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

CONTENT

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

21) Interest-Bearing Loans and Borrowings (continued)

The Group's borrowings were denominated in the following currencies:

	Interest rates	2014	Interest rates	2013
Russian rouble	Fixed 7.99%-13%	958,177	Fixed 7.35%-9.6%	1,183,323
US dollar	Fixed 5.25%	313,262	Fixed 5.25%	415,508
	Fixed 6.75%	505,235	Fixed 6.75%	504,693
	Fixed 7.75%	514,521	Fixed 7.75%	513,951
	Fixed 4.99%-5.8%	406,272	Fixed 4.99%-5.8%	407,578
	Variable: Libor (1m) + 2.25%-2.75% Libor (3m) + 2.75%-4.5%	386,679	Variable: Libor (1m) + 2.25%-3% Libor (3m-12m) + 1.4%-4.5%	484,711
Euro	Fixed 5.19%	11,540	Fixed 5.19%	38,157
	Variable: Euribor (1m) + 1.15%-3.5% Euribor (3m) + 1.7%-3%	74,019	Variable: Euribor (1m) + 1.9%-4% Euribor (3m) + 1.7%-3% Euribor (6m) + 0.9%	93,989
Romanian lei	–	–	Robor (6m) + 3%	108
		3,169,705		**3,642,018**

Unutilised Borrowing Facilities

As at December 31, 2014, the Group had unutilised borrowing facilities in the amount of 879,656 (December 31, 2013: 1,619,478).

22) Convertible Bonds

On February 11, 2010, TMK Bonds S.A., the Group's structured entity, completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAO TMK. The bonds are listed on the London Stock Exchange. The bonds have nominal value of 100,000 US dollars each and were issued at 100% of their principal amount. The convertible bonds carry a coupon of 5.25% per annum, payable on a quarterly basis. As at December 31, 2014, the bonds were convertible into GDRs at conversion price of 22.137 US dollars per GDR (December 31, 2013: 22.137 US dollars per GDR).

The Group can early redeem all outstanding bonds, in whole but not in part, at any time on or after March 4, 2013 at their principal amount plus accrued interest, if the volume weighted average price of the GDRs traded on the London Stock Exchange during 30 consecutive dealing days exceeds 130 per cent of the conversion price (the "Issuer Call"). In addition, the Group has the option to redeem the bonds at the principal amount plus accrued interest if 15% or less of the bonds remain outstanding.

The Group determined that the convertible bonds represent a combined financial instrument containing two components: the bond liability (host component) and an embedded derivative representing conversion option in foreign currency combined with the Issuer Call (the "Embedded Conversion Option").

22) Convertible Bonds (continued)

The Embedded Conversion Option in foreign currency was classified as financial instrument at fair value through profit or loss. The Embedded Conversion Option was initially recognised at the fair value of 35,455. The Group used binomial options pricing model for initial and subsequent measurement of fair value of this embedded derivative. For the purposes of this model, the Group assessed that the credit spread comprised 2,422 bps and 410 bps as at December 31, 2014 and December 31, 2013, respectively. The change in the fair value of the embedded derivative during the reporting period resulted in a gain of 2,080 (2013: 8,410), which was recorded as gain on changes in fair value of derivative financial instruments in the income statement.

The fair value of the host component at the initial recognition date has been determined as a residual amount after deducting the fair value of the Embedded Conversion Option from the issue price of the convertible bonds adjusted for transaction costs. The host component is subsequently carried at the amortised cost using the effective interest method. As at December 31, 2014, the carrying value of the host component was 313,262 (December 31, 2013: 415,508).

Up to the date of authorisation of these consolidated financial statements for issuance, the Group fully redeemed the convertible bonds.

23) Finance Lease Liability

The Group's finance lease obligations primarily related to machinery, equipment and transport with certain leases having renewal and purchase options at the end of lease term.

The carrying value of the leased assets was as follows as at December 31:

	2014	2013
Machinery and equipment	26,752	40,362
Transport and motor vehicles	7,791	668
	34,543	**41,030**

The leased assets were included in property, plant and equipment in the consolidated statement of financial position.

Future minimum lease payments were as follows as at December 31, 2014:

	Minimum payments	Present value of payments
2015	7,664	5,545
2016-2019	22,176	16,615
After 2019	36,099	31,026
Total minimum lease payments	**65,939**	**53,186**
Less amounts representing finance charges	(12,753)	–
Present value of minimum lease payments	**53,186**	**53,186**

9. CONSOLIDATED FINANCIAL STATEMENTS

CONTENT

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

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

23) Finance Lease Liability (continued)

Future minimum lease payments were as follows as at December 31, 2013:

	Minimum payments	Present value of payments
2014	5,968	3,796
2015-2018	21,377	14,377
After 2018	39,281	33,592
Total minimum lease payments	**66,626**	**51,765**
Less amounts representing finance charges	(14,861)	–
Present value of minimum lease payments	**51,765**	**51,765**

24) Employee Benefits Liability

The Group operates post-employment and other long-term employee benefit schemes in accordance with the collective bargaining agreements, local regulations and practices. These plans cover a large portion of the Group's employees and include benefits in the form of lump-sum post-employment payments, pensions, financial support to pensioners, jubilee payments to employees and pensioners, etc. These benefits generally depend on years of service, level of compensation and amount of benefit under the collective bargaining agreement. The Group pays the benefits when they fall due for payment. All employee benefit schemes are unfunded.

The following table summarises changes in the present value of the defined benefit obligation by country:

	Russia		USA		Others		TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
At January 1	**46,245**	**53,861**	**2,430**	**2,557**	**2,607**	**1,896**	**51,282**	**58,314**
Current service cost	1,432	2,261	401	574	736	415	2,569	3,250
Interest expense	2,811	3,698	82	98	39	58	2,932	3,854
Past service cost	(4,154)	(2,793)	–	–	43	–	(4,111)	(2,793)
Curtailment gain	–	–	(88)	(585)	–	–	(88)	(585)
Net benefit expense recognised in profit or loss	**89**	**3,166**	**395**	**87**	**818**	**473**	**1,302**	**3,726**
(Gains)/losses arising from changes in demographic assumptions	(1,009)	1,794	3	(3)	(373)	–	(1,379)	1,791
(Gains)/losses arising from changes in financial assumptions	(6,734)	(4,428)	235	(191)	(83)	209	(6,582)	(4,410)
Experience (gains)/losses	1,458	(698)	6	9	13	40	1,477	(649)
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	**(6,285)**	**(3,332)**	**244**	**(185)**	**(443)**	**249**	**(6,484)**	**(3,268)**
Benefits paid	(3,051)	(3,675)	(1,076)	(29)	(131)	(119)	(4,258)	(3,823)
Exchange differences	(18,178)	(3,775)	–	–	(254)	17	(18,432)	(3,758)
Other	–	–	–	–	–	91	–	91
At December 31	**18,820**	**46,245**	**1,993**	**2,430**	**2,597**	**2,607**	**23,410**	**51,282**
Short-term	**1,949**	**4,935**	**277**	**1,093**	**140**	**187**	**2,366**	**6,215**
Long-term	**16,871**	**41,310**	**1,716**	**1,337**	**2,457**	**2,420**	**21,044**	**45,067**

Net benefit expense was recognised as cost of sales, general and administrative expenses and selling and distribution expenses in the income statement for the years ended December 31, 2014 and 2013. Actuarial gains/(losses) for post-employment benefits were recognised in other comprehensive income/(loss).

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

24) Employee Benefits Liability (continued)

The principal actuarial assumptions used in determining the Group's defined benefit obligations are shown below:

	Russia		USA		Others	
	2014	2013	2014	2013	2014	2013
Discount rate	13.00%	8.00%	4.10%	4.95%	3.10%	3.7%-3.8%
Inflation	7.50%	5.00%	–	–	2.60%	3.50%
Average long-term rate of compensation increase	9.10%	6.60%	4.00%	4.00%	2.60%	1.4%-2.1%
Turnover	Age-related curve depending on experience data for a year	Age-related curve depending on experience data for a year	Standard Crocker Sarason Termination Table T-11	Standard Crocker Sarason Termination Table T-11	1.88%-5.44%	1.0%

A quantitative sensitivity analysis for significant assumptions as at December 31, 2014 is provided below:

	Volatility range		Russia Effect on obligation increase/(decrease)		USA Effect on obligation increase/(decrease)		Others Effect on obligation increase/(decrease)	
	Low	High	Low	High	Low	High	Low	High
Discount rate	-1%	1%	1,600	(1,422)	131	(113)	128	(110)
Inflation	-1%	1%	(1,422)	1,600	–	–	(113)	129
Average long-term rate of compensation increase	-1%	1%	(356)	444	(74)	77	(113)	129
Turnover	-3% – -1%	1% – 3%	1,813	(1,600)	44	(40)	247	(120)

25) Other Non-Current Liabilities

Other non-current liabilities consisted of the following:

	2014	2013
Liabilities under put options of non-controlling interest shareholders in subsidiaries	15,326	31,697
Derivative financial instruments	2,076	3,501
Deferred government grants	1,198	2,138
Other long-term liabilities	8,299	8,779
	26,899	**46,115**