

9. CONSOLIDATED FINANCIAL STATEMENTS

ОАО ТМК

Notes to the Consolidated Financial Statements (continued)

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

10) Acquisition and Disposal of Subsidiaries

Acquisition of Pipe Services and Precision Manufacturing Business in the U.S.

In April 2013, the Group acquired pipe services and precision manufacturing business located in the U.S. for 26,600.

The fair values of assets acquired, liabilities assumed and purchase consideration were as follows at the acquisition date:

	Initial estimation of fair values	Final estimation of fair values
Property, plant and equipment	23,522	22,705
Intangible assets	648	1,606
Trade and other receivables	1,171	1,152
Inventories	1,823	1,660
Deferred tax asset	438	479
Total assets	27,602	27,602
Trade and other payables	(1,002)	(1,002)
Total liabilities	(1,002)	(1,002)
Total identifiable net assets	26,600	26,600
Purchase consideration	(26,600)	(26,600)

During 2013, the Group paid the full amount of purchase consideration for the acquisition of the business.

Acquisition-related costs of 1,282 were charged to general and administrative expenses in the consolidated income statement for the year ended December 31, 2013.

Disposal of ООО "Складской Комплекс ТМК"

On March 27, 2013, the Group sold 81% ownership interest in ООО "Складской Комплекс ТМК". The following table summarises the carrying values of assets and liabilities of ООО "Складской Комплекс ТМК", cash flows on disposal of subsidiary and the carrying value of investments retained by the Group as at the date of disposal:

	Carrying values
Cash and cash equivalents	1,932
Trade and other receivables	12,525
Inventories	7,927
Other assets	907
Total assets	23,291
Trade and other payables	(25,082)
Other liabilities	(39)
Total liabilities	(25,121)
Net liabilities	(1,830)
Cash consideration	(26)
19% ownership interest retained	(6)
Gain on disposal of subsidiary	1,862

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Notes to the Consolidated Financial Statements (continued)

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

11) Investments in Associates

The movement in investments in associates was as follows:

	2014	2013
Balance at January 1	1,900	1,862
Share of profit of associates	273	176
Dividend income	(87)	
Currency translation adjustment	(839)	(138)
Balance at December 31	1,247	1,900

12) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	2014	2013
Russian rouble	163,557	62,838
US dollar	84,214	22,490
Euro	3,335	6,609
Romanian lei	1,043	165
Other currencies	749	1,196
	252,898	93,298

The above cash and cash equivalents consisted primarily of cash at banks. As at December 31, 2014, the restricted cash amounted to 1,139 (December 31, 2013: 7,452).

13) Trade and Other Receivables

Trade and other receivables consisted of the following:

	2014	2013
Trade receivables	745,379	1,014,149
Officers and employees	1,166	2,890
Other accounts receivable	22,013	14,504
Gross accounts receivable	768,558	1,031,543
Allowance for doubtful debts	(40,218)	(36,172)
Net accounts receivable	728,340	995,371

Accounts receivables in the carrying amount of 87,563 were pledged as security for borrowings as at December 31, 2014 (December 31, 2013: 106,741).

14) Inventories

Inventories consisted of the following:

	2014	2013
Raw materials	288,597	287,247
Work in process	344,731	467,909
Finished goods and finished goods in transit	268,246	368,857
Goods for resale	4,377	6,677
Supplies	164,185	216,681
Gross inventories	1,070,136	1,347,371
Allowance for net realisable value of inventory	(23,229)	(22,896)
Net inventories	1,046,907	1,324,475

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

14) Inventories (continued)

The amount of inventories carried at net realisable value was 290,851 as at December 31, 2014 (December 31, 2013: 343,047).

As at December 31, 2014, certain items of inventory with a carrying amount of 40,489 were pledged as security for borrowings (December 31, 2013: 100,000).

The following table summarises the changes in the allowance for net realisable value of inventory:

	2014	2013
Balance at the beginning of the year	22,896	23,044
Increase in allowance	8,782	1,008
Currency translation adjustments	(8,449)	(1,156)
Balance at the end of the year	23,229	22,896

15) Prepayments and Input VAT

Prepayments and input VAT consisted of the following:

	2014	2013
Prepayment for VAT, input VAT	59,034	79,520
Prepayment for services, inventories	33,164	38,602
Prepayment for other taxes	8,568	13,974
Prepayment for insurance	3,843	3,890
Other prepayments	534	644
	105,143	136,630

16) Property, Plant and Equipment

Movement in property, plant and equipment for the year ended December 31, 2014 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
COST							
Balance at January 1, 2014	1,442,677	3,220,619	67,389	76,175	25,262	677,754	5,509,876
Additions	–	–	–	–	–	351,145	351,145
Assets put into operation	112,035	449,849	18,253	5,739	4,856	(590,732)	–
Disposals	(4,358)	(67,969)	(1,533)	(1,341)	–	(5,214)	(80,415)
Reclassifications	(440)	(127)	(1)	(826)	803	591	–
Currency translation adjustments	(526,850)	(1,092,648)	(27,673)	(23,236)	(2,108)	(239,201)	(1,911,716)
BALANCE AT DECEMBER 31, 2014	1,023,064	2,509,724	56,435	56,511	28,813	194,343	3,868,890
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2014	(287,005)	(1,290,127)	(33,684)	(48,138)	(5,567)	–	(1,664,521)
Depreciation charge	(37,454)	(215,393)	(4,895)	(8,904)	(1,318)	–	(267,964)
Impairment	(1,135)	–	–	–	–	–	(1,135)
Disposals	1,136	62,978	1,309	1,257	–	–	66,680
Reclassifications	19	(488)	–	495	(26)	–	–
Currency translation adjustments	109,504	469,492	12,032	17,058	134	–	608,220
BALANCE AT DECEMBER 31, 2014	(214,935)	(973,538)	(25,238)	(38,232)	(6,777)	–	(1,258,720)
NET BOOK VALUE AT DECEMBER 31, 2014	808,129	1,536,186	31,197	18,279	22,036	194,343	2,610,170
NET BOOK VALUE AT JANUARY 1, 2014	1,155,672	1,930,492	33,705	28,037	19,695	677,754	3,845,355

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Notes to the Consolidated Financial Statements (continued)

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

16) Property, Plant and Equipment (continued)

Movement in property, plant and equipment for the year ended December 31, 2013 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
COST							
Balance at January 1, 2013	1,397,843	3,066,462	65,938	69,257	18,920	697,932	5,316,352
Additions	–	–	–	–	–	516,214	516,214
Assets put into operation	124,539	343,396	4,248	10,890	6,554	(489,627)	–
Disposals	(4,854)	(34,406)	(1,440)	(1,037)	–	(1,948)	(43,685)
Increase due to acquisition of subsidiaries (Note 10)	10,845	10,680	271	882	–	27	22,705
Reclassifications	(2,302)	918	1,384	–	–	–	–
Currency translation adjustments	(83,394)	(166,431)	(3,012)	(3,817)	(212)	(44,844)	(301,710)
BALANCE AT DECEMBER 31, 2013	1,442,677	3,220,619	67,389	76,175	25,262	677,754	5,509,876
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2013	(262,127)	(1,167,234)	(31,450)	(41,743)	(4,164)	–	(1,506,718)
Depreciation charge	(39,618)	(222,556)	(4,361)	(9,879)	(1,440)	–	(277,854)
Impairment	(4,243)	–	–	–	–	–	(4,243)
Disposals	2,982	28,505	1,164	928	–	–	33,579
Reclassifications	133	428	(561)	–	–	–	–
Currency translation adjustments	15,868	70,730	1,524	2,556	37	–	90,715
BALANCE AT DECEMBER 31, 2013	(287,005)	(1,290,127)	(33,684)	(48,138)	(5,567)	–	(1,664,521)
NET BOOK VALUE AT DECEMBER 31, 2013	1,155,672	1,930,492	33,705	28,037	19,695	677,754	3,845,355
NET BOOK VALUE AT JANUARY 1, 2013	1,135,716	1,899,228	34,488	27,514	14,756	697,932	3,809,634

As at December 31, 2014, bank borrowings were secured by properties and equipment with a carrying value of 129,274 (December 31, 2013: 117,945).

As at December 31, 2014, there were indicators of impairment of certain property in the Russia operating segment, therefore, the Group performed an impairment test in respect of these assets. As a result of the test, the Group determined that the carrying value of the property exceeds its recoverable amount. Resulting impairment loss of 1,135 was recognised in the income statement for the year ended December 31, 2014 (December 31, 2013: 4,243).

Capitalised Borrowing Costs

The Group has the combination of borrowings, that are specific to the acquisition and construction of a particular qualifying asset, and general borrowings. The amount of borrowing costs capitalised during the year ended December 31, 2014 was 25,535 (2013: 16,972). The rate of the specific borrowing used to determine the amount of capitalised borrowing costs in the year ended December 31, 2014 was 9.47% (2013: 5.19%); the capitalisation rate relating to general borrowings was 9.64% (2013: 6.52%).