9. CONSOLIDATED FINANCIAL STATEMENTS

CONTENT

17) Goodwill and Other Intangible Assets

Movement in intangible assets for the year ended December 31, 2014 was as follows:

	Patents and trademarks	Goodwill	Software	Customer relation-ships	Proprietary technology	Other	TOTAL
COST							
Balance at January 1, 2014	211,881	601,341	21,858	472,300	14,100	8,599	**1,330,079**
Additions	528	–	19	–	–	1,748	**2,295**
Disposals	(51)	–	(22)	–	–	(829)	**(902)**
Currency translation adjustments	(767)	(36,548)	(9,022)	–	–	(3,855)	**(50,192)**
BALANCE AT DECEMBER 31, 2014	**211,591**	**564,793**	**12,833**	**472,300**	**14,100**	**5,663**	**1,281,280**
ACCUMULATED AMORTISATION AND IMPAIRMENT							
Balance at January 1, 2014	(456)	(16,437)	(20,773)	(382,718)	(9,786)	(3,577)	**(433,747)**
Amortisation charge	(149)	–	(450)	(33,399)	(1,762)	(1,321)	**(37,081)**
Impairment	–	(151,369)	–	–	–	–	**(151,369)**
Disposals	44	–	22	–	–	402	**468**
Currency translation adjustments	193	6,874	8,724	–	–	1,761	**17,552**
BALANCE AT DECEMBER 31, 2014	**(368)**	**(160,932)**	**(12,477)**	**(416,117)**	**(11,548)**	**(2,735)**	**(604,177)**
NET BOOK VALUE AT DECEMBER 31, 2014	**211,223**	**403,861**	**356**	**56,183**	**2,552**	**2,928**	**677,103**
NET BOOK VALUE AT JANUARY 1, 2014	**211,425**	**584,904**	**1,085**	**89,582**	**4,314**	**5,022**	**896,332**

Movement in intangible assets for the year ended December 31, 2013 was as follows:

	Patents and trademarks	Goodwill	Software	Customer relation-ships	Proprietary technology	Other	TOTAL
COST							
Balance at January 1, 2013	209,746	607,742	23,420	472,300	14,104	7,380	**1,334,692**
Additions	606	–	88	–	–	2,690	**3,384**
Disposals	(1)	–	–	–	–	(905)	**(906)**
Increase due to acquisition of subsidiaries (Note 10)	1,606	–	–	–	–	–	**1,606**
Currency translation adjustments	(76)	(6,401)	(1,650)	–	(4)	(566)	**(8,697)**
BALANCE AT DECEMBER 31, 2013	**211,881**	**601,341**	**21,858**	**472,300**	**14,100**	**8,599**	**1,330,079**
ACCUMULATED AMORTISATION AND IMPAIRMENT							
Balance at January 1, 2013	(370)	(16,548)	(18,025)	(341,374)	(8,024)	(2,555)	**(386,896)**
Amortisation charge	(111)	–	(4,128)	(41,344)	(1,762)	(1,757)	**(49,102)**
Impairment	–	(1,080)	–	–	–	–	**(1,080)**
Disposals	1	–	–	–	–	525	**526**
Currency translation adjustments	24	1,191	1,380	–	–	210	**2,805**
BALANCE AT DECEMBER 31, 2013	**(456)**	**(16,437)**	**(20,773)**	**(382,718)**	**(9,786)**	**(3,577)**	**(433,747)**
NET BOOK VALUE AT DECEMBER 31, 2013	**211,425**	**584,904**	**1,085**	**89,582**	**4,314**	**5,022**	**896,332**
NET BOOK VALUE AT JANUARY 1, 2013	**209,376**	**591,194**	**5,395**	**130,926**	**6,080**	**4,825**	**947,796**

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Notes to the Consolidated Financial Statements (continued)

(All amounts are in thousands of US dollars, unless specified otherwise)

17) Goodwill and Other Intangible Assets (continued)

Customer relationships represent non-contracted interactions with clients. Remaining amortisation period for customer relationships is 2-4 years. Customer relationships are amortised using the diminishing balance method which reflects the pattern of consumption of the economic benefits that customer relationships provide.

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group.

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 210,306 (December 31, 2013: 208,700).

The carrying amount of goodwill and intangible assets with indefinite useful lives were allocated among cash-generating units as follows as at December 31:

	2014		2013	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
American division	322,572	208,700	472,968	208,700
Middle East division	36,241	–	36,241	–
Oilfield division	17,143	–	29,468	–
European division	5,805	–	6,566	–
Other cash-generating units	22,100	1,606	39,661	–
	403,861	**210,306**	**584,904**	**208,700**

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate the carrying value may be impaired.

Goodwill and intangible assets with indefinite useful lives were tested for impairment as at December 31, 2014. For the purpose of impairment testing of goodwill the Group determines value in use of each of its cash-generating units. The value in use was calculated using cash flow projections based on operating plans approved by management covering a period of five years with the adjustments to reflect the expected market conditions. Cash flows beyond five-year period were extrapolated using zero growth rate. The projected cash flows of American division for 2015-2017 were updated to reflect the current analysts' expectations about the decrease of demand for oil pipes in the US market.

The discount rates used in the calculations are presented in the table below:

Cash-generating units	Pre-tax discount rate, %
American division	10.83%
Middle East division	10.88%
Oilfield division	15.75%
European division	12.49%
Other cash-generating units	11.89%-15.21%

CONTENT

17) Goodwill and Other Intangible Assets (continued)

As at December 31, 2014, the Group determined that the recoverable amount of American division was 1,054,894 (December 31, 2013: 1,270,592 using the pre-tax discount rate of 11.38%). The Group recognised the impairment loss of 150,396 in respect of American division goodwill in the year ended December 31, 2014.

The impairment of American division goodwill was primarily driven by expected decline in consumption of OCTG products in the US market due to the drop of oil prices in the past few months.

Based on external sources of information and management judgment the Group made the following assumption to calculate value in use of American division:

- forecast OCTG prices decrease by 9% in 2015 compared to 2014;
- forecast OCTG volumes decrease by 26% in 2015 compared to 2014;
- forecast raw materials costs (both scrap and HRC) decrease by $150 in 2015 compared to 2014;
- OCTG volumes and prices are expected to steadily recover to the 2014 levels by 2017.

The reasonably possible deviations of assumptions from the underlying operating plans could affect the recoverable amount of American division. American division recoverable amount was the most sensitive to the growth of discount rate, changes in sales volumes, prices and costs. A 10% increase in the discount rate would result in an additional decrease of the recoverable amount by 123,563; a 5% rise in costs would result in an additional decrease of the recoverable amount by 801,007; a decrease in sales prices by 5% would result in an additional decrease of the recoverable amount by 990,120; a decrease in sales volume by 5% would result in an additional decrease of the recoverable amount by 197,585.

18) Other Non-Current Assets

Other non-current assets consisted of the following:

	2014	2013
Prepayment for acquisition of subsidiary (Note 27)	48,506	–
Prepayments for acquisition of property, plant and equipment	15,627	34,987
Loans to employees	2,497	5,193
Restricted cash deposits for fulfillment of guaranties	1,143	351
Long-term trade receivables	287	13,356
Other	6,180	15,184
	74,240	**69,071**
Allowance for doubtful debts	(38)	(18,819)
	74,202	**50,252**

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Notes to the Consolidated Financial Statements (continued)

(All amounts are in thousands of US dollars, unless specified otherwise)

19) Trade and Other Payables

Trade and other payables consisted of the following:

	2014	2013
Trade payables	530,501	708,350
Accounts payable for property, plant and equipment	52,429	64,763
Liabilities for VAT	39,523	32,880
Payroll liabilities	21,095	31,685
Liabilities for property tax	12,980	16,898
Accrued and withheld taxes on payroll	11,361	16,123
Sales rebate payable	9,440	8,601
Liabilities under put options of non-controlling interest shareholders in subsidiaries	6,639	9,323
Notes issued to third parties	3,133	5,353
Liabilities for other taxes	1,309	1,840
Other payables	34,286	48,349
	722,696	**944,165**

20) Provisions and Accruals

Provisions and accruals consisted of the following:

	2014	2013
Current		
Provision for bonuses	17,190	16,816
Accrual for long-service bonuses	9,396	15,286
Accrual for unused annual leaves, current portion	3,060	4,213
Current portion of employee benefits liability	2,366	6,215
Environmental provision, current portion	1,351	1,510
Other provisions	8,034	7,144
	41,397	**51,184**
Non-current		
Accrual for unused annual leaves	14,062	22,515
Environmental provision	4,133	3,887
Provision for bonuses	770	2,532
Other provisions	3,951	4,393
	22,916	**33,327**

21) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	2014	2013
Current		
Bank loans	265,439	69,647
Interest payable	30,841	32,735
Current portion of non-current borrowings	152,135	292,522
Current portion of bearer coupon debt securities	311,000	–
Unamortised debt issue costs	(610)	(963)
Total short-term loans and borrowings	**758,805**	**393,941**
Non-current		
Bank loans	1,571,236	2,139,397
Bearer coupon debt securities	1,311,000	1,412,500
Unamortised debt issue costs	(8,201)	(11,298)
Less: current portion of non-current borrowings	(152,135)	(292,522)
Less: current portion of bearer coupon debt securities	(311,000)	–
Total long-term loans and borrowings	**2,410,900**	**3,248,077**