

## 9. CONSOLIDATED FINANCIAL STATEMENTS

### OAO TMK Consolidated Statement of Cash Flows for the year ended December 31, 2014 (All amounts in thousands of US dollars)

	NOTES	2014	2013
<b>Operating activities</b>			
Profit/(loss) before tax		(201,373)	312,383
<b>Adjustments to reconcile profit/(loss) before tax to operating cash flows:</b>			
Depreciation of property, plant and equipment		266,574	276,787
Amortisation of intangible assets	17	37,081	49,102
Loss on disposal of property, plant and equipment	7	4,395	5,861
Impairment of goodwill	17	151,369	1,080
Impairment of property, plant and equipment	16	1,135	4,243
Foreign exchange loss, net		301,246	49,189
Finance costs		232,685	252,247
Finance income		(6,641)	(7,164)
Gain on disposal of subsidiary	10	—	(1,862)
Gain on changes in fair value of derivative financial instruments		(2,080)	(8,377)
Share of profit of associates	11	(273)	(176)
Allowance for net realisable value of inventory		8,782	1,246
Allowance for doubtful debts		7,943	15,628
Movement in provisions		6,550	(5,989)
<b>Operating cash flows before working capital changes</b>		<b>807,393</b>	<b>944,198</b>
<b>Working capital changes:</b>			
Increase in inventories		(129,879)	(65,273)
Increase in trade and other receivables		(75,990)	(158,946)
(Increase)/decrease in prepayments		(20,801)	22,900
Increase in trade and other payables		41,362	162,818
Increase/(decrease) in advances from customers		25,981	(120,060)
<b>Cash generated from operations</b>		<b>648,066</b>	<b>785,637</b>
Income taxes paid		(53,316)	(82,204)
<b>Net cash flows from operating activities</b>		<b>594,750</b>	<b>703,433</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(293,061)	(396,794)
Proceeds from sale of property, plant and equipment		5,623	6,451
Acquisition of subsidiaries		(59,750)	(38,300)
Disposal of subsidiary		—	(1,906)
Issuance of loans		(557)	(580)
Proceeds from repayment of loans issued		1,765	1,610
Interest received		3,196	3,456
Dividends received		80	2,674
<b>Net cash flows used in investing activities</b>		<b>(342,704)</b>	<b>(423,389)</b>
<b>Financing activities</b>			
Proceeds from share capital increase	29 (i)	101,536	—
Proceeds from borrowings		1,576,886	1,562,500
Repayment of borrowings		(1,422,984)	(1,655,971)
Interest paid		(250,654)	(253,616)
Payment of finance lease liabilities		(7,117)	(5,337)
Acquisition of non-controlling interests	29 (vi)	(193)	—
Contributions from non-controlling interest owners	27	1,013	2,525
Dividends paid to equity holders of the parent		(46,950)	(52,727)
Dividends paid to non-controlling interest shareholders		(4,083)	(4,185)
<b>Net cash flows used in financing activities</b>		<b>(52,546)</b>	<b>(406,811)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>199,500</b>	<b>(126,767)</b>
Net foreign exchange difference		(39,900)	(4,996)
Cash and cash equivalents at January 1		93,298	225,061
<b>Cash and cash equivalents at December 31</b>		<b>252,898</b>	<b>93,298</b>

The accompanying notes are an integral part of these consolidated financial statements.

### OAO TMK

#### Notes to the Consolidated Financial Statements for the year ended December 31, 2014

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

#### Corporate Information

These consolidated financial statements of OAO TMK and its subsidiaries (the “Group”) for the year ended December 31, 2014 were authorised for issue in accordance with a resolution of the General Director on March 4, 2015.

OAO TMK (the “Company”), the parent company of the Group, is an open joint stock company (“OAO”). Both registered and principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

As at December 31, 2014, the Company’s controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

The Group is one of the world’s leading producers of steel pipes for the oil and gas industry, a global company with extensive network of production facilities, sales companies and representative offices.

The principal activities of the Group are the production and distribution of seamless and welded pipes, including pipes with the entire range of premium connections backed by extensive technical support. Research centres established in Russia and in the United States are involved in new product design and development, experimental and validation testing and advanced metallurgical research.

#### Basis of Preparation of the Financial Statements

##### Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on an accrual basis and under the historical cost convention, except as disclosed in the accounting policies below.

All Group’s subsidiaries and associates have a December 31 accounting year-end.

##### Functional and Presentation Currency

The presentation currency for the purpose of these consolidated financial statements of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the Group’s financial statements.

The functional currency of the Group’s entities is the currency of their primary economic environment. The functional currencies of the Group’s entities are the Russian rouble, US dollar, Euro, Romanian lei and Canadian dollar.