

## 9. CONSOLIDATED FINANCIAL STATEMENTS

### ОАО ТМК

#### Notes to the Consolidated Financial Statements (continued)

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

#### 2) Cost of Sales

Cost of sales for the year ended December 31 was as follows:

|   | 2014             | 2013             |
|---|------------------|------------------|
| Raw materials and consumables                     | 3,080,247        | 3,384,212        |
| Staff costs including social security             | 687,066          | 721,647          |
| Energy and utilities                              | 386,677          | 409,374          |
| Depreciation and amortisation                     | 252,048          | 266,218          |
| Repairs and maintenance                           | 118,165          | 136,403          |
| Contracted manufacture                            | 102,385          | 76,318           |
| Freight   | 70,683           | 66,710           |
| Taxes   | 40,081           | 44,769           |
| Professional fees and services                    | 39,358           | 39,736           |
| Rent  | 15,101           | 13,338           |
| Travel  | 3,159            | 3,415            |
| Insurance   | 737              | 834              |
| Communications                                    | 623              | 905              |
| Other   | 3,744            | 5,593            |
| <b>Total production cost</b>                      | <b>4,800,074</b> | <b>5,169,472</b> |
| Change in own finished goods and work in progress | 3,883            | (115,467)        |
| Cost of sales of externally purchased goods       | 21,573           | 18,066           |
| Obsolete stock, write-offs                        | 13,940           | 2,240            |
| <b>Cost of sales</b>                              | <b>4,839,470</b> | <b>5,074,311</b> |

#### 3) Selling and Distribution Expenses

Selling and distribution expenses for the year ended December 31 were as follows:

|  | 2014           | 2013           |
|--|----------------|----------------|
| Freight                                  | 176,789        | 191,782        |
| Staff costs including social security    | 60,614         | 64,025         |
| Depreciation and amortisation            | 35,177         | 43,319         |
| Professional fees and services           | 25,229         | 23,399         |
| Consumables                              | 20,758         | 21,274         |
| Bad debt expense                         | 14,660         | 17,326         |
| Rent                                     | 6,272          | 7,103          |
| Travel                                   | 3,703          | 4,549          |
| Utilities and maintenance                | 2,837          | 2,141          |
| Insurance                                | 1,255          | 1,395          |
| Communications                           | 1,221          | 1,331          |
| Other                                    | 1,434          | 1,561          |
| <b>Selling and distribution expenses</b> | <b>349,949</b> | <b>379,205</b> |

#### 4) Advertising and Promotion Expenses

Advertising and promotion expenses for the year ended December 31 were as follows:

|   | 2014          | 2013          |
|---|---------------|---------------|
| Exhibits and catalogues                   | 7,479         | 5,384         |
| Outdoor advertising                       | 5,739         | 5,512         |
| Media                                     | 529           | 887           |
| Other                                     | 721           | 698           |
| <b>Advertising and promotion expenses</b> | <b>14,468</b> | <b>12,481</b> |

### ОАО ТМК

#### Notes to the Consolidated Financial Statements (continued)

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

#### 5) General and Administrative Expenses

General and administrative expenses for the year ended December 31 were as follows:

|  | 2014           | 2013           |
|--|----------------|----------------|
| Staff costs including social security      | 159,357        | 180,596        |
| Professional fees and services             | 50,427         | 59,871         |
| Utilities and maintenance                  | 12,559         | 12,544         |
| Depreciation and amortisation              | 11,851         | 16,429         |
| Travel                                     | 7,654          | 11,560         |
| Insurance                                  | 7,448          | 7,815          |
| Communications                             | 6,667          | 6,637          |
| Transportation                             | 6,568          | 6,894          |
| Rent                                       | 4,279          | 5,065          |
| Consumables                                | 4,056          | 4,811          |
| Taxes                                      | 3,448          | 2,421          |
| Other                                      | 4,109          | 2,645          |
| <b>General and administrative expenses</b> | <b>278,423</b> | <b>317,288</b> |

#### 6) Research and Development Expenses

Research and development expenses for the year ended December 31 were as follows:

|  | 2014          | 2013          |
|--|---------------|---------------|
| Staff costs including social security    | 6,600         | 6,360         |
| Depreciation and amortisation            | 4,308         | 216           |
| Professional fees and services           | 2,046         | 2,758         |
| Travel                                   | 1,044         | 1,340         |
| Consumables                              | 508           | 609           |
| Utilities and maintenance                | 355           | 478           |
| Other                                    | 353           | 972           |
| <b>Research and development expenses</b> | <b>15,214</b> | <b>12,733</b> |

#### 7) Other Operating Income and Expenses

Other operating income for the year ended December 31 was as follows:

|   | 2014         | 2013          |
|---|--------------|---------------|
| Gain from penalties and fines                     | 2,477        | 2,618         |
| Gain on disposal of property, plant and equipment | 122          | —             |
| Gain on sales of current assets                   | 34           | 67            |
| Other   | 4,971        | 15,094        |
| <b>Other operating income</b>                     | <b>7,604</b> | <b>17,779</b> |

Other operating expenses for the year ended December 31 were as follows:

|   | 2014          | 2013          |
|---|---------------|---------------|
| Social and social infrastructure maintenance expenses | 16,215        | 19,459        |
| Sponsorship and charitable donations                  | 8,540         | 14,863        |
| Penalties, fines and claims                           | 7,614         | 9,224         |
| Loss on disposal of property, plant and equipment     | 4,517         | 5,861         |
| Other   | 6,072         | 2,694         |
| <b>Other operating expenses</b>                       | <b>42,958</b> | <b>52,101</b> |