

9. CONSOLIDATED FINANCIAL STATEMENTS

ОАО ТМК

Notes to the Consolidated Financial Statements (continued)

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

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

1) Segment Information

Operating segments reflect the Group's management structure and the way financial information is regularly reviewed. For management purposes, the Group is organised into business divisions based on geographical location, and has three reportable segments:

- Russia segment represents the results of operations and financial position of plants located in Russian Federation and the Sultanate of Oman, a finishing facility in Kazakhstan, Oilfield service companies and traders located in Russia, Kazakhstan, the United Arab Emirates and Switzerland.
- Americas segment represents the results of operations and financial position of plants and traders located in the United States of America and Canada.
- Europe segment represents the results of operations and financial position of plants located in Romania and traders located in Italy and Germany.

Management monitors the operating results of operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on Adjusted EBITDA. Adjusted EBITDA is determined as profit/(loss) for the period excluding finance costs and finance income, income tax (benefit)/expense, depreciation and amortisation, foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions (except for provisions for bonuses), (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associates and other non-cash items. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments.

The following tables present revenue and profit information regarding the Group's reportable segments for the years ended December 31, 2014 and 2013, respectively.

Year ended December 31, 2014	Russia	Americas	Europe	TOTAL
Revenue	3,973,155	1,766,253	269,538	6,008,946
Cost of sales	(3,082,160)	(1,543,162)	(214,148)	(4,839,470)
GROSS PROFIT	890,995	223,091	55,390	1,169,476
Selling, general and administrative expenses	(475,941)	(144,616)	(37,497)	(658,054)
Other operating expenses, net	(32,349)	(336)	(2,669)	(35,354)
OPERATING PROFIT	382,705	78,139	15,224	476,068
ADD BACK:				
Depreciation and amortisation	205,871	83,282	14,502	303,655
Loss on disposal of property, plant and equipment	3,505	520	370	4,395
Allowance for net realisable value of inventory	7,985	914	(117)	8,782
Allowance for doubtful debts	9,727	(2,122)	338	7,943
Movement in other provisions	3,928	(2,203)	1,522	3,247
	231,016	80,391	16,615	328,022
ADJUSTED EBITDA	613,721	158,530	31,839	804,090

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

1) Segment Information (continued)

Year ended December 31, 2014	Russia	Americas	Europe	TOTAL
RECONCILIATION TO LOSS BEFORE TAX:				
Adjusted EBITDA	613,721	158,530	31,839	804,090
Reversal of adjustments from operating profit to EBITDA	(231,016)	(80,391)	(16,615)	(328,022)
OPERATING PROFIT	382,705	78,139	15,224	476,068
Impairment of goodwill	(973)	(150,396)	–	(151,369)
Impairment of property, plant and equipment	(1,135)	–	–	(1,135)
Foreign exchange gain/(loss), net	(299,909)	(1,639)	302	(301,246)
OPERATING PROFIT/(LOSS) AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	80,688	(73,896)	15,526	22,318
Finance costs				(232,685)
Finance income				6,641
Gain on changes in fair value of derivative financial instrument				2,080
Share of profit of associates				273
LOSS BEFORE TAX				(201,373)

Year ended December 31, 2013	Russia	Americas	Europe	TOTAL
Revenue	4,483,004	1,664,735	284,164	6,431,903
Cost of sales	(3,390,965)	(1,453,201)	(230,145)	(5,074,311)
GROSS PROFIT	1,092,039	211,534	54,019	1,357,592
Selling, general and administrative expenses	(533,050)	(150,980)	(37,677)	(721,707)
Other operating expenses, net	(28,896)	(3,996)	(1,430)	(34,322)
OPERATING PROFIT	530,093	56,558	14,912	601,563
ADD BACK:				
Depreciation and amortisation	226,933	86,021	12,935	325,889
Loss on disposal of property, plant and equipment	2,614	2,049	1,198	5,861
Allowance for net realisable value of inventory	1,599	(703)	350	1,246
Allowance for doubtful debts	12,061	2,460	1,107	15,628
Movement in other provisions	2,910	(1,621)	446	1,735
	246,117	88,206	16,036	350,359
ADJUSTED EBITDA	776,210	144,764	30,948	951,922

Year ended December 31, 2013	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX:				
Adjusted EBITDA	776,210	144,764	30,948	951,922
Reversal of adjustments from operating profit to EBITDA	(246,117)	(88,206)	(16,036)	(350,359)
OPERATING PROFIT	530,093	56,558	14,912	601,563
Impairment of goodwill	(1,080)	–	–	(1,080)
Impairment of property, plant and equipment	(4,243)	–	–	(4,243)
Foreign exchange loss, net	(46,437)	(1,340)	(1,412)	(49,189)
OPERATING PROFIT AFTER IMPAIRMENT AND FOREIGN EXCHANGE LOSS	478,333	55,218	13,500	547,051
Finance costs				(252,247)
Finance income				7,164
Gain on changes in fair value of derivative financial instruments				8,377
Share of profit of associates				176
Gain on disposal of subsidiary				1,862
PROFIT BEFORE TAX				312,383

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Notes to the Consolidated Financial Statements (continued)

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

1) Segment Information (continued)

The following tables present additional information of the Group's reportable segments as at December 31, 2014 and 2013:

Year ended December 31, 2014	Russia	Americas	Europe	TOTAL
Segment assets	3,541,125	1,698,579	409,684	5,649,388
Property, plant and equipment expenditure	292,934	41,055	17,156	351,145

Year ended December 31, 2013	Russia	Americas	Europe	TOTAL
Segment assets	5,047,725	1,927,441	443,502	7,418,668
Property, plant and equipment expenditure	450,419	44,100	21,695	516,214

The following table presents the revenues from external customers for each group of products and services for the years ended December 31, 2014 and 2013, respectively:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Year ended December 31, 2014	3,748,470	1,998,483	261,993	6,008,946
Year ended December 31, 2013	3,959,619	2,200,755	271,529	6,431,903

The following tables present the geographic information. The revenue information is disclosed based on the location of the customer. Non-current assets are disclosed based on the location of the Group's assets and include property, plant and equipment, intangible assets and goodwill.

Year ended December 31, 2014	Russia	Americas	Europe	Cent.Asia & Caspian Region	Middle East & Gulf Region	Asia & Far East	Africa	TOTAL
Revenue	3,287,927	2,042,866	416,335	151,092	90,300	15,201	5,225	6,008,946
Non-current assets	1,797,497	1,086,132	266,412	13,270	123,962	–	–	3,287,273

Year ended December 31, 2013	Russia	Americas	Europe	Cent.Asia & Caspian Region	Middle East & Gulf Region	Asia & Far East	Africa	TOTAL
Revenue	3,637,665	1,862,366	426,237	210,311	79,734	198,976	16,614	6,431,903
Non-current assets	3,020,406	1,279,278	291,340	23,214	127,440	–	9	4,741,687