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		
Authorised		
Ordinary shares of 10 Russian roubles each	991,907,260	937,586,094
Issued and fully paid		
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.

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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 OAO "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.

CONTENT

29) Equity (continued)

vii) Recognition of the Change in Non-controlling Interests in the Subsidiary as an Equity Transaction

Non-controlling interest shareholder of OOO "TMK-INOX" has a right to sell its ownership interest to the Group under certain circumstances beyond the Group's control starting 2018. The terms of the put option do not provide the Group with a present ownership interest in the shares subject to the put, thus the Group accounted for this put option as the following:

- the Group derecognised the non-controlling interest's share of loss in OOO "TMK-INOX" in the amount of 439 in the year ended December 31, 2014 as if it was acquired at this date (2013: 217);
- the Group recorded change in the fair value of financial liability in respect of put option held by non-controlling interest shareholder of OOO "TMK-INOX" and accounted for the difference between the non-controlling interest in OOO "TMK-INOX" derecognised and the change in fair value of financial liability in the amount of 2,676 in additional paid-in capital (2013: 8,113 in retained earnings).

viii) Hedges of Net Investment in Foreign Operations

As at December 31, 2014, a proportion of the Group's US dollar-denominated borrowing in the amount of 1,197,710 (December 31, 2013: 1,197,710) was designated as hedges of net investments in the Group's foreign subsidiaries.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar / Russian rouble spot rates on the hedging instrument and on the hedged item. In the year ended December 31, 2014, the effective portion of net losses from spot rate changes in the amount of 602,032 at historical exchange rates, net of income tax of 120,406, at historical exchange rates was recognised in other comprehensive loss.

ix) Movement on Cash Flow Hedges

The Group hedges its exposure to foreign currency risk using currency forwards and its exposure to variability in cash flows attributable to interest rate risk using interest rate swaps.

The details of movement on cash flow hedges during the years ended December 31, 2014 and 2013 are presented in the following table:

	Currency forward contracts		Interest rate swap contracts		TOTAL	
	2014	2013	2014	2013	2014	2013
Gain/(loss) arising during the period	(26)	103	(744)	(47)	(770)	56
Recognition of realised results in the income statement	26	(49)	2,502	539	2,528	490
Movement on cash flow hedges	**–**	**54**	**1,758**	**492**	**1,758**	**546**
Income tax	–	(8)	(406)	(155)	(406)	(163)
Movement on cash flow hedges, net of tax	**–**	**46**	**1,352**	**337**	**1,352**	**383**

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Notes to the Consolidated Financial Statements (continued)

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

30) Financial Risk Management Objectives and Policies

In the course of its business, the Group is exposed to a number of financial risks: market risk (including interest rate risk and foreign currency risk), liquidity risk and credit risk. The presented information shows susceptibility of the Group concerning each of these risks. The Board of Directors reviews and establishes policies for managing each of these risks which are summarised below.

Market Risk

The Group is exposed to risk from movements in interest rates and foreign currency exchange rates that affect its assets, liabilities and anticipated future transactions. The objective of market risk management is to manage and control market risk exposures, while optimising the return on the risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Group's interest rate risk management policy is to minimise risk with the aim to achieve financial structure objectives defined and approved in the management's plans. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to manage net positions and the funding of portfolio developments consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

The Group borrows on both a fixed and variable rate basis. EURIBOR and LIBOR served as the basis for the calculation of interest rates on loans with variable rate. The Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. Variable rate loans accounted for 8% of the total loan portfolio at the end of 2014, after taking into account the effect of interest rate swaps (9% at the end of 2013).

The Group does not have any financial assets with variable interest rate.