich Becker, Independent Non-Executive Director of Interpipe Limited Board of Directors resigned.

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

Independent Auditors

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

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

Member of the Board, Chief Executive Officer — Fadi Khraybe

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

2 October 2019

STATEMENT OF THE DIRECTORS' AND MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

The following statement is made with a view to specifying the respective responsibilities of the directors and management in relation to the Consolidated Financial Statements of Interpipe Limited and its subsidiaries (collectively referred to herein as the "Group").

The directors and management are responsible for the preparation of the Consolidated Financial Statements that present fairly the consolidated financial position of the Group as at 31 December 2018 and the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU (hereafter "IFRS") and the Cyprus Companies Law, Cap.113.

In preparing the Consolidated Financial Statements, the Directors and management are responsible for:

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

The Directors and management, within their competencies, are also responsible for:

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

The Consolidated Financial Statements for the year ended 31 December 2018 were authorised for issue on 2 October 2019.

Member of the Board, Chief Executive Officer — Fadi Khraybe

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

2 October 2019

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Independent Auditor's Report

To the Members of Interpipe Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Interpipe Limited (the "Company"), and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We remained independent of the Group throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that as at the date of approval of the consolidated financial statements, the Group has not completed its negotiations with the lenders on reaching a mutually acceptable restructuring agreement with respect to its borrowing facilities and other debt, which remain in default since October 2013. The Group incurred a net loss of USD 47,979 thousand during the year ended 31 December 2018 and, as of that date, the Group's current liabilities exceeded its current assets by USD 1,089,315 thousand. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Reporting on other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Consolidated Management Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and those charged with governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

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- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the consolidated management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the consolidated management report. We have nothing to report in this respect.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

Ernst & Young Cyprus Limited
Certified Public Accountants and Registered Auditors

Nicosia
2 October 2019

INTERPIPE LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(in US dollars and in thousands)

	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	8	515,446	284,646
Intangible assets and goodwill	9	2,584	1,872
Investments in associates	10	1,201	918
Investment in joint venture	11	3,230	-
Deferred tax assets	12	2,024	2,689
Prepaid income tax		1,867	2,853
Other non-current assets		180	168
		526,532	**293,146**
Current assets			
Inventories	13	155,367	117,086
Trade and other accounts receivable	14	106,372	76,205
Prepayments and other current assets	15	27,201	29,325
Prepaid current income tax		132	161
Taxes recoverable, other than income tax	16	18,587	12,502
Other financial assets	17	11,494	3,888
Cash and cash equivalents	18	130,884	70,253
		450,037	**309,420**
TOTAL ASSETS		**976,569**	**602,566**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Issued capital		62,304	62,304
Share premium		426,065	426,065
Revaluation reserve		434,151	269,387
Accumulated deficit		(281,229)	(246,746)
Cash flow hedge reserve		(183,283)	(248,852)
Foreign currency translation reserve		(1,132,256)	(1,122,204)
		(674,248)	(860,046)
Non-controlling interests		4,749	2,689
Total equity	32	**(669,499)**	**(857,357)**
Non-current liabilities			
Subordinated loan	19	59,938	40,000
Deferred tax liabilities	12	21,602	13,174
Provisions	21	25,176	22,918
		106,716	**76,092**
Current liabilities			
Borrowings and interest payable	20	1,354,766	1,263,797
Trade and other accounts payable	22	89,665	76,103
Advances and other current liabilities	24	40,947	30,471
Current income tax payable		6,290	6,349
Taxes payable, other than income tax	23	4,405	2,197
Provisions	21	43,279	4,914
		1,539,352	**1,383,831**
Total liabilities		**1,646,068**	**1,459,923**
TOTAL EQUITY AND LIABILITIES		**976,569**	**602,566**

Member of the Board, Chief Executive Officer — Fadi Khraybe

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

2 October 2019

The Notes presented on pages 14 – 59 form an integral part of the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(in US dollars and in thousands)

	Notes	2018	2017
Revenue	6	1,074,157	805,647
Cost of sales	25	(803,960)	(640,610)
Gross profit		**270,197**	**165,037**
Selling and distribution expenses	26	(155,796)	(108,397)
General and administrative expenses	27	(51,145)	(45,736)
Other operating income and expenses, net	28	405	(9,126)
Operating foreign exchange difference	29	(8,486)	38,036
Operating profit		**55,175**	**39,814**
Finance income	30	1,510	1,337
Finance costs	31	(139,032)	(112,313)
Non-operating foreign exchange difference	29	9,192	21
Share of profit of associates	10	35	113
Loss before tax		**(73,120)**	**(71,028)**
Income tax benefit	12	25,141	3,934
Loss for the year		**(47,979)**	**(67,094)**
(Loss) / profit attributable to:			
Equity holders of the parent		(48,027)	(65,670)
Non-controlling interests		48	(1,424)
		(47,979)	**(67,094)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net effect on cash flow hedge accounting	37	65,569	47,977
Exchange differences on translation of foreign operations	37	(10,052)	(45,819)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods:		**55,517**	**2,158**
Other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods:			
Re-measurement loss on defined benefit plans	21	(1,551)	(6,799)
Income tax effect	12	280	1,224
		(1,271)	(5,575)
Revaluation of property, plant and equipment	8	224,111	-
Income tax effect	12	(40,340)	-
		183,771	-
Share of other comprehensive income of an associate	10	247	-
		247	-
Net other comprehensive income / (loss) not to be reclassified to profit or loss in subsequent periods:		**182,747**	**(5,575)**
Other comprehensive income / (loss) for the year, net of tax:		**238,264**	**(3,417)**
Total comprehensive income / (loss) attributable to:			
Equity holders of the parent		188,225	(68,987)
Non-controlling interests		2,060	(1,524)
		190,285	**(70,511)**

The Notes presented on pages 14 – 59 form an integral part of the Consolidated Financial Statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(in US dollars and in thousands)

	Attributable to equity holders of the parent								
	Issued capital	Share premium	Revaluation reserve	Accumulated deficit	Cash flow hedge reserve	Foreign currency translation reserve	Total	Non-controlling interests	Total equity
At 31 December 2016	**62,304**	**426,065**	**294,313**	**(200,427)**	**(296,829)**	**(1,076,485)**	**(791,059)**	**4,213**	**(786,846)**
Loss for the year	-	-	-	(65,670)	-	-	(65,670)	(1,424)	(67,094)
Other comprehensive (loss) / income (Note 21, 37)	-	-	-	(5,575)	47,977	(45,719)	(3,317)	(100)	(3,417)
Total comprehensive (loss) / income	**-**	**-**	**-**	**(71,245)**	**47,977**	(45,719)	**(68,987)**	**(1,524)**	**(70,511)**
Depreciation transfer	-	-	(24,926)	24,926	-	-	-	-	-
At 31 December 2017	**62,304**	**426,065**	**269,387**	**(246,746)**	**(248,852)**	**(1,122,204)**	**(860,046)**	**2,689**	**(857,357)**
Effect of implementation of IFRS 9 (Note 3)	-	-	-	(2,427)	-	-	(2,427)	-	(2,427)
At 1 January 2018	**62,304**	**426,065**	**269,387**	**(249,173)**	**(248,852)**	**(1,122,204)**	**(862,473)**	**2,689**	**(859,784)**
Loss for the year	-	-	-	(48,027)	-	-	(48,027)	48	(47,979)
Other comprehensive income / (loss) (Note 21, 37)	-	-	182,006	(1,271)	65,569	(10,052)	236,252	2,012	238,264
Total comprehensive income / (loss)	**-**	**-**	**182,006**	**(49,298)**	**65,569**	**(10,052)**	**188,225**	**2,060**	**190,285**
Depreciation transfer	-	-	(17,242)	17,242	-	-	-	-	-
At 31 December 2018	**62,304**	**426,065**	**434,151**	**(281,229)**	**(183,283)**	**(1,132,256)**	**(674,248)**	**4,749**	**(669,499)**

Share premium is not available for distribution.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

(in US dollars and in thousands)

	Notes	2018	2017
Loss before tax		**(73,120)**	**(71,028)**
Adjustments for:			
Depreciation and amortisation	25,26,27	44,663	51,827
Effect of revaluation of property, plant and equipment	28	(11,299)	-
Loss on disposal of property, plant and equipment and intangible assets	28	3,358	606
Non-cash movements in cost of sales		2,059	-
Reclassification of foreign exchange cash flow hedge to cost of sales	25	57,214	65,211
Finance costs	31	139,032	112,313
Finance income	30	(1,510)	(1,337)
Movement in provisions less interest cost		59,440	25,065
Share of profit of associates	10	(35)	(113)
Foreign exchange difference		(7,856)	(38,015)
Operating cash flows before working capital changes		**211,946**	**144,529**
Increase in inventories		(53,950)	(39,074)
Increase in trade and other accounts receivable		(37,353)	(17,653)
(Increase) / decrease in prepayments and other assets		(2,507)	6,927
Increase in taxes recoverable, other than income tax		(6,182)	(4,293)
(Increase) / decrease in trade and other accounts payable		(4,184)	1,807
Increase in taxes payable, other than income tax		2,221	1,318
Increase / (decrease) in advances and other current liabilities		11,161	(2,276)
Cash generated from operations		**121,152**	**91,285**
Income tax paid		(3,646)	(1,565)
Interest paid		(5,831)	(7,265)
Net cash inflow from operating activities		**111,675**	**82,455**
Cash flow from investing activities			
Purchases of property, plant and equipment and intangible assets		(43,792)	(43,022)
Proceeds from sale of property, plant and equipment		40	42
Investment in joint venture	11	(3,230)	-
Interest received		1,572	1,344
Net cash outflow from investing activities		**(45,410)**	**(41,636)**
Cash flows from financing activities			
Proceeds from borrowings		-	172
Repayments of borrowings		(929)	(211)
(Placement on) / release from restricted cash accounts		(3,369)	4,188
Net cash (outflow) / inflow from financing activities		**(4,298)**	**4,149**
Net increase in cash and cash equivalents		61,967	44,968
Net foreign exchange difference		(1,336)	868
Cash and cash equivalents at period beginning		**70,253**	**24,417**
Cash and cash equivalents at period end	18	**130,884**	**70,253**

The Notes presented on pages 14 – 59 form an integral part of the consolidated financial statement.

1. Corporate information

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

The Company was incorporated as a limited liability company under the name of Ramelton Holdings Limited in accordance with the Companies Law of Cyprus on 30 December 2005. It was renamed to Interpipe Limited on 15 May 2007. The registered office and principal place of business of the Company is Mykinon 8, P.C. 1065 Nicosia, Cyprus .

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

Average number of employees for the year 2018 and 2017 equaled to 10.8 thousand and 9.9 thousand, respectively.

The Consolidated Financial Statements of the Group as at 31 December 2018 and for the year then ended were authorised for issue in accordance with a resolution of the Board of Directors on 2 October 2019.

2. Operating environment and risks of the Group

These Consolidated Financial Statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business.

The Group's business is exposed to the risks of operating environment in Ukraine. Over the past years, Ukraine has been in a political and economic turmoil. The Ukrainian economy suffered a deep downturn in 2014-2016 due to political instability, the escalation of the conflict in Donetsk and Lugansk region, annexation of Crimea, deterioration of conflict with Russia and unfavourable global markets for key export-oriented sectors. All these events resulted in higher inflation, devaluation of the national currency against major foreign currencies, decrease in GDP, illiquidity and volatility of financial markets.

Since 2017 Ukrainian economy is showing signs of recovery from the structural crisis of previous years. The year over year inflation rate has decreased to 9.8% during 2018 (as compared to 13.7% in 2017), while GDP continued to grow at 3.4% (after 2% growth in 2017). In addition, there was a yet another successful year for the monetary policy, which led to the stabilisation of the national currency. The National Bank of Ukraine ("NBU") continues its inflation targeting policy and periodically raised its refinancing rate from 12.5% in May 2017 to 18% in September 2018. NBU continued floating exchange rate policy and 2018 finished at UAH 27.69 per USD, compared to UAH 28.07 per USD as of 31 December 2017. Among the key stabilising factors for national currency were the successful unlocking of the IMF programme, strong revenues of exporters, growth in remittance from labour emigrants, tight UAH liquidity and growing demand from foreign investors for sovereign bonds issued by the Ukrainian Government locally.

As an element of currency regime liberalization, the NBU continued its policy for softening currency restrictions and decreased share of mandatory sale for foreign currency proceeds from 50% down to 30% with effect from March 2019 and cancelled mandatory sale in its entirety in June 2019. Furthermore, NBU increased foreign currency denominated export/import transaction settlement period from 180 up to 365 days and increased the limit for dividends payment from USD 2 million to EUR 7 million.

In December 2018, IMF Board of Directors approved the stand by assistance ("SBA") 14 -month programme for Ukraine in amount of USD 3.9 billion. In December 2018, Ukraine has already received 2 billion from the IMF and the EU, as well as USD 750 million credit guarantees from World Bank. Continuing IMF programme significantly increases the chances of Ukraine to meet in obligation denominated in foreign currency in 2019, and thus will support financial and macroeconomic stability of the country. The IMF will decide on further continuation of the programme or introducing the new one, depending on Ukraine's success in fulfilling the terms of the Memorandum on Economic and Financial Policies, which Ukraine plans to follow during the SBA programme implementation. Ukraine returned to international debt capital markets, having issued a record USD 3 billion 15-year Eurobond at 7.375% in September 2017, which has smoothed external debt maturity profile of Ukraine. In October 2018, Ukraine placed USD 2 billion dual-tranche Eurobonds (USD 750 million 5.25-year at 9.0% and USD 1.25 billion 10-year at 9.750%), which further smoothed external debt maturity profile of Ukraine. In 2019-2020, Ukraine faces major public debt repayments, which will require mobilisation of the domestic and external financing in increasingly challenging environment for emerging and frontier markets.

Bilateral relations with the Russian Federation remain damaged and deteriorating over the annexation of Crimea and its alleged role in continuing armed conflict in Donetsk and Lugansk regions. Russian government maintains various trading barriers, which effectively resulted in a trading embargo for many key Ukrainian export products. In response, the Ukrainian government keeps similar measures against Russian products. In particular, through all 2018 in Russian Federation the Group's sales are subject to anti-dumping duties 19.9 per cent and 34.22 per cent for pipes and wheels products, respectively, (plus an additional 5 per cent. duty for all Ukrainian import products in Russia). In April 2019, new Russian trading sanctions were introduced effective immediately, which banned steel pipe imports into Russia, impacting a majority of Interpipe's pipes products. In June 2019, Ukraine mirrored the Russian trade sanctions adopted in April by including a ban on seamless pipes (approximately 18,000 tonnes were shipped to Ukrainian clients during the year ended 31 December 2018). In July 2019, the Eurasian Economic Commission also suspended the 34.22 per cent. anti-dumping duty on wheels in Customs Union until 1 June 2020. All these developments had a significant effect on the Group's operations, since earlier the Russian Federation market used to account for a significant share of the overall Group revenues. In order to decrease its dependence from the Russian market, the Group continued to implement a transformation plan, which aims to diversify its presence at the key markets and to further reduce the share of the Russian customers in its overall business portfolio.

The Group's current and target business model assumes an extensive geographical diversification of its sales and presence in different markets. The Group's ability to operate in particular regions is highly dependent on specific trade regimes. Since 2014, the Group operated in the US market under the special agreement ("Suspension agreement") suspending antidumping duty of 7.47% on import of OCTG pipes produced by Interpipe. The Suspension agreement was extended in June 2018 by the US Government for one year, expired in July 2019 and was not further extended. In addition to the antidumping duty, in March 2018 a safeguard tariff of 25% was imposed for all steel products from Ukraine including all of the Group's pipe products supplied to the US market. In the European market Interpipe's seamless pipe products were subject to 13.8% antidumping duty. On 2 August 2019, the European Commission decreased anti-dumping duty on imports of certain seamless pipes and tubes produced by Interpipe from 13.8 per cent. to 8.1 per cent. Since February 2019, the European Commission has put in place country-specific quotas for steel product imports, including Ukrainian seamless tubes and welded pipes, with 25 per cent. duty levied on any excess. In May 2019, the U.S. State Department excluded Canada and Mexico from its steel and aluminium tariffs country list which may increase competition the Group faces in the U.S. from Canadian and Mexican pipe imports.

Financial Restructuring

The Group's financial performance has been materially impacted by adverse market developments resulting from a decline in the price of oil and other commodities, as well as geo-political developments in the region in recent years. In late 2013, the Group breached certain financial covenants and missed scheduled principal repayments of USD 106 million, which triggered cross-defaults on the Group's borrowings given the Group's lenders entitlement to demand early repayment of all outstanding amounts. This has resulted in a reclassification of all non-current loans and borrowings to current loans and borrowings. Consequently, the Group initiated a financial restructuring process.

As at 31 December 2018 the carrying amount of the borrowings in default amounted to USD 1,067,339 thousand (USD 1,044,904 thousand as at 31 December 2017). Accordingly, the liabilities due or claimable within 12 months from 31 December 2018 and 2017 exceeded the Group's current assets as of that date by USD 1,089,315 thousand and USD 1,074,411 thousand, respectively. Amount of liability due to bondholders and different types of lenders is disclosed in Note 20.

As of 1 April 2019, lenders representing 100 per cent. of the outstanding principal amount under the override agreement governing the Group's bank borrowings (the "Override Agreement") and holders of over 90 per cent. in the principal amount of the USD 200,000,000 10.25 per cent. Notes due 2017 (the "Existing Notes") have acceded to the Lock-up Agreement, pursuant to which they have committed to support, consent to and/or vote in favour of the proposed restructuring on the terms set out in the term sheet has been negotiated between the coordinating committee of the creditors under the Override Agreement and the Company.

As of 27 September 2019, the definitive restructuring agreement (the "Restructuring Agreement") has been executed by lenders representing 100 per cent. of the outstanding principal amount under the Override Agreement and the trustee in respect of the Existing Notes. Pursuant to the Restructuring Agreement, the financial restructuring must be implemented not later than the date agreed by the Group and lenders and should result in reduction of the existing debt and restatement of its repayment profile.

As a result of the implementation of the restructuring, newly created company Interpipe Holdings Plc (which was formed on 4 April 2019) is planned to become the parent company of the Group, and to become the borrower under the following debt instruments:

- USD 309,192 thousand 10.25 per cent. guaranteed notes due 2024 (the "New Notes");
- A senior facility agreement in the principal amount of USD 45,808 thousand (the "New Facility Agreement").

As negotiated with the lenders, the Company should become the guarantor of Interpipe Holdings Plc's obligations in respect of the New Notes and of the loan under the New Facility Agreement. The New Notes are to be issued to the holders of the Existing Notes and certain of the lenders under the Override Agreement. The New Notes and a fee agreement with the lenders under the New Facility Agreement will also include an obligation to pay exit fees in the aggregate amount of USD 40 million to the holders of the New Notes and such lenders, respectively, if the New Notes and the loan under the New Facility Agreement are not repaid prior to the fourth anniversary of the date of the implementation of the restructuring. Further, a subsidiary of Interpipe Holdings Plc plans to issue certain performance securities and should become and obligor under performance fee agreement.

The existing working capital facilities currently owed by certain subsidiaries of the Company are planned to be restructured and replaced by two new working capital facility loans with total outstanding amount of post-restructuring debt of USD 45 million issued by Interpipe Holdings Plc and guaranteed by the Company.

As a condition of the negotiated Restructuring, the Group will receive a USD 50 million equity injection from its shareholder. In addition, the Group's shareholder has committed to provide the Group with an additional liquidity buffer of USD 20 million supported by a standby letter of credit in the event the Group not being able to meet its financial obligations toward the lenders from its own cash reserves

The Group's ability to continue as a going concern continues to be dependent on a successful completion of the financial restructuring pursuant to the Restructuring Agreement.

On 12 July 2016 one of the creditors ("Petitioner") under Override Agreement towards which Interpipe Group has indebtedness in the amount of USD 32.9 million, presented a winding up petition ("Petition") in respect of the Company before the District Court of Nicosia (Cyprus). On 15 February 2019 the Company and the Petitioner reached an agreement, according to which Petitioner unreservedly withdrawn the winding up petition; and on 18 February 2019 petition was withdrown.

As at 31 December 2018 and 2017, the Group's net equity deficit amounted to USD 669,499 thousand and USD 857,357 thousand, respectively, resulting to a material effect from the significant accumulated historic foreign exchange losses. The Group incurred a net loss of USD 47,979 thousand during the year ended 31 December 2018 and, as of that date, the Group's current liabilities exceeded its total assets by USD 1,089,315 thousand.

The Group's ability to operate as a going concern continues to be dependent on a successful completion of the capital restructuring negotiations as well as its success in entering new markets to replace reduced volume of business with its more traditional customers and on Group's ability to further diversify its customers base. Further negative political and macroeconomic developments or further adverse changes of Group's international trade regimes could materially affect the Group's performance and its financial position in a manner not currently determinable.

The directors and management of the Group have concluded that the combination of the above conditions and circumstances indicates the existence of a material uncertainty, which may potentially cast significant doubt about the Group's ability to continue as a going concern. Nevertheless, having assessed the situation, the directors and management believe that the mutually acceptable restructuring agreement with the lenders will be reached, which would also remove all material risks relating to any ongoing or potential litigations and disputes related to the restructuring process, and the Group will be able to manage various business risks in uncertain and volatile environment and will be able to continue its operations for the foreseeable future in the normal course of business. For these reasons, the Group continues to adopt the going concern basis of accounting in preparing its financial statements.

3. Basis of preparation

Statement of Compliance

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

The Consolidated Financial Statements have been prepared on a historical cost basis except for property, plant and equipment and construction in progress, that are carried at a revalued amount, investment in associates accounted for using the equity method, post-employment benefits measured in accordance with the requirements of IAS 19 "Employee benefits" and certain financial instruments measured in accordance with the requirements of IFRS 9 "Financial instruments".

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 higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements are disclosed in Note 5.

These Consolidated Financial Statements are presented in US Dollars ("USD") and all values are rounded to the nearest thousand except when otherwise indicated; all expenses are shown in brackets (unless otherwise indicated in notes).

The Consolidated Financial Statements provide comparative information in respect of the previous period.

(in US dollars and in thousands)

New and amended standards and interpretations

During the current year the Group adopted all the amendments International Financial Reporting Standards (IFRS) adopted by the EU that are relevant to its operations and are effective for accounting periods beginning on 1 January 2018, as follows:

- Amendments to IAS 7: Disclosure Initiative;
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses;
- Annual Improvements IFRSs 2014-2016 Cycle;
- IFRS 2 (amendments) Classification and Measurement of Share based Payment Transactions;
- IFRS 4 (amendments) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- IAS 40 (amendments) Transfers of Investment Property;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

The Group applied IFRS 15 and IFRS 9 for the first time.

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group adopted IFRS 15 using the modified retrospective method. IFRS 15 requires the management to make judgments when analyzing all relevant facts and circumstances at each step of the model for revenue from contracts with customers. Based on the analysis of revenue from contracts with customers, the management concluded that the application of the new standard to contracts with customers had no impact on the Group's consolidated statement of comprehensive income.

IFRS 9 Financial instruments replaces IAS 39 Financial instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

Except the changes related to adoption of new standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers described below, the adoption of amendments to standards did not have any effect on the financial position or performance reported in the consolidated financial statements and had not resulted in any changes to the Group's accounting policies and the amounts reported for the current or prior years.

The Group has adopted IFRS 9 retrospectively. In accordance with the transitional provisions of IFRS 9, comparative figures were not restated. The Group's equity was adjusted upon adoption of the new standard as described below.

	IAS 39 carrying amount 31 December 2017	*Re-measurement*	*IFRS 9 carrying amount 1 January 2018*	*Retained earnings effect on 1 January 2018*
Fair value through profit or loss	-	-	-	-
Fair value through other comprehensive income	-	-	-	-
Amortized cost	105,546	(2,427)	103,119	(2,427)
	105,546	**(2,427)**	**103,119**	**(2,427)**

Basis of consolidation

The IFRS Consolidated Financial Statements comprise the financial statements of the Company and its subsidiaries at 31 December 2018 and for the year then ended. At each reporting date, the Company, regardless of the nature of its involvement with an entity (the investee), determines whether it is a parent by assessing whether it controls the investee. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated Financial Statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. The financial statements of the subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

4. Summary of significant accounting policies

Foreign currency translation

The Consolidated Financial Statements are presented in the USD, which is the Company's functional and presentation currency. Items in the financial statements of each entity included in the Consolidated Financial Statements are measured using the functional currency determined for that entity. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences upon re-measurement are recognised in the profit or loss. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Ukrainian hryvnia is the functional currency of the subsidiaries domiciled in Ukraine. The functional currencies of the subsidiaries domiciled outside of Ukraine are as follows: the United States dollar for those registered in Switzerland, United Arab Emirates, Republic of Cyprus and the United States of America, Euro for a subsidiary in Germany and, Russian rouble for a subsidiary in Russia, and Kazakhstani tenge for a subsidiary in Kazakhstan.

As at the reporting date, the assets and liabilities of these companies are translated into the presentation currency of the Group at the rate of exchange at the reporting date. For the reporting year, the amounts presented in their statements of comprehensive income and cash flows are translated at the monthly weighted average exchange rates. All equity transactions and significant transactions relating to the statement of comprehensive income such as revaluation and impairment of property, plant and equipment and write down of inventories to net realisable value were translated using the exchange rate ruling at the date of transaction. The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss.

Net investments in foreign operations

Intragroup net investments in foreign operations are accounted based on provisions of IAS 21 "The Effects of Changes in Foreign Exchange Rates".

Net investment is considered to be monetary item with the settlement which is neither planned nor likely to occur in the foreseeable future. Such monetary items consist of intercompany loans and may include long-term receivables and payables.

In the Consolidated Financial Statements of the Group exchange differences arising on monetary items that are designated to form part of the intercompany net investments are recognised in other comprehensive income and taken to a separate component in equity during period of designation.

Exchange differences recognized in other comprehensive income should be reclassified from equity to profit or loss only on disposal of the respective net investment in accordance with provisions of IAS 21 "The Effects of Changes in Foreign Exchange Rates".

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition-related costs are expensed as incurred and included in administrative expenses. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss..

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

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

Property, plant and equipment

Property, plant and equipment initially recognized at cost. Subsequently, property, plant and equipment are carried at revalued amounts, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. When no market values are available, fair value of specific machinery and equipment is determined by using depreciated replacement cost approach. Fair values of other items of property, plant and equipment are determined by reference to market-based evidence, which are the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The last revaluation was performed by independent appraiser as at 31 December 2018.

Following the significant deterioration in 2014-2016, the economy of Ukraine demonstrated first indicators of stabilization in 2017. Nevertheless, the business environment remained unstable. During assessment of the carrying value of property, plant and equipment as at 31 December 2017 the management considered certain signs of economic recovery, but applied conservative approach because of insufficient and distant evidences of further economic developments. The increase in the fair value of the Group’s property, plant and equipment as at 31 December 2018 relates to continuing stabilization of Ukrainian business environment and favorable situation on the global markets. Ukraine’s economy continued to show solid growth for the third year in a row, driven by structural economic reforms, higher consumer spending due to an increase in real wages, favourable export markets and stronger macroeconomic fundamentals.

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

Increases in carrying amount arising on revaluation of property, plant and equipment are recorded in other comprehensive income and credited to revaluation reserve in equity. However, such increase is to be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss. If the asset’s carrying amount is decreased as a result of the revaluation, the decrease is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation reserve.

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

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

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year when the item is derecognised.

The Group has the title to certain non-production and social assets, primarily buildings and social infrastructure facilities held by production subsidiaries in Ukraine, which do not meet the definition of an asset according to IFRS and are not included in these IFRS Consolidated Financial Statements. Construction and maintenance costs of social infrastructure facilities are expensed as incurred.

Borrowing costs

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

Intangible assets

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

Investments in associates and joint ventures

The Group’s investments in associates and joint ventures are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group’s share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of comprehensive income reflects the Group’s share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group’s OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group’s share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognizes the loss within “Share of profit of an associate and a joint venture” in the statement of profit or loss.

Impairment of non-financial assets

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

Impairment losses on non-revalued assets are recognised in profit or loss. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus attributable to the asset to the extent that the impairment loss does not exceed the amount of the revaluation surplus for that same asset.

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

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 as described in the section Revenue from contracts with customers below.

In order to a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at Amortized cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

As at 31 December 2018 and 2017, the Group had no financial assets at fair value through OCI with recycling of cumulative gains and losses, financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition and financial assets at fair value through profit or loss.

Financial assets at amortized cost

The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortized cost includes trade and other receivables, deposits included under other non current assets and/or current financial investments.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's statement of financial position) when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward looking factors specific to the debtors and the economic environment. The Group considers a financial asset in default when contractual payments are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings. The Group has no financial liabilities at fair value through profit or loss or derivative instruments designated as hedging instruments for effective hedging.

Subsequent measurement

The measurement of financial liabilities depends on their classification.

Accounts payable, loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subseguently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortisation process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR.

The Group recognized liabilities for borrowings in the borrowing structure but liabilities for accrued interests in other current liabilities.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When 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 the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

Hedge accounting

Initial recognition and subsequent measurement

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

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

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

Cash flow hedge

Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a highly probable forecast transaction and could affect profit or loss.

The hedging instrument is non-derivative financial liabilities of the Company on debts and loans denominated in foreign currencies. The hedged item is highly probable intercompany revenue denominated in foreign currencies. Hedged item will be received during risk management period in the amount equal to the amount of hedging instruments.

If a cash flow hedge is effective during the period, the portion of the gain or loss on the hedging instrument is recognised in other comprehensive income and ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. The associated gains or losses that were recognised in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the same period or periods during which the hedged forecast cash flows affect profit or loss. Refer to Note 35 for more details.

Inventories

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

Provisions

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

Pension obligations

In the normal course of business the Group contributes to the Ukrainian, Russian and Kazakhstani state pension schemes at the statutory rates in force during the year, based on gross salary payments; such expense is charged in the period the related salaries are earned. The Group has also agreed to provide certain defined contribution pension benefits in Switzerland and the USA. The Group has no legal or constructive obligations to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

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

- The Group's legal and contractual obligation to its employees to make one-off payment on retirement to employees with long service and other benefits according to the collective agreements, and
- The Group's legal obligation to compensate the Ukrainian state pension fund for additional pensions paid to certain categories of the eligible employees of the Group. The cost of providing benefits under defined benefit plans is determined separately for each plan using the projected unit credit method in respect of those employees entitled to such payments. Management uses actuarial techniques in calculating the liability related to these retirement obligations at each reporting date. Actual results could vary from estimates made to the date.

Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position of the Group with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service cost resulting from introduction of pension benefits is recognised immediately in the profit or loss.

Contingent liabilities recognised in a business combination

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of the amount that would be recognised in accordance with the requirements for provisions above or the amount initially recognised less (when appropriate) cumulative amortisation recognised in accordance with the requirements for revenue recognition..

Income tax

Current tax

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

Deferred tax

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

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

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

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

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

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

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

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

Revenue from contracts with customers

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Revenue from sale of steel products is recognized at the point in time when control of the asset is transferred to the customer, generally on dispatch or delivery of the products.

Revenue reflects the sale of finished products and services. The Group analyzes the following five stages to determine the principle for recognizing revenue:

1. Identification of contract;
2. Identification of distinct performance obligations within the contract;
3. Evaluation of contract price;
4. Allocation of overall price to each performance obligation pro rata of their specific sale prices;
5. Recording of revenue when a performance obligation has been satisfied.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties). In determining the transaction price for the sale of steel products, the Group considers the effects of variable consideration, the existence of significant financing components, non-cash consideration, and consideration payable to the customer (if any).

(i) Variable consideration

If the consideration in a contract includes a variable amount, the Group estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The existing contracts for the sale of steel products do not provide customers with a right of return of the products of good quality and do not include volume rebates, therefore do not result in variable consideration.

(in US dollars and in thousands)

(ii) Significant financing component

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Cost of sales and other expenses recognition

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

New standards and interpretations not yet adopted

At the date of authorisation of these consolidated financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases have not yet been adopted by the EU:

	Effective for annual period beginning on or after
International Financial Reporting Standards ("IFRS"):	
IFRS 17 Insurance Contracts	1 January 2021
IFRS 16 Leases	1 January 2019
Amendments to existing standards and interpretations:	
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely
Amendments to IFRS 3: Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8: Definition of material	1 January 2020
IFRIC Interpretation 23 Uncertainty over Income Tax Treatment	1 January 2019
Amendments to IFRS 9: Prepayment Features with Negative Compensation	1 January 2019
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to IAS 28: Long-term interests in associates and joint ventures	1 January 2019
Annual Improvements 2015-2017 Cycle (issued in December 2017). These improvements include amendments to:	1 January 2019
- IFRS 3 Business Combinations	
- IFRS 11 Joint Arrangements	
- IAS 12 Income Taxes	
- IAS 23 Borrowing Costs	

For other Standards and Interpretations the Directors do not expect that the adoption of the Standards and Interpretations will have a material impact on the financial statements of the Group in future periods.

IFRS 16 Leases - Transition to IFRS 16

The Group plans to adopt IFRS 16 using modified approach. Comparative information will not be restated. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. .

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

The Group does not expect material impact of this new standard on the consolidated financial statements of the Group because it has only several lease items of office premises.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

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

Reclassifications

Certain reclassifications have been made to the comparative consolidated financial statements in order to comply with current year classifications. Such reclassifications had no impact on net income or net assets of the Group.

5. Significant accounting judgements and estimates

Estimation of uncertainty

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

Pension obligations under defined benefit plan

The Group collects information relating to its employees in service and pensioners receiving pension benefits and uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. These calculations require the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate and future projected salary). More details are provided in Note 21.

Valuation of property, plant and equipment

As described in the Note 4, the Group applies the revaluation model to its property, plant and equipment.

At each reporting date the Group carries out the review of the carrying value of these assets in order to determine whether it is materially different from the fair value. The majority of the Group's property, plant and equipment represent specialised items used in production process. Accordingly, management primarily uses the expected future cash flow models applied to the respective cash generating unit ("CGU") and considers such approach to be the most appropriate in the current operating environment of the Group.

Useful life of property, plant and equipment and residual value

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

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 CGU to which the item is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from CGU and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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

Impairment of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to individual CGU.

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

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Net realisable value of inventories

Inventory is carried at lower of cost and net realisable value. Estimates of net realisable value of raw materials, work in progress and finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the reporting date to the extent that such events confirm conditions existing at the end of the period (Note 13).

Taxes

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

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

Further details on taxes are disclosed in Note 12 and Note 35.

Value-added tax recoverable

Value-added tax (“VAT”) recoverable is reviewed at each reporting date and reduced to the extent that it is no longer probable that a refund or VAT liabilities for netting will be available. The Group considers that the amount due from the state as at the reporting date will be either recovered in cash or reclaimed against the VAT liabilities related to sales.

Judgements

Litigations

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation or arbitration, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, as well as in determining a possible range of any final settlement. Because of the inherent uncertainties in evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as any new information becomes available, primarily with the support of, as appropriate, internal specialists or outside consultants, such as legal counsel. Revisions to the estimates may significantly affect future operating results (Notes 21 and 35).

Designation of monetary items as part of net investment in foreign operations

Throughout the Group there are various intercompany balances between subsidiaries, including loans that are used to finance mainly capital expenditure projects as well as working capital requirements. The majority of these balances are denominated in the USD and are translated into the respective local functional currencies in the subsidiaries’ local accounts. Balances for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the Group’s net investment in that foreign operation and exchange differences on these balances are recognised in other comprehensive income and only reclassified from the equity to profit or loss on disposal of the respective net investment. It is the Group management’s view that the total balance of the loans and other liabilities granted by the parent and subholding companies to its Ukrainian subsidiaries as from 1 January 2014 qualify as net investments in its foreign operations (Note 37).

6. Segment information

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

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

1. 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;
   - 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.
2. 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.
3. Steel making segment:
   - Collection and processing of scrap for internal consumption in steel billets production. Scrap not usable for the Group's production purposes is sold to external customers;
   - Production and distribution of pipe steel billets – used both for internal production of the extensive range of seamless pipes and distribution to the external customers;
   - Production and distribution of wheels steel billets – used for railway wheels production and distribution to the external customers.
4. Other operations segment - production and sales of enamel ware and other by-products and services.

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

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

(in US dollars and in thousands)

Segment revenues and results

Year ended 31 December 2018	*Pipes*	*Railway wheels*	*Steel making*	*Other operations*	*Total*
Revenue	753,749	284,574	516,514	16,701	1,571,538
Elimination of sales to other segments	-	-	(497,381)	-	(497,381)
Revenue - external	753,749	284,574	19,133	16,701	1,074,157
Operating (loss) / profit	**(33,357)**	**7,958**	**80,192**	**382**	**55,175**
Finance income					1,510
Finance costs					(139,032)
Non-operating foreign exchange difference					9,192
Share of profit of associates					35
Income tax benefit					25,141
Loss for the year					**(47,979)**

For the year ended 31 December 2018, share of profit of associates was attributable to the pipes segment.

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

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

EBITDA by segments

Year ended 31 December 2018	*Pipes*	*Railway wheels*	*Steel making*	*Other operations*	*Total*
Operating (loss) / profit	(33,357)	7,958	80,192	382	55,175
Depreciation and amortisation	17,497	13,704	13,445	17	44,663
Revaluation increase and impairment of property, plant and equipment (Note 8)	2,717	6,989	(21,005)	-	(11,299)
Loss on disposal of property, plant and equipment (Note 28)	2,090	1,252	16	-	3,358
Foreign exchange cash flow hedge (Note 37)	55,113	1,104	997	-	57,214
Operating foreign exchange difference	6,846	2,087	(447)	-	8,486
EBITDA	**50,906**	**33,094**	**73,198**	**399**	**157,597**

Segment assets, liabilities and other information

Year ended 31 December 2018	*Pipes*	*Railway wheels*	*Steel making*	*Other operations*	*Total*
Segment assets	420,658	89,003	288,598	5,862	804,121
Segment liabilities	107,156	37,035	25,900	6,867	176,958
Investment in associates and joint venture (Note 10, 11)	4,431	-	-	-	4,431
Additions to property, plant and equipment (Note 8)	24,134	10,794	7,668	-	42,596
Movement in provisions	40,775	1,693	386	57	42,911
Other non-cash items	19,689	2,338	(4,541)	324	17,810
Effect of revaluation of property, plant and equipment (Note 8)	2,717	6,989	(21,005)	-	(11,299)

(in US dollars and in thousands)

Segment revenues and results

Year ended 31 December 2017	*Pipes*	*Railway wheels*	*Steel making*	*Other operations*	*Total*
Revenue	557,644	212,213	382,849	18,176	1,170,882
Elimination of sales to other segments	-	-	(365,235)	-	(365,235)
Revenue - external	557,644	212,213	17,614	18,176	805,647
Operating (loss) / profit	**(36,831)**	**25,097**	**49,967**	**1,581**	**39,814**
Finance income					1,337
Finance costs					(112,313)
Non-operating foreign exchange difference					21
Share of profit of associates					113
Income tax expense					3,934
Loss for the year					**(67,094)**

For the year ended 31 December 2017, share of profit of associates was attributable to pipes segment.

EBITDA by segments

Year ended 31 December 2017	*Pipes*	*Railway wheels*	*Steel making*	*Other operations*	*Total*
Operating (loss) / profit	(36,831)	25,097	49,967	1,581	39,814
Depreciation and amortisation	28,088	8,357	15,362	20	51,827
Loss on disposal of property, plant and equipment (Note 28)	451	155	-	-	606
Foreign exchange cash flow hedge (Note 37)	63,835	-	1,376	-	65,211
Extraordinary loss	-	-	143	-	143
Operating foreign exchange difference	(37,224)	(2,665)	1,752	101	(38,036)
EBITDA	**18,319**	**30,944**	**68,600**	**1,702**	**119,565**

Segment assets, liabilities and other information

Year ended 31 December 2017	*Pipes*	*Railway wheels*	*Steel making*	*Other operations*	*Total*
Segment assets	315,815	59,544	127,557	4,514	507,430
Segment liabilities	68,935	16,444	23,504	8,023	116,906
Investment in associates (Note 10)	918	-	-	-	918
Additions to property, plant and equipment (Note 8)	20,056	2,743	12,202	7	35,008
Movement in provisions	8,751	2,054	448	529	11,782
Other non-cash items	8,741	787	15,419	664	25,611

(in US dollars and in thousands)

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

	31 December 2018	*31 December 2017*
Segment assets for reportable segments	**802,690**	**503,834**
Other operations	**5,862**	**4,514**
Unallocated		
Intangible assets	2,584	1,872
Deferred tax assets	2,024	2,689
Trade and other accounts receivable	445	-
Prepaid income tax	1,867	2,853
Prepaid current income tax	132	161
Taxes recoverable, other than income tax	18,587	12,502
Other financial assets	11,494	3,888
Cash and cash equivalents	130,884	70,253
	168,017	**94,218**
Total assets	**976,569**	**602,566**

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

	31 December 2018	*31 December 2017*
Segment liabilities for reportable segments	**170,091**	**108,883**
Other operations	**6,867**	**8,023**
Unallocated		
Deferred tax liabilities	21,602	13,174
Taxes payable, other than income tax	4,405	2,197
Current income tax liabilities	6,290	6,349
Borrowings	1,067,339	1,044,904
Subordinated loan	59,938	40,000
Interest payable	287,427	218,893
Dividends payable to non-controlling interest owners	209	206
Other liabilities	21,900	17,294
	1,469,110	**1,343,017**
Total liabilities	**1,646,068**	**1,459,923**

Geographical information

Revenues from external customers

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Ukraine	319,076	238,774
Europe	230,300	147,712
Americas	175,849	91,505
Russia	169,688	183,709
Middle East and Africa	90,319	74,098
Other CIS countries	77,765	62,514
Other countries	11,160	7,335
	1,074,157	**805,647**

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

Non-current assets

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

	31 December 2018	*31 December 2017*
Ukraine	517,955	286,397
Europe	18	45
Other countries	57	76
	518,030	**286,518**

(in US dollars and in thousands)

7. Fair value measurement

The Group measures property, plant and equipment and at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

Fair value measurement hierarchy for assets and liabilities as at 31 December 2018:

		Fair value measurement using			
	Carrying amount	*Fair value*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*
Fair value of assets:					
Property, plant and equipment	515,446	515,446	-	-	515,446
	515,446	**515,446**	**-**	**-**	**515,446**
Fair value of liabilities:					
Borrowings and interest payable	1,354,766	447,073	-	447,073	-
	1,354,766	**447,073**	**-**	**447,073**	**-**

Fair value measurement hierarchy for assets and liabilities as at 31 December 2017:

		Fair value measurement using			
	Carrying amount	*Fair value*	*Quoted prices in active markets (Level 1)*	*Significant observable inputs (Level 2)*	*Significant unobservable inputs (Level 3)*
Fair value of assets:					
Property, plant and equipment	284,646	284,646	-	-	284,646
	284,646	**284,646**	**-**	**-**	**284,646**
Fair value of liabilities:					
Borrowings and interest payable	1,263,797	526,280	-	526,280	-
	1,263,797	**526,280**	**-**	**526,280**	**-**

There have been no transfers between Level 1 and Level 2 during 2018 and 2017.

(in US dollars and in thousands)

8. Property, plant and equipment

Movement in property, plant and equipment and related accumulated depreciation for the years ended 31 December 2018 and 2017 was as follows:

	Buildings and structures	*Machinery and equipment*	*Transport and motor vehicles*	*Fixtures and office equipment*	*Construction-in-progress and uninstalled equipment*	*Total*
Cost or valuation:						
At 1 January 2017	**135,085**	**191,016**	**14,473**	**2,084**	**32,333**	**374,991**
Additions	-	-	-	-	35,008	35,008
Transfers	3,136	29,735	506	668	(34,045)	-
Disposals and write-offs	(671)	(7,898)	(154)	(34)	-	(8,757)
Translation difference	(4,401)	(7,021)	(425)	(81)	(7,836)	(19,764)
At 31 December 2017	**133,149**	**205,832**	**14,400**	**2,637**	**25,460**	**381,478**
Additions	-	-	-	-	42,596	42,596
Transfers	3,089	34,233	776	934	(39,032)	-
Disposals and write-offs	(5,547)	(3,447)	(87)	(166)	(21)	(9,268)
Elimination against gross carrying amount	(35,149)	(97,261)	(5,699)	(1,426)	-	(139,535)
Revaluation	118,569	111,419	7,756	(92)	(2,242)	235,410
Translation difference	2,106	2,169	357	4	129	4,765
At 31 December 2018	**216,217**	**252,945**	**17,503**	**1,891**	**26,890**	**515,446**
Accumulated depreciation and impairment:						
At 1 January 2017	**16,607**	**39,144**	**2,496**	**463**	**-**	**58,710**
Depreciation for the year	11,955	34,838	1,688	547	-	49,028
Disposals and write-offs	(166)	(7,874)	(88)	(32)	-	(8,160)
Translation difference	(1,040)	(1,650)	(19)	(37)	-	(2,746)
At 31 December 2017	**27,356**	**64,458**	**4,077**	**941**	**-**	**96,832**
Depreciation for the year	9,739	33,766	1,459	544	-	45,508
Disposals and write-offs	(2,437)	(1,287)	(41)	(59)	-	(3,824)
Elimination against gross carrying amount	(35,149)	(97,261)	(5,699)	(1,426)	-	(139,535)
Translation difference	491	324	204	-	-	1,019
At 31 December 2018	**-**	**-**	**-**	**-**	**-**	**-**
Net book value:						
At 31 December 2017	**105,793**	**141,374**	**10,323**	**1,696**	**25,460**	**284,646**
At 31 December 2018	**216,217**	**252,945**	**17,503**	**1,891**	**26,890**	**515,446**

As at 31 December 2018 and 2017, property, plant and equipment with carrying value of USD 405,690 thousand and USD 204,458 thousand, respectively, were pledged as a security for the Group’s borrowings (Note 20).

(in US dollars and in thousands)

Revaluation increase/Decrease/Reversal of decrease

	Buildings and structures	*Machinery and equipment*	*Transport and motor vehicles*	*Fixtures and office equipment*	*Construction-in-progress and uninstalled equipment*	*Total*
Decrease on revaluation recognised in profit or loss	(1,095)	(12,210)	(100)	(493)	(2,779)	(16,677)
Reversal of decrease on previous revaluation recognised in profit or loss	17,521	10,327	78	30	20	27,976
Decrease on revaluations recognised in other comprehensive income	(10,337)	(10,558)	(264)	(4)	(15)	(21,178)
Increase on revaluations recognised in other comprehensive income	112,480	123,860	8,042	375	532	245,289
Total	**118,569**	**111,419**	**7,756**	**(92)**	**(2,242)**	**235,410**

The revalued property, plant and equipment are presented by buildings and structures; machinery and equipment; transport and motor vehicles; fixtures and office equipment; construction-in-progress and uninstalled equipment.

The Group engaged an independent appraiser to determine the fair value of all groups of property plant and equipment as at 31 December 2018. Valuation analysis and estimates of value, performed by the independent appraiser, were based on historical, current and prospective information, adjusted for any difference in nature, location or condition of the specific property compared to similar assets and benchmarks used.

Depending on the item of the property plant and equipment, fair value was determined using the combination of the following three methods:

- comparative method;
- cost method;
- discounted cash flows method.

The most significant observable and unobservable valuation inputs are listed below and their changes would result in a significant increase or decrease in fair value of the revalued assets:

- price per square metre – 167-582 USD;
- discount rate – 16.3%;
- terminal growth rate – 2.4%;
- inflation rate – 2.1-2.4%.

As at 31 December 2018 the Group did not have a fully depreciated items of property, plant and equipment, which remain in use, (as at 31 December 2017 the cost of such items amounted to USD 3,819 thousand).

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

	Buildings and structures	*Machinery and equipment*	*Transport and motor vehicles*	*Fixtures and office equipment*	*Construction-in-progress and uninstalled equipment*	*Total*
31 December 2017	70,503	105,925	5,230	738	25,241	207,637
31 December 2018	71,609	120,816	5,867	1,648	28,805	228,745

(in US dollars and in thousands)

9. Intangible assets and goodwill

Movement in intangible assets and goodwill and related accumulated amortisation for the years ended 31 December 2018 and 2017 was as follows:

	Patents and trademark	*Accounting software*	*Other software*	*Intangible assets under development*	*Total*
Cost:					
At 1 January 2017	**99**	**1,408**	**1,076**	**1,510**	**4,093**
Additions	-	-	3	716	719
Transfers	9	486	728	(1,223)	-
Disposals	-	-	-	-	-
Translation difference	(7)	4	(125)	(14)	(142)
At 31 December 2017	**101**	**1,898**	**1,682**	**989**	**4,670**
Additions	5	-	20	1,203	1,228
Transfers	2	536	193	(731)	-
Disposals	(37)	-	(12)	(5)	(54)
Translation difference	7	15	20	10	52
At 31 December 2018	**78**	**2,449**	**1,903**	**1,466**	**5,896**
Accumulated amortisation and impairment:					
At 1 January 2017	**57**	**977**	**742**	**800**	**2,576**
Amortisation for the year	22	-	287	-	309
Disposals	-	-	-	-	-
Translation difference	(2)	(29)	(31)	(25)	(87)
At 31 December 2017	**77**	**948**	**998**	**775**	**2,798**
Amortisation for the year	13	146	365	-	524
Disposals	(37)	-	(4)	-	(41)
Translation difference	2	17	1	11	31
At 31 December 2018	**55**	**1,111**	**1,360**	**786**	**3,312**
Net book value:					
At 31 December 2017	**24**	**950**	**684**	**214**	**1,872**
At 31 December 2018	**23**	**1,338**	**543**	**680**	**2,584**

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

For the years ended 31 December 2018 and 2017, there were no internally generated intangible assets included into additions of intangible assets under development.

(in US dollars and in thousands)

10. Investments in associates

The Group's investments in associates were as follows:

Entity	*Activity*	*% of the Group ownership*	*31 December 2018*	*31 December 2017*
PJSC "Nikopolsky Tooling Plant"	Tooling for machines	25%	630	527
PJSC "Nikopolsky Repairing Plant"	Repairs	25%	571	391
PJSC "Teplogeneratzia"	Utility services	30%	-	-
			1,201	**918**

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

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

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
At period beginning	918	851
Share of other comprehensive income	247	-
Share of profit	35	113
Translation difference	1	(46)
At period end	**1,201**	**918**

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

	PJSC "Teplo-generatzia"	*PJSC "Nikopolsky Tooling Plant"*	*PJSC "Nikopolsky Repairing Plant"*
At 31 December 2018			
Assets	-	1,435	1,187
Liabilities	-	(805)	(616)
Net assets – carrying amounts of investments	**-**	**630**	**571**

	PJSC "Teplo-generatzia"	*PJSC "Nikopolsky Tooling Plant"*	*PJSC "Nikopolsky Repairing Plant"*
At 31 December 2017			
Assets	-	1,074	712
Liabilities	-	(683)	(185)
Net assets – carrying amounts of investments	**-**	**391**	**527**

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

	For the year ended 31 December 2018		*For the year ended 31 December 2017*	
	Revenue	*Profit / (Loss) for the year*	*Revenue*	*Profit / (Loss) for the year*
PJSC "Teplogeneratzia"	1,903	(27)	1,583	14
PJSC "Nikopolsky Repairing Plant"	2,300	37	1,904	52
PJSC "Nikopolsky Tooling Plant"	1,771	25	1,439	47

11. Investment in joint venture

In June 2018, Interpipe entered into a joint venture agreement with one of the world leaders in premium tubular solutions, Vallourec Tubes SAS ("Vallourec"). The parties invested into and launched the pipe finishing facility in Ukraine (Vallorec Niko Tube LLC) by creating a German limited liability company Vallorec Niko Tube Holding GmbH, in which Interpipe holds 49.9% and Vallourec 51.1%. The operation of the pipe finishing mill has started in October 2018. The mill finishes certain types of non-OCTG seamless tubes, which are then sold under the Vallourec brand. The interest in joint venture is accounted for using the equity method in the Group's consolidated financial statements and amounted to USD 3,230 thousand as at 31 December 2018.

(in US dollars and in thousands)

12. Income tax

The components of income tax expense for the years ended 31 December 2018 and 2017 were as follows:

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Current income tax expense	(5,324)	(2,997)
Deferred income tax benefit	30,465	1,997
Adjustments of deferred tax assets and liabilities of previous years	-	4,934
	25,141	**3,934**

Income tax benefit / (expense) for the years ended 31 December 2018 and 2017 originated in the following tax jurisdictions:

	Domestic tax rates applicable to individual group entities as at		*For the year ended*	*For the year ended*
	31 December 2018	*31 December 2017*	*31 December 2018*	*31 December 2017*
Ukraine	18%	18%	33,351	5,750
Russia	20%	20%	(2,580)	(1,354)
Switzerland	11%	11%	(6,242)	(301)
The USA	21%	34%	368	(279)
Cyprus	12.5%	12.5%	245	88
Kazakhstan	20%	20%	(1)	30
The UAE	-	-	-	-
			25,141	**3,934**

Loss before tax for financial reporting purposes is reconciled to tax benefit as follows:

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Accounting loss before tax	**(73,120)**	**(71,028)**
Tax benefit/(expenses) calculated at domestic rates applicable to individual Group entities (*)	427	(14,582)
Tax effect of non-deductible expenses and non-taxable incomes	(13,669)	7,679
Change in unrecognised deferred tax assets	44,069	12,166
Result of change in tax rates	(2,275)	-
Other differences	(3,411)	(1,329)
	25,141	**3,934**

* Tax benefit/(expenses) calculated at domestic rates applicable to individual Group entities for 2018 and 2017 were affected by financial results of Interpipe Middle East which is not subject to the corporate tax in the United Arab Emirates.

(in US dollars and in thousands)

Deferred tax assets and liabilities related to the following:

	31 December 2018	*Change recognised in profit or loss*	*Change recognised in other comprehensive income*	*Translation difference*	*31 December 2017*
Deferred tax liabilities:					
Taxable differences on intercompany settlements and investments	(10,356)	(10)	-	-	(10,346)
Revaluation of property, plant and equipment and difference in depreciation	(42,015)	(182)	(40,340)	64	(1,557)
	(52,371)	**(192)**	**(40,340)**	**64**	**(11,903)**
Deferred tax assets:					
Deferral of revenues and related costs	177	177	-	-	-
Deductible costs retained in inventories	339	106	-	(13)	246
Tax losses carried forward	81,194	(12,694)	-	1,167	92,721
Write-down of inventories	5,828	2,795	-	(89)	3,122
Deductible differences on intercompany settlements and investments	-	(76)	-	-	76
Accrued liabilities and provisions	13,474	7,338	280	79	5,777
Loans and interest payable	3,961	(3,478)	-	236	7,203
Expected credit losses financial assets/Allowance for doubtful debts	2,207	365	-	(35)	1,877
Adjustment for unrealised profits in inventories	1,926	(79)	-	16	1,989
Deferral of deductible expenses	47	(7,662)	-	456	7,253
Other deferred tax assets	232	(203)	-	(25)	460
	109,385	**(13,411)**	**280**	**1,792**	**120,724**
Unrecognised deferred tax assets	(76,592)	44,069	-	(1,355)	(119,306)
Deferred income tax benefit from origination and reversal of temporary differences		30,465	(40,060)		
Reflected in the consolidated statement of financial position as follows:					
Deferred tax assets	**2,024**				**2,689**
Deferred tax liabilities	**(21,602)**				**(13,174)**

(in US dollars and in thousands)

	31 December 2017	*Change recognised in profit or loss*	*Change recognised in other comprehensive income*	*Translation difference*	*31 December 2016*
Deferred tax liabilities:					
Taxable differences on intercompany settlements and investments	(10,346)	308	-	(5)	(10,649)
Revaluation of property, plant and equipment and difference in depreciation	(1,557)	(452)	-	154	(1,259)
	(11,903)	**(144)**	**-**	**149**	**(11,908)**
Deferred tax assets:					
Deferral of revenues and related costs	-	(711)	-	(24)	735
Deductible costs retained in inventories	246	(332)	-	41	537
Tax losses carried forward	92,721	(10,203)	-	(864)	103,788
Write-down of inventories	3,122	2,466	-	(146)	802
Deductible differences on intercompany settlements and investments	76	(1,907)	-	-	1,983
Accrued liabilities and provisions	5,777	1,387	1,224	(4)	3,170
Loans and interest payable	7,203	(666)	-	(719)	8,588
Allowance for doubtful accounts	1,877	(599)	-	220	2,256
Adjustment for unrealised profits in inventories	1,989	640	-	-	1,349
Deferral of deductible expenses	7,253	(267)	-	(356)	7,876
Other deferred tax assets	460	166	-	13	281
	120,724	**(10,026)**	**1,224**	**(1,839)**	**131,365**
Unrecognised deferred tax assets	(119,306)	12,166	-	(632)	(130,840)
Deferred income tax benefit from origination and reversal of temporary differences		1,997	1,224		
Reflected in the consolidated statement of financial position as follows:					
Deferred tax assets	**2,689**				**2,080**
Deferred tax liabilities	**(13,174)**				**(13,463)**

The deferred tax effect on tax losses carried forward was as follows:

Country of origination	*For the year ended 31 December 2018*	*For the year ended 31 December 2017*
Ukraine	59,896	71,483
Cyprus	21,047	14,207
Switzerland	-	3,770
USA	-	2,983
Kazakhstan	240	278
Russia	11	-
	81,194	**92,721**

Tax losses carried forward are available for offset against future taxable profits of the companies in which the losses arose for 20 years in the USA, for 5 years in Cyprus, 10 years in Russia and Kazakhstan and indefinitely in all other jurisdictions.

Deferred tax assets were identified but not recognised in full amount for Ukrainian entities, in respect of write-down of inventories and tax losses carried forward for the USA and in respect of tax losses carried forward for Cyprus entities as there are doubts on availability of sufficient taxable profits in future periods against which assets can be utilised.

As at 31 December 2018 and 2017, the Company has not recognised deferred tax liability in respect of temporary differences amounting to USD 39,223 thousand and USD 37,219 thousand, respectively, associated with investments in subsidiaries as the Company is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

(in US dollars and in thousands)

13. Inventories

Inventories consisted of the following:

	31 December 2018	*31 December 2017*
Raw materials (at cost)	67,813	46,520
Work in process (at cost)	20,182	19,137
Finished goods (at lower of cost and net realisable value)	67,372	51,429
	155,367	**117,086**

As at 31 December 2018 and 2017, write down of inventories to net realisable value amounted to USD 28,654 thousand and USD 16,748 thousand, respectively.

As at 31 December 2018 and 2017, raw materials, work in process and finished, were pledged as a security for the Group's borrowings (Note 20):

	31 December 2018	*31 December 2017*
Raw materials	24,670	17,387
Work in process	17,747	12,281
Finished goods	47,647	25,301
	90,064	**54,969**

14. Trade and other accounts receivable

Trade and other accounts receivable consisted of the following:

	31 December 2018	*31 December 2017*
Trade accounts receivable	119,027	80,136
Less allowance for expected credit losses /allowance for doubtful debts	(13,481)	(5,476)
	105,546	74,660
Other receivables net of allowance for expected credit losses/allowance for doubtful debts	826	1,545
	106,372	**76,205**

As at 31 December 2018, trade receivables with carrying value of USD 41,860 thousand (2017: USD 41,136 thousand), were pledged as a security for the Group's borrowings (Note 20).

Movement in expected credit losses is disclosed in the Note 36.

As at 31 December 2018 and 2017, the allowance for impairment of trade accounts receivable included USD 264 thousand and USD 472 thousand, respectively, of the allowance that was determined individually in respect of debtors with significant financial difficulties or with estimated high probability of their insolvency. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows. Trade receivables are non-interest bearing and are generally collected within a three-month term. As at 31 December 2018 and 2017, 60% and 43% of trade accounts receivable, respectively, were due from twenty major customers.

15. Prepayments and other current assets

Prepayments and other current assets consisted of the following:

	31 December 2018	*31 December 2017*
Prepayments to suppliers	24,869	21,432
Prepaid insurance expense	528	228
Other current assets	1,804	7,665
	27,201	**29,325**

(in US dollars and in thousands)

16. Taxes recoverable, other than income tax

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

	31 December 2018	*31 December 2017*
Value-added tax recoverable	18,582	12,498
Other taxes recoverable	5	4
	18,587	**12,502**

VAT recoverable primarily originated in Ukraine (Note 5).

17. Other financial assets

Other financial assets consisted of the following:

	31 December 2018	*31 December 2017*
Guarantee deposits	7,540	3,239
Restricted bank deposit	3,954	585
Other	-	64
	11,494	**3,888**

As at 31 December 2018 and 2017, restricted bank deposits with carrying value of USD 315 thousand and USD 309 thousand, respectively, were pledged as a security for the Group's borrowings (Note 20).

As at 31 December 2018 and 2017, the guarantee deposits represented restricted bank deposits relating to the letters of credit issued by banks in favour of the Group's suppliers and guarantees issued by banks in favour of the Group's customers.

18. Cash and cash equivalents

Cash and cash equivalents consisted of the following:

	31 December 2018	*31 December 2017*
Current accounts and deposits on demand at banks	108,734	69,422
Time deposits at banks with maturity less than three months	22,119	802
Cash in hand	31	29
	130,884	**70,253**

As at 31 December 2018 and 2017, cash and cash equivalents with carrying value of USD 46,529 thousand and USD 27,436 thousand, respectively, were placed on the bank accounts subject to the security for the Group's borrowings (Note 20).

19. Subordinated loan

In 2014, the shareholders provided the Group with the subordinated loan in the amount of USD 40.0 million to support its short-term liquidity position. The principal amount bears an interest at a rate of 10.5% per annum. The subordinated loan and accrued interest may be repaid only after 2011 Restructured facilities and EAF facilities (Note 20) are settled in full. As at 31 December 2018, the Company and the shareholders agreed to defer the repayment of the principal amount of USD 40,000 thousand and interest accrued to the date of USD 19,938 thousand until 15 September 2025.

20. Borrowings and interest payable

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

	31 December 2018	*31 December 2017*
Current borrowings		
Interest bearing loans due to banks	867,339	843,853
Bonds issued	200,000	200,000
Other borrowings	-	1,051
	1,067,339	**1,044,904**
Interest accrued but not paid	287,427	218,893
	287,427	**218,893**
	1,354,766	**1,263,797**

(in US dollars and in thousands)

Default interest charges amounting to USD 21,804 thousand as at 31 December 2018 (USD 14,670 thousand as at 31 December 2017) other than interest accrued at effective interest rate are excluded from the amounts of interest payable above and are presented separately as part of Other accounts payable (Note 22).

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

	Applicable interest rates	*31 December 2018*	*31 December 2017*
2011 Restructured facilities and EAF facilities*			
USD			
Fixed rate	6.53% - 9.03%	86,278	82,760
Floating rate	LIBOR (3month) + 1.5% - 3.5%	104,296	100,806
Floating rate	LIBOR (3month) + 4.0% - 6.0%	18,697	18,069
		209,271	201,635
2011 Restructured facilities			
USD			
Floating rate	LIBOR (3month) + 6.0%	553,961	536,632
		553,961	536,632
Bonds			
USD			
Fixed rate	10.25%	200,000	200,000
		200,000	200,000
Other facilities			
EUR			
Fixed rate	13.25%	36,195	37,711
USD			
Fixed rate	6.00% – 15.75%	67,912	67,875
RUB			
Fixed rate	8.60%	-	1,051
		104,107	106,637
		1,067,339	**1,044,904**

* *Former SACE facilities initially backed by Italian export agency ("SACE").*

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

As at 31 December 2018 and 2017, the Group was in breach of certain financial and non-financial covenants provided by Override Agreement, and bonds issue undertakings (Note 2). The non-compliance with the covenants provides the lenders with rights to demand accelerated or full immediate repayment of the borrowings. Loan portfolio restructuring process together with a process of revision of the existing covenants commenced in October 2013, was not completed as at 31 December 2018 and is continuing.

As at 31 December 2018 and 2017, borrowings, which otherwise would be maturing in more than 12 months from the reporting date, in the amount of USD 1,067,339 thousand and USD 1,043,853 thousand, respectively, were reclassified into current loans as a result of the above non-compliance as it is required by IAS 1.74.

Pledges of assets

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

	31 December 2018	*31 December 2017*
Carrying values of property, plant and equipment (Note 8)	405,690	204,458
Inventories (Note 13)	90,064	54,969
Trade receivables (Note 14)	41,860	41,136
Cash and cash equivalents placed on pledged bank accounts (Note 18)	46,529	27,436
Other financial assets (Note 17)	315	309
Rights/title/interest under property, plant and equipment purchase agreements	80	83

(in US dollars and in thousands)

As at 31 December 2018 and 2017, shares and participatory interest of subsidiaries as detailed in Note 33, except for "META" LLC and "Interpipe Central Trade" GmbH, were pledged as collateral to secure Group's obligation under the 2011 Restructured facilities.

As at 31 December 2018 and 2017, the participatory interest in the "Metallurgical Plant Dneprosteel" LLC, Steel.One Limited and "Dneprosteel-Energo" LLC (Note 33) were pledged in favour of 2011 Restructured facilities lenders on a second-tier basis vis-a-vis EAF facility lenders.

21. Provisions

Provisions consist of the following:

	31 December 2018	*31 December 2017*
Provisions and employee benefits	68,455	27,828
Other no-current liabilities	-	4
	68,455	**27,832**

Provisions and employee benefits included the following:

	31 December 2018	*31 December 2017*
Provision for customers' and other claims	38,924	2,056
Defined benefit state pension plan	27,513	24,319
Retirement benefit plan	2,018	1,453
	68,455	**27,828**
Provision – current portion	(43,279)	(4,914)
Provision – non-current portion	**25,176**	**22,914**

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

Changes in the provisions:

	Provision for customers' and other claims	*Defined benefit state pension plan*	*Retirement benefit plan*	*Total provisions*
At 1 January 2017	**16,757**	**18,057**	**1,041**	**35,855**
Charge for the year	1,828	9,507	562	11,897
Payments and utilisation	(17,783)	(2,305)	(94)	(20,182)
Reversal	(115)	-	-	(115)
Translation difference	1,369	(940)	(56)	373
At 31 December 2017	**2,056**	**24,319**	**1,453**	**27,828**
Charge for the year	38,688	5,224	684	44,596
Payments and utilisation	(135)	(2,313)	(131)	(2,579)
Reversal	(1,685)	-	-	(1,685)
Translation difference	-	283	12	295
At 31 December 2018	**38,924**	**27,513**	**2,018**	**68,455**

For the years ended 31 December 2018 and 2017, interest costs attributable to the defined employee benefits and amounting to USD 3,753 thousand and USD 3,191 thousand, respectively, were included in finance costs in the consolidated statement of comprehensive income.

Provision for customers' and other claims

Provision for customers' and other claims represents provision for probable losses and costs which the Group might incur relating to customers' possible future quality claims with respect to some new products and pipe solutions designed, delivered and sold by the Group where technical probation is still ongoing and other litigations (Note 35) filed against the Group in the courts. Charge, net of reversal, for the year ended 31 December 2018 amounted to USD 37,003 thousand (USD 1,713 thousand for the year ended 31 December 2017) is included in profit or loss.

(in US dollars and in thousands)

Defined benefit state pension plan

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

The following tables summarise the components of benefit expense recognised in the consolidated statement of comprehensive income and the amounts recognised in the consolidated statement of financial position with respect to the plan. Benefit expense, with the exception of interest cost, is included in payroll and related expenses within costs of sales (Note 25). Interest cost is included in finance costs (Note 31).

Benefit expense recognised in the consolidated income statement

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Interest cost (Note 31)	3,548	3,022
Current service cost	468	253
Past service cost	-	(251)
	4,016	**3,024**

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

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Present value at the beginning of the year	24,319	18,057
Current service cost	468	253
Past service cost	-	(250)
Interest cost (Note 31)	3,548	3,022
Payment	(2,313)	(2,305)
Re-measurement losses / (gains) on defined benefit plans:		
- changes in financial assumptions	984	5,010
- experience adjustments	224	1,473
Translation difference	283	(941)
Present value at the end of the year	**27,513**	**24,319**

The Group's best estimate of contributions expected to be paid to the plan during the year ending 31 December 2019 amounts to USD 2,343 thousand.

Retirement benefit plan

Some production subsidiaries of the Group domiciled in Ukraine have contractual commitments to pay certain lump-sum payments to the retiring employees with a long service period as well as certain other post retirement and employment benefits according to the collective agreements. The following tables summarise the components of benefit expense recognised in the consolidated statement of comprehensive income and the amounts recognised in the statement of financial position with respect to the plan. Benefit expense, with the exception to interest cost, is included in payroll and related expenses within cost of sales and general and administrative expenses as appropriate. Interest cost is included in the finance costs (Note 31).

Benefit expense recognised in the consolidated income statement

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Interest cost (Note 31)	205	169
Current service cost	130	54
Past service cost	6	23
	341	**246**

(in US dollars and in thousands)

Changes in the present value of retirement benefit plan

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Present value at the beginning of the year	1,452	1,041
Current service cost	130	54
Past service cost	6	23
Interest cost (Note 31)	205	169
Payment	(129)	(94)
Re-measurement losses / (gains) on defined benefit plans:		
- changes in financial assumptions	128	124
- experience adjustments	215	192
Translation difference	12	(57)
Present value at the end of the year	**2,019**	**1,452**

The Group's best estimate of contributions expected to be paid to the plan during the year ending 31 December 2019 amounts to USD 179 thousand.

Principal assumptions applicable to all plans

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

	31 December 2018	*31 December 2017*
Annual discount rate	14.0%	14.5%
Annual salary increase rate	15.7% in 2019, 6.5% afterwards	10.0% in 2018, 10.0% afterwards
Annual pension increase rate	18.0% in 2019, 6.1% afterwards	6.0% in 2018, 6.0% afterwards
Staff turnover	8%	8%

Sensitivity analysis

A quantitative sensitivity analysis for significant assumption as at 31 December 2018 is as shown below:

Assumptions	*Discount rate*		*Future salary increases*		*Staff turnover*	
Sensitivity Level	*1% increase*	*1% decrease*	*1% increase*	*1% decrease*	*25% increase*	*25% decrease*
Impact on the net defined benefit obligation	(1,967)	(3,711)	(183)	196	799	(633)

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

22. Trade and other accounts payable

Trade and other accounts payable consisted of the following:

	31 December 2018	*31 December 2017*
Trade accounts payable to suppliers	65,251	56,843
Dividends payable to non-controlling interest owners	209	206
Other accounts payable	24,205	19,054
	89,665	**76,103**

Trade accounts payable are non-interest bearing and are generally settled within a three-month term. As at 31 December 2018 and 2017, other accounts payable include default interests charges applicable to borrowings in the amount of USD 21,804 thousand and USD 14,670 thousand, respectively (Note 20).

(in US dollars and in thousands)

23. Taxes payable, other than income tax

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

	31 December 2018	*31 December 2017*
VAT payable	1,797	237
Accrued and withheld payroll taxes	1,749	1,369
Property tax payable	102	482
Other miscellaneous taxes payable	757	109
	4,405	**2,197**

24. Advances and other current liabilities

Advances and other current liabilities consisted of the following:

	31 December 2018	*31 December 2017*
Advances from customers	20,977	12,917
Short-term employee benefits	17,353	14,221
Other current liabilities	2,617	3,333
	40,947	**30,471**

25. Cost of sales

Cost of sales consisted of the following:

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Materials	(407,855)	(289,661)
Energy and utilities	(170,930)	(129,270)
Foreign exchange cash flow hedge (Note 37)	(57,214)	(65,211)
Payroll and related expenses	(50,769)	(39,732)
Depreciation	(42,121)	(49,041)
Repairs and maintenance	(15,455)	(12,736)
Rolling tools and instruments	(16,461)	(12,657)
Write down of inventories	(12,159)	(17,834)
Land tax and lease expenses	(7,756)	(8,499)
Other	(23,240)	(15,969)
	(803,960)	**(640,610)**

26. Selling and distribution expenses

Selling and distribution expenses consisted of the following:

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Forwarding and transportation services	(59,883)	(52,308)
Custom services and duties	(57,347)	(20,917)
Payroll and related expenses	(11,884)	(12,379)
Storage and packaging expenses	(8,183)	(7,095)
Expected credit losses/allowance for doubtful debts (Note 37)	(6,715)	(904)
Sales agency fees	(3,027)	(7,528)
Professional fees and other service fees	(2,883)	(3,511)
Advertising and promotion	(1,260)	(831)
Depreciation	(855)	(1,124)
Insurance expense	(50)	(22)
Other	(3,709)	(1,778)
	(155,796)	**(108,397)**

(in US dollars and in thousands)

27. General and administrative expenses

General and administrative expenses consisted of the following:

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Payroll and related expenses	(28,980)	(30,545)
Professional fees	(12,715)	(6,676)
Business trips and transportation	(1,804)	(1,919)
Depreciation and amortisation	(1,687)	(1,662)
Taxes, other than income tax	(1,704)	(473)
Rent	(1,154)	(1,166)
Bank fees	(525)	(576)
Communication	(432)	(515)
Insurance expense	(413)	(429)
Repairs and maintenance	(220)	(256)
Other	(1,511)	(1,519)
	(51,145)	**(45,736)**

Auditors' remuneration

Auditors' remuneration for the year ended 31 December 2018 is included in professional fees above and comprises statutory audit fee for the audit of the consolidated financial statements of the Group and stand alone financial statements of the certain Group entities of USD 530 thousand (2017: USD 490 thousand) as well as non-audit fees of USD 31 thousand (there were no non-audit fees in 2017).

28. Other operating income and expenses

Other operating income and expenses consisted of the following:

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Write-off of prepayments and assets	(4,863)	(11,194)
Loss on disposal of property, plant and equipment and intangible assets	(3,358)	(606)
Maintenance of social assets	(1,586)	(1,216)
(Loss) / gain on disposal of by-products	(861)	280
Impairment of other assets	(637)	(1,038)
Other (loss) / gain	(248)	5,989
Effect of revaluation of property, plant and equipment	11,299	-
Customers' and other claims charges, net of reversals	418	(1,341)
Reversal of impairment of prepayments	241	-
	405	**(9,126)**

29. Operating and non-operating foreign exchange difference

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

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Operating foreign exchange gains / (losses) originated on		
trade accounts receivable	(5,753)	11,488
settlements with suppliers	435	28,533
other operating exchange difference	(3,168)	(1,985)
	(8,486)	**38,036**
Non-operating foreign exchange gains / (losses) originated on		
loans payable other than those designated as hedging items	10,110	314
cash balances	(918)	(293)
	9,192	**21**

(in US dollars and in thousands)

30. Finance income

Finance income consisted of the following:

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Interest income	1,502	671
Other finance income	8	666
	1,510	**1,337**

31. Finance costs

Finance costs consisted of the following:

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Interest expense and restructuring related costs	(133,373)	(107,351)
Defined benefit state pension plan interest costs (Note 21)	(3,548)	(3,022)
Insurance expenses	(1,672)	(1,245)
Retirement benefit plan interest costs (Note 21)	(205)	(169)
Other finance costs	(234)	(526)
	(139,032)	**(112,313)**

32. Equity

Issued capital and capital distribution

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

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

	Shares	*USD thousand*
At 31 December 2017	4,001,950,000	62,304
At 31 December 2018	4,001,950,000	62,304

Upon its incorporation on 30 December 2005, the Company issued to the subscribers of its Memorandum of Association 1,000 ordinary shares of CY£1 each at par. On 22 December 2006 the Company issued 4,000 additional ordinary shares of CY£1 each at a premium of CY£ 41,033 each for a total premium of CY£164,132 thousand, which is equivalent to USD 361,091 thousand, translated at historic rate.

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

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

As a result of the above mentioned transactions, as at 31 December 2018 and 2017, the number of shares equalled to 4,001,950 thousand ordinary shares of EUR 0.01 each and the authorised, issued and fully paid capital of the Company amounted to EUR 40,019 thousand (equivalent of USD 62,304 thousand).

The shares of the Company are not listed.

There were no changes in the share capital of the Company during the years ended 31 December 2018 and 2017.

(in US dollars and in thousands)

Revaluation reserve

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

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries denominated in their respective functional currencies into the Group reporting currency as well as monetary items that form part of the net investment in these subsidiaries.

Cash flow hedge reserve

Cash flow hedge reserve is used to record the effective portion of the gain or loss on the hedging instrument in other comprehensive income. Amounts recognised as other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when a forecast sale occurs.

Dividends payable by the Company and its subsidiaries

There were no dividends declared by the Company or its subsidiaries that should be paid to the shareholders for the years ended 31 December 2018 and 2017.

33. Principal subsidiaries

The Group included the following subsidiaries as at 31 December 2018 and 2017:

			Effective ownership	
Name of the company	*Country of incorporation*	*Business activities*	*31 December 2018*	*31 December 2017*
JSC “Interpipe Niznedneprovsky Tube Rolling Plant”	Ukraine	Production of seamless and welded pipes and railway wheels	93.93%	93.93%
JSC “Interpipe Novomoskovsk Pipe-Production Plant”	Ukraine	Production of welded pipes	89.24%	89.24%
“Interpipe Niko Tube” LLC	Ukraine	Production of seamless pipes	100.00%	100.00%
“Metallurgical Plant Dneprosteel” LLC	Ukraine	Production of steel billets	100.00%	100.00%
“Dneprosteel-Energo” LLC	Ukraine	Resale of electricity	100.00%	100.00%
“Transkom - Dnepr” LLC	Ukraine	Transportation services	100.00%	100.00%
“Limestone factory” LLC	Ukraine	Production of limestone	93.93%	93.93%
Society "Dishware Novomoskovsk" Ltd	Ukraine	Production of dishware	89.24%	89.24%
“Interpipe Dneprovtormet” PJSC	Ukraine	Scrap metal processing	98.67%	98.67%
“Luganskiy Kombinat Vtormet” LLC	Ukraine	Scrap metal processing	98.67%	98.67%
“META” LLC	Ukraine	Scrap metal processing	98.67%	98.67%
“Research and development center “Quality” LLC	Ukraine	Research and development	100.00%	100.00%
“Interpipe Ukraine” LLC	Ukraine	Trading	100.00%	100.00%
“Interpipe Management” LLC	Ukraine	Management services	100.00%	100.00%
“KLW Production” LLC	Ukraine	Production of railway wheels	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”	The United States	Trading	100.00%	100.00%
“Interpipe Middle East” FZE with limited liability	The United Arab Emirates	Trading	100.00%	100.00%
“Interpipe Central Trade” GmbH	Germany	Trading	100.00%	100.00%
Steel.One Limited	Cyprus	Subholding	100.00%	100.00%
Saleks Investments Limited	Cyprus	Subholding	100.00%	100.00%

There were no acquisitions in 2018 and 2017.

(in US dollars and in thousands)

34. Related party transactions

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

During years ended 31 December 2018 and 2017, the Group's transactions with its related parties comprised those with its associates (Note 10), shareholders, key management personnel and other related parties.

Transactions with associates and other related parties

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

	2018			*2017*		
	Associates	*Other*	*Total*	*Associates*	*Other*	*Total*
Transactions:						
Sales	1,827	1,477	3,304	1,561	369	1,930
Purchases	9,843	2,858	12,701	11,566	5,031	16,597
General and administrative expenses	-	400	400	-	309	309
Finance income	-	545	545	-	169	169
Outstanding balances:						
Cash and cash equivalents	-	30,621	30,621	-	16,504	16,504
Amounts owed to the Group	7,333	253	7,586	6,251	32	6,283
Amounts owed by the Group	4,139	20,214	24,353	3,723	15,865	19,588

The significant part of the related parties' transactions is with the Group's production entities. Other related parties represented by entities under common control.

Terms and conditions of transactions with associates and other related parties

The sales to and purchases from the related parties are made at terms equivalent to those that prevail in arm's length transactions. Outstanding balances at the year-end are unsecured, interest free and settlement occurs in cash. For the year ended 31 December 2018, the Group has recorded an impairment charge relating to receivables from the related parties amounting to USD 2,999 thousand (2017: 3,510 thousand). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which it operates.

As at 31 December 2018, cash and cash equivalents in the related party bank comprised USD 30,621 thousand (as at 31 December 2017 balance was USD 16,504 thousand). This amount consists of cash on current accounts and/or in transit and bank deposits including guarantee deposits. Finance income amounting to USD 545 thousand (2017: USD 169 thousand) relates to interest paid by the related party bank to the Group. As at 31 December 2018 and 2017, there were no outstanding loan balances due to the related party bank.

Transactions with shareholders

Subordinated loan

During 2014 shareholders have provided unsecured subordinated loan to the Group in the amount of USD 40 million to support its short-term liquidity position. The principal amount bears an interest at a rate of 10.5% per annum. The subordinated loan and accrued interest may be repaid only after 2011 Restructured facilities and EAF facilities (Note 20) are settled in full.

As at 31 December 2018, the Company and the shareholders agreed to capitalize the total amount of interest accrued to the date of USD 19,938 thousand (2017: nil) to the principal amount of the subordinated loan (Note 19). As at 31 December 2017, interest payable under this subordinated loan included in interest accrued but not paid (Note 20), amounted to USD 15,738 thousand. During the year 2018 and 2017, interest expenses related to this subordinated loan amounted to USD 4,200 thousand and USD 4,200 thousand, accordingly.

Accounts payable to shareholders

As at 31 December 2018, accounts payable to shareholders, included in other accounts payable, amounted to USD 240 thousand, (2017: USD 251 thousand) were interest free, unsecured and payable on demand.

(in US dollars and in thousands)

Compensation to key management personnel

Key management personnel of the Group as at 31 December 2018 comprised:

The members of the Board of Directors:

Name	Function
Andrii Dudnyk	Non-Executive Director
Ganna Khomenko	Non-Executive Director
Michael Tsarev	Non-Executive Director
Yakiv Konstantynivs'ky	Non-Executive Director
Iuliia Chebotarova	Non-Executive Director
Oleksandr Kirichko	Non-Executive Director
Ulrich Becker	Independent Non-Executive Director
Philippe Bideau	Independent Non-Executive Director
Fadi Khraybe	Chief Executive Officer of Interpipe Limited

Senior Management of the Group as at 31 December 2018 and 2017 comprised fourteen and sixteen persons (including the CEO who is also a member of the Board of Directors), respectively.

For the year ended 31 December 2018, total compensation, comprising short-term employee benefits, to the members of the Board of Directors amounted to USD 1,732 thousand (2017: USD 1,388 thousand) and total compensation to the members of Senior Management of the Group amounted to USD 5,581 thousand (2017: USD 4,862 thousand). The compensation was included in general and administrative expenses in the consolidated statement of comprehensive income.

In addition to the above no other incentives were attributable to the key management personnel of the Group.

35. Commitments, contingencies and operating risks

Operating environment

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

The all above factors, as disclosed in Note 2 "Operating environment and risks of the Group", had already affected and may have a further adverse effect on the Group's consolidated financial position and results of operations.

Taxation

Ukrainian as well as Russian and other CIS countries' legislations and regulations regarding taxation and other regulatory matters, including currency exchange control and custom regulations, continue to evolve. The legislations 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 continue to be not unusual.

The Ukrainian tax authorities have been seen to consistently increase their audit activity for transactions with non-resident entities, to which they seek to apply such relatively new requirements as "beneficial ownership", "substance over form", and other similar principles. They also have started to enforce more vigorous and stringent transfer pricing rules introduced in Ukraine in 2013. The transfer pricing legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), if the transaction price is not arm's length and not supported by relevant documentation.

In Cyprus, the years 2011 to 2016 for Interpipe Limited and 2008 to 2013 for Steel.One Limited are currently under objection with the Cyprus Tax Authorities.

Management has implemented internal controls to be in compliance with such regulatory and tax compliance matters in the countries where the Group operates, including new Ukrainian transfer pricing legislation and believes that its interpretation of the relevant legislations is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable. Where the risk of outflow of resources is probable, the Group has accrued tax liabilities based on management's best estimate.

Nevertheless, the uncertainty related to inconsistent enforcement and application of the tax legislation in the above countries creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities, which cannot be reliably estimated, but, if sustained, could have a material effect on the Group's financial position, results of operations and cash flows. Management believes that there are strong arguments to successfully defend any such challenge and does not believe that the risk is any more significant than those of similar enterprises operating in Ukraine, Russia or other CIS countries. When it is not considered probable that a material claim will arise, no provision has been established in these financial statements. Management further believes that ascertained risks of possible outflow of resources arising from tax and other regulatory compliance matters are immaterial as at 31 December 2018 and 2017.

Litigation

As at 31 December 2018 and 2017, North American Interpipe, PJSC Interpipe NTRP and LLC Interpipe Niko Tube were defendants in several litigations with a total potential claimed payments amounting to approximately USD 1,372 thousand and USD 1,867 thousand, respectively. Provision for probable adverse consequences of the above cases amounting to USD 1,372 thousand and USD 1,867 thousand was included in total provision for customers' and other claims in the consolidated statement of financial position as at 31 December 2018 and 2017, respectively (Note 21).

In 2016, lenders filed several lawsuits in Ukrainian courts against the Group claiming repayment of the past due obligation in amount of USD 77,349 thousand. This amount comprises the loan principal and related interest payable in amount of USD 65,000 thousand (2017: USD 64,859 thousand) already recognised in the consolidated financial statements as at 31 December 2018 and 2017 as well as fines and penalties of USD 12,349 thousand (2017: USD 12,183 thousand). Management believes that the ultimate liability for the fines and penalties, if any, arising from the lawsuits will not have a material adverse effect on the Group's financial condition or the results of its future operations and is less than probable, accordingly, no corresponding accrual for the fines and penalties was made in these consolidated financial statements. Refer to Note 2 for further information regarding legal cases related to restructuring process.

In addition to the specific cases mentioned above, in the ordinary course of business the Group is subject to legal actions and complaints. As at 31 December 2018 and 2017, provisions have been made in respect of these cases amounting to USD 129 thousand and USD 115 thousand, respectively. Management believes that the ultimate liability arising from such actions or complaints will not have a material adverse effect on the consolidated financial position or the results of future operations of the Group.

Lease of land

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

Contractual commitments for the acquisition of property, plant and equipment

As at 31 December 2018 and 2017, the Group's contractual commitments for acquisition and modernisation of production equipment amounted to USD 18,366 thousand and USD 24,199 thousand, respectively. The Group's contractual commitments for acquisition of property, plant and equipment as at 31 December 2017 included prepayments made for property, plant and equipment for USD 11,840 thousand recognized as construction-in-progress and uninstalled equipment in the consolidated statement of financial position. As at 31 December 2018 the Group did not have such contractual commitments for acquisition of property, plant and equipment.

(in US dollars and in thousands)

36. Financial instruments

Carrying amount of financial assets

The carrying amounts of financial assets measured at amortized costs consisted by categories of the following:

	31 December 2018	31 December 2017
Cash and cash equivalents (Note 18)	130,884	70,253
Trade and other accounts receivable (Note 14)	106,372	76,205
	237,256	**146,458**

None of the assets is materially credit-impaired and there has been no significant increase in credit risk since initial recognition. The amounts disclosed above also represent the maximum exposure to credit risk.

The loss allowance as at 31 December 2018 based on the simplified approach for lifetime expected credit losses is presented in the table below. Allowance for impairment of trade and other receivables as at 31 December 2017 is calculated under incurred cost model as required by IAS 39 (Note 3).

	Expected credit loss weighted rate	31 December 2018
Current	7%	4,188
Past due up to 3 month	2%	766
Past due from 3 month up to 6 month	75%	4,963
Past due over 6 month	63%	3,564
Total expected credit loss		**13,481**

The ageing of trade and other accounts receivable as at 31 December 2017 is as follows:

			Past due, net of allowance for impairment			
	Total	Neither past due nor impaired	< 30 days	30 – 60 days	60 – 90 days	>90 days
31 December 2017	76,205	46,290	21,935	4,179	1,076	2,725

A reconciliation of the changes in the loss allowance is set out below:

	For the year ended 31 December 2018	For the year ended 31 December 2017
At period beginning	5,476	6,152
Effect of adoption of the new standard (Note 3)	2,427	-
Charge for the year (Note 26)	6,715	904
Write-off	(992)	(1,418)
Translation difference	(145)	(162)
At period end	**13,481**	**5,476**

Carrying amount of financial liabilities

The carrying amounts of financial liabilities measured at amortized costs consisted by categories of the following:

	31 December 2018	31 December 2017
Subordinated loan (Note 19)	59,938	40,000
Borrowings and interest payable (Note 20)	1,354,766	1,263,797
Trade and other accounts payable (Note 22)	89,665	76,103
	1,504,369	**1,379,900**

(in US dollars and in thousands)

Changes in liabilities arising from financing activities:

	1 January 2018	*Changes from financing cash flows*	*The effect of changes in foreign exchange rates*	*Interest, finance costs and other changes*	*31 December 2018*
Subordinated loan (Note 19)	40,000	-	-	19,938	59,938
Borrowings and interest payable (Note 20)	1,263,797	(929)	(2,285)	94,183	1,354,766
Total	**1,303,797**	**(929)**	**(2,285)**	**114,121**	**1,414,704**

	1 January 2017	*Changes from financing cash flows*	*The effect of changes in foreign exchange rates*	*Interest, finance costs and other changes*	*31 December 2017*
Subordinated loan (Note 19)	40,000	-	-	-	40,000
Borrowings and interest payable (Note 20)	1,167,897	(39)	3,640	92,299	1,263,797
Total	**1,207,897**	**(39)**	**3,640**	**92,299**	**1,303,797**

37. Financial risk management

The Group's principal financial instruments comprise trade receivables and payables, interest bearing loans due to banks, bonds issued, cash and cash equivalents. The main purpose of these financial instruments is to provide funding for the Group's operations. The Group has various other financial assets and liabilities such as other receivables and other payables, which arise directly from its operations.

The Group may also from time to time enter into derivative transactions, primarily forward currency contracts. The purpose is to manage currency risks arising from Group's operations and its sources of finance.

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

Foreign currency risk

The Group performs its operations mainly in the following currencies: the Ukrainian hryvnia ("UAH"), the US dollar ("USD"), the Euro ("EUR"), the Russian rouble ("RUB") and the Kazakhstani tenge ("KZT").

The exchange rate of USD to UAH and related cross-rates to other currencies as set by the National Bank of Ukraine ("NBU") as at the dates stated were as follows:

	100 UAH	*1 EUR*	*100 RUB*	*1000 KZT*
As at 31 December 2018	3.612	1.1454	1.4384	2.6286
As at 31 December 2017	3.563	1.1934	1.7352	3.0183

The Group sells its products to Europe, Russia, Middle East and Africa, Americas and other regions; purchases materials from other countries; and attracts substantial amounts of foreign currency denominated short-term and long term borrowings, and is, thus, exposed to foreign exchange risk. Foreign currency denominated trade receivables and payables, and borrowings give rise to foreign exchange exposure.

(in US dollars and in thousands)

The following tables demonstrate USD equivalents of the monetary assets and liabilities originally denominated in different currencies, as at 31 December 2018 and 2017:

As at 31 December 2018	*UAH*	*USD*	*EUR*	*RUB*	*Other*	***Total***
Other non-current assets	55	125	-	-	-	**180**
Trade and other accounts receivable	32,177	46,292	21,335	6,456	112	**106,372**
Other financial assets	-	9,658	1,596	-	240	**11,494**
Cash and bank deposits	38,497	60,784	31,121	349	133	**130,884**
	70,729	**116,859**	**54,052**	**6,805**	**485**	**248,930**
Subordinated loan	-	59,938	-	-	-	**59,938**
Borrowings and interest payable	-	1,318,571	36,195	-	-	**1,354,766**
Trade and other accounts payable	42,739	27,150	19,394	317	65	**89,665**
	42,739	**1,405,659**	**55,589**	**317**	**65**	**1,504,369**

As at 31 December 2017	*UAH*	*USD*	*EUR*	*RUB*	*Other*	***Total***
Other non-current assets	43	125	-	-	-	**168**
Trade and other accounts receivable	12,465	29,564	19,853	14,234	89	**76,205**
Other financial assets	64	2,062	1,328	-	434	**3,888**
Cash and bank deposits	7,553	50,173	7,327	5,001	199	**70,253**
	20,125	**81,924**	**28,508**	**19,235**	**722**	**150,514**
Subordinated loan	-	40,000	-	-	-	**40,000**
Other non-current liabilities	4	-	-	-	-	**4**
Borrowings and interest payable	-	1,225,035	37,711	1,051	-	**1,263,797**
Trade and other accounts payable	40,497	16,136	18,224	1,161	85	**76,103**
	40,501	**1,281,171**	**55,935**	**2,212**	**85**	**1,379,904**

The following table demonstrates the sensitivity of the Group's profit before tax to a reasonably possible change in the foreign currency exchange rate, with all other variables held constant:

For the year ended 31 December 2018	*High / low limits of change in currency exchange rate, %*	*Effect on profit before tax*	*Effect on other comprehensive income*
USD/UAH	+7.94%	1,434	(71,014)
EUR/UAH	+9.94%	6,606	(3,632)
RUB/UAH	+7.36%	1,756	-
USD/KZT	+6.12%	3	-
EUR/USD	+2.68%	(1,287)	-
USD/UAH	-2.10%	(379)	18,790
EUR/UAH	-2.82%	(1,876)	1,031
RUB/UAH	-0.56%	(135)	-
USD/KZT	-9.79%	(5)	-
EUR/USD	-0.89%	429	-

(in US dollars and in thousands)

For the year ended 31 December 2017	*High / low limits of change in currency exchange rate, %*	*Effect on profit before tax*	*Effect on other comprehensive income*
USD/UAH	+7.66%	(2,211)	(65,566)
EUR/UAH	+9.94%	6,014	(3,784)
RUB/UAH	+5.53%	2,577	-
USD/KZT	+6.12%	3	-
EUR/USD	+3.48%	(2,423)	-
USD/UAH	-2.88%	831	24,640
EUR/UAH	-6.47%	(3,916)	2,464
RUB/UAH	-16.90%	(7,878)	-
USD/KZT	-9.79%	(5)	-
EUR/USD	-4.80%	3,343	-

Cash flow hedging of the Group's future revenues

The Group, in particular its Ukrainian subsidiaries, are exposed to foreign currency risk related to their USD and EUR nominated export revenue, which is primarily intragroup. The subsidiaries attracted borrowings in the same currencies as the forecasted revenue streams to economically hedge the foreign currency risk exposure.

On 1 January 2014 a portion of future monthly intragroup export revenues expected to be received in USD and EUR over the period from January 2014 through December 2020 were designated as the hedged item. The USD and EUR nominated borrowings were designated as the hedging instruments. The nominal amounts of the hedged item and the hedging instruments are equal.

The cash flow hedge position was USD 459 million as of 1 January 2014. To the extent that a change in the foreign currency rate impacts the fair value of the hedging instrument, the effects are recognized in other comprehensive income or loss and reclassified to profit or loss in the same period in which the hedged item affects profit or loss.

The impact on other comprehensive income is comprised of the following:

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Foreign exchange cash flow hedges total charge	8,355	(17,234)
Total foreign exchange loss recognised in OCI	8,355	(17,234)
Reclassification of the foreign exchange loss to cost of sales	57,214	65,211
Total reclassification of the foreign exchange loss to cost of sales (Note 25)	57,214	65,211
Net effect of cash flow hedge accounting	**65,569**	**47,977**

A schedule of the expected reclassification of the accumulated loss from the re-measurement of the hedging instruments recognized in other comprehensive income or loss to profit or loss as of 31 December 2018 is as follows:

	2019	*2020*
Reclassification	(54,694)	(128,589)

Net investments in foreign operations

On 1 January 2014, the Company designated certain intragroup financial instruments which settlement was neither planned nor likely to occur in the foreseeable future, as net investments in a number of its Ukrainian subsidiaries in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates". Such financial instruments comprised of intercompany loans and, in some cases, other long-term receivables and payables. Accordingly, foreign exchange differences arising on such financial instruments after the designation date had been recognised in other comprehensive income.

As at 31 December 2018 and 2017, the accumulated balance of exchange differences on net investment in foreign operations composed USD 741,118 thousand and USD 746,497 thousand, respectively.

(in US dollars and in thousands)

The impact of exchange differences on other comprehensive income comprises:

	For the year ended 31 December 2018	*For the year ended 31 December 2017*
Exchange differences on translation of foreign operations (other than those designated as net investments)	(15,431)	(28,031)
Net foreign exchange loss from financial instruments designated as part ofnet investments in foreign operations	5,379	(17,788)
	(10,052)	**(45,819)**

Liquidity risk

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

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

As a result of the covenants breach, the lenders became entitled to demand early repayment of any outstanding amounts. Accordingly, the liabilities due or claimable due within 12 months from 31 December 2018 exceeded the Group's current assets as of that date by USD 1,089,315 thousand (Note 2).

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, except for Subordinated loan from shareholders. The details of payment terms for Subordinated loan in the amount of USD 59,938 thousand (USD 40,000 thousand as at 31 December 2017) million are disclosed in Note 19. The borrowings are included in the Less than 3 months category as a result of the breach of covenants as at 31 December 2018 and 2017 (Notes 2 and 20).

As at 31 December 2018	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Borrowings and interest payable	1,354,766	-	-	-	1,354,766
Trade and other accounts payable	77,256	12,409	-	-	89,665
	1,432,022	**12,409**	**-**	**-**	**1,444,431**

As at 31 December 2017	*Less than 3 months*	*3 to 12 months*	*1 to 5 years*	*More than 5 years*	*Total*
Borrowings and interest payable	1,263,797	-	-	-	1,263,797
Trade and other accounts payable	67,924	8,179	-	-	76,103
	1,331,721	**8,179**	**-**	**-**	**1,339,900**

Credit risk

Financial instruments, which potentially subject the Group to significant concentrations of credit risk, consist principally of bank deposits (Notes 17, 18), trade and other accounts receivable (Note 14).

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

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed for all customers requiring credit over a certain amount. Most of the Group's sales are made to customers with an appropriate credit history or on a prepayment basis. The Group does not require collateral in respect of its financial assets. The credit risk exposure of the Group is monitored and analysed on a case-by-case basis. Based on historical collection statistics, the Group's management believes that there is no significant risk of loss to the Group beyond the impairment allowances already recognised against the assets. The maximum exposure to the credit risk is represented by the carrying amounts of the financial assets that are carried in the consolidated statement of financial position.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates (Note 20). The Group's policy is to manage its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. Floating rates are mostly linked to London Inter Bank Offering Rate ("LIBOR").

(in US dollars and in thousands)

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

For the year ended 31 December 2018	*High / low limits of change in interest rate, basic points*	*Effect on profit before tax*
LIBOR (USD)	+8	(489)
LIBOR (USD)	+70	(4,370)

For the year ended 31 December 2017	*High / low limits of change in interest rate, basic points*	*Effect on profit before tax*
LIBOR (USD)	+8	(496)
LIBOR (USD)	+70	(4,340)

Capital risk management

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

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

Fair values of financial instruments

The fair value of the Groups' financial instruments disclosed in Note 7.

38. Events after the reporting period

The developments after the balance sheet date, which are related to the operating environment and the debt restructuring are disclosed in the Note 2.