

9. CONSOLIDATED FINANCIAL STATEMENTS

ОАО ТМК

Notes to the Consolidated Financial Statements (continued)

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

26) Interests in Subsidiaries

Principal Subsidiaries

The major subsidiaries included in these consolidated financial statements are presented in the following table:

Company	Location	Effective ownership interest	
		December 31, 2014	December 31, 2013
Manufacturing facilities			
OAO "Seversky Tube Works"	Russia	96.54%	96.33%
OAO "Sinarsky Pipe Plant"	Russia	97.28%	97.28%
OAO "Taganrog Metallurgical Works"	Russia	96.38%	96.38%
OAO "Volzhsky Pipe Plant"	Russia	100.00%	100.00%
ООО "ТМК-INOX"	Russia	49.61%	49.61%
ZAO "ТМК-CPW"	Russia	49.23%	49.13%
OAO "Orsky Machine Building Plant"	Russia	75.00%	75.00%
IPSCO Tubulars Inc.	USA	100.00%	100.00%
IPSCO Koppel Tubulars, L.L.C.	USA	100.00%	100.00%
IPSCO Tubulars (KY) Inc.	USA	100.00%	100.00%
IPSCO Tubulars (OK) Inc.	USA	100.00%	100.00%
Ultra Premium Oilfield Services, Ltd	USA	100.00%	100.00%
S.C. TMK-ARTROM S.A.	Romania	92.73%	92.73%
S.C. TMK-RESITA S.A.	Romania	100.00%	100.00%
TOO "ТМК-Казтрубпром"	Kazakhstan	100.00%	100.00%
TMK Gulf International Pipe Industry LLC	Oman	55.00%	55.00%
Services for oilfield and gas industries			
ООО "Предприятие "Трубопласт"	Russia	100.00%	100.00%
TMK NGS-Nizhnevartovsk	Russia	100.00%	100.00%
LLC TMK NGS-Buzuluk	Russia	100.00%	100.00%
OFS International LLC	USA	75.00%	75.00%
Threading & Precision Manufacturing LLC	USA	75.00%	75.00%
Independent Inspection Services LLC	USA	75.00%	75.00%
Oilfield Services & Technologies LLC	USA	75.00%	0.00%
Trading companies			
ZAO "Trade House TMK"	Russia	100.00%	100.00%
TMK IPSCO International L.L.C.	USA	100.00%	100.00%
TMK IPSCO Canada, Ltd.	Canada	100.00%	100.00%
TMK Europe GmbH	Germany	100.00%	100.00%
TMK Italia s.r.l.	Italy	100.00%	100.00%
TMK Middle East FZCO	UAE	100.00%	100.00%
TOO "ТМК-Kazakhstan"	Kazakhstan	100.00%	100.00%
TMK Global S.A.	Switzerland	100.00%	100.00%
Research and development			
OAO "Russian Research Institute of the Tube and Pipe Industries"	Russia	97.36%	97.36%
TMK R&D	Russia	100.00%	100.00%

ОАО ТМК

Notes to the Consolidated Financial Statements (continued)

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

26) Interests in Subsidiaries (continued)

Non-controlling Interests

The information about material non-controlling interests in subsidiaries is presented in the following table:

Company	2014		2013	
	Non-controlling interest, %	Non-controlling interest in net assets	Non-controlling interest, %	Non-controlling interest in net assets
TMK Gulf International Pipe Industry LLC	45.00%	16,879	45.00%	17,838
OAO "Sinarskaya heat and power plant"	33.08%	11,476	33.08%	20,740
S.C. TMK-ARTROM S.A.	7.27%	8,502	7.27%	8,716
OAO "Orsky Machine Building Plant"	25.00%	6,799	25.00%	11,270
OAO "Seversky Tube Works"	3.46%	6,364	3.67%	12,720
OAO "Taganrog Metallurgical Works"	3.62%	6,245	3.62%	10,971
OAO "Sinarsky Pipe Plant"	2.72%	5,784	2.72%	11,272
Other	—	4,187	—	2,300
		66,236		95,827

27) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group.

The compensation to key management personnel comprised of:

- Wages, salaries, social security contributions and other short-term benefits in the amount of 15,780 for the year ended December 31, 2014 (2013: 19,166);
- Provision for performance bonuses in the amount of 4,123 for the year ended December 31, 2014 (2013: 5,029).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the years ended December 31, 2014 and 2013.

The balance of loans issued to key management personnel amounted to 517 as at December 31, 2014 (December 31, 2013: 1,055). The Group guaranteed debts of key management personnel outstanding as at December 31, 2014 in the amount of 215 with maturity in 2016 (December 31, 2013: 2,323).

Transactions with the Parent of the Company

In December 2014, the Group approved interim dividends in respect of six months 2014, from which 266,796 thousand Russian roubles (4,896 at the exchange rate at the date of approval) related to the parent of the Company. As at December 31, 2014, no interim dividends were paid.

9.

CONSOLIDATED FINANCIAL STATEMENTS

ОАО ТМК

Notes to the Consolidated Financial Statements (continued)

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

27) Related Parties Disclosures (continued)

Transactions with the Parent of the Company (continued)

In June 2014, the Group approved the distribution of final dividends in respect of 2013, from which 524,184 thousand Russian roubles (15,053 at the exchange rate at the date of approval) related to the parent of the Company. In July 2014, these dividends were fully paid.

In November 2013, the Group approved interim dividends in respect of six months 2013, from which 698,912 thousand Russian roubles (21,473 at the exchange rate at the date of approval) related to the parent of the Company. In January 2014, these dividends were paid in full amount.

In June 2013, the Group approved the distribution of final dividends in respect of 2012, from which 564,506 thousand Russian roubles (17,153 at the exchange rate at the date of approval) related to the parent of the Company. In August 2013, these dividends were paid in full amount.

On June 11, 2014 and April 16, 2013, the Group increased share capital of the subsidiary, OFS Development S.a r.l. The share capital increase was partially financed by the parent of the Company, an owner of non-controlling interest in OFS Development S.a r.l. Contribution received from the parent of the Company amounted to 1,013 in the year ended December 31, 2014 (2013: 2,525).

Transactions with Entities under Common Control with the Company and Other Related Parties

The following table provides balances with entities under common control with the Company and other related parties as at December 31:

	2014	2013
Cash and cash equivalents	80,550	3,730
Prepayment for acquisition of subsidiary	48,506	–
Accounts receivable	4,731	4,576
Prepayments	10	30
Accounts payable for raw materials	(38,262)	(79,154)
Advances received	(2,825)	(6)
Other accounts payable	(480)	(643)

In the year ended December 31, 2014, the Group paid 2,729 million Russian roubles (59,750 at the historical exchange rates) to a related party as a consideration for 100% ownership interest in ChermetServis-Snabzhenie, one of the leaders in the Russian steel scrap market. As at December 31, 2014, the acquisition was not finalised, the prepaid amount was included in other non-current assets.

The following table provides the total amount of transactions with entities under common control with the Company and other related parties for the years ended December 31:

	2014	2013
Purchases of raw materials	604,690	606,506
Purchase of property, plant and equipment	5,359	–
Purchases of other goods and services	7,061	10,260
Sales revenue	14,195	11,382
Other income	702	86

ОАО ТМК

Notes to the Consolidated Financial Statements (continued)

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

28) Contingencies and Commitments

Operating Environment of the Group

Significant part of the Group's principal assets are located in the Russian Federation and USA, therefore its significant operating risks are related to the activities of the Group in these countries.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. In December 2014, the Rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects.

Although the US economy is growing, the drop in oil prices may result in the decline in oil exploration, drilling and production activities. As a result, the demand for the oil pipes in the US market may decrease accordingly. Significant decline in demand could have a negative impact on the Group's future financial position, results of operations and business prospects.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

Taxation

Tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 3,760 at the exchange rate as at December 31, 2014. Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in material losses for the Group. Consequently, the amounts of the claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2014.