

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.

9. CONSOLIDATED FINANCIAL STATEMENTS

ОАО ТМК

Notes to the Consolidated Financial Statements (continued)

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

28) Contingencies and Commitments (continued)

Contractual Commitments and Guarantees

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amounts of 135,904 and 199,567 as at December 31, 2014 and 2013, respectively (contractual commitments were expressed net of VAT).

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 22,500 (December 31, 2013: 28,777).

Insurance Policies

The Group maintains insurance against losses that may arise in case of property damage, accidents, transportation of goods. The Group also maintains corporate product liability and directors and officers liability insurance policies. Nevertheless, any recoveries under maintained insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

Legal Claims

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. Management believes there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group.

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding as at December 31, 2014 in the amount of 494 (December 31, 2013: 2,805).

29) Equity

i) Share Capital

	2014	2013
Number of shares		
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each	991,907,260	937,586,094
<i>Issued and fully paid</i>		
Ordinary shares of 10 Russian roubles each	991,907,260	937,586,094

On June 27, 2014, the Board of Directors authorised an increase of share capital. In December 2014, the Group received 5.5 billion Russian roubles (101,536 at the historical exchange rates) as consideration from shareholders for the issuance of 54,321,166 shares.

ОАО ТМК

Notes to the Consolidated Financial Statements (continued)

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

29) Equity (continued)

ii) Treasury Shares

	2014	2013
Number of shares	72,559,628	72,559,628
Cost	319,149	319,149

iii) Reserve Capital

According to Russian Law, the Company must create a reserve capital in the amount of 5% of the share capital per the Russian statutory accounts by annual appropriations that should be at least 5% of the annual net profit per the statutory financial statements. The reserve capital can be used only for covering losses and for the redemption of the Company's bonds and purchase of its own shares if there are no other sources of financing.

iv) Dividends Declared by the Parent Entity to its Shareholders

On June 19, 2014, the annual shareholders' meeting approved final dividends in respect of 2013 in the amount of 731,317 thousand Russian roubles (21,001 at the exchange rate at the date of approval) or 0.78 Russian roubles per share (0.02 US dollars per share), from which 56,597 thousand Russian roubles (1,625 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

On December 25, 2014, the extraordinary shareholders' meeting approved interim dividends in respect of six months 2014 in the amount of 393,786 thousand Russian roubles (7,227 at the exchange rate at the date of approval) or approximately 0.397 Russian roubles per share from which 28,806 thousand Russian roubles (529 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

v) Dividends Declared by Subsidiaries of the Group to the Non-controlling Interest Owners

During the years ended December 31, 2014 and 2013, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 1,367 and 1,554, respectively.

vi) Acquisition of Non-controlling Interests in Subsidiaries

In the year ended December 31, 2014, the Company purchased additional 0.21% of ОАО "Seversky Tube Works" shares for cash consideration of 193. The excess in the amount of 383 of the carrying values of net assets attributable to the acquired interests over the consideration paid was recorded in additional paid-in capital.