

# 9.

## CONSOLIDATED FINANCIAL STATEMENTS



### REPORTING STANDARDS

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards («IFRS») issued by the International Accounting Standards Board («IASB»).



CONSOLIDATED INCOME STATEMENT » P. 139

**TMK** BUSINESS

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS**

Совершенствуя бизнес,  
улучшаем мир

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**Independent auditors' report**

To the shareholders and Board of Directors  
OAO TMK

We have audited the accompanying consolidated financial statements of OAO TMK and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Management's responsibility for the consolidated financial statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

A member firm of Ernst & Young Global Limited



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*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2014, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

*Ernest & Young LLC*

March 4, 2015

Moscow, Russia

A member firm of Ernst & Young Global Limited

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Consolidated Financial Statements***for the year ended December 31, 2014***Contents**

Consolidated Income Statement.....	139
Consolidated Statement of Comprehensive Income .....	140
Consolidated Statement of Financial Position .....	140
Consolidated Statement of Changes in Equity.....	141
Consolidated Statement of Cash Flows .....	143
Notes to the Consolidated Financial Statements .....	143
Corporate Information .....	143
Basis of Preparation of the Financial Statements.....	143
Basis of Preparation .....	143
Functional and Presentation Currency .....	143
Significant Estimates and Assumptions .....	144
Impairment of Property, Plant and Equipment.....	144
Useful Lives of Items of Property, Plant and Equipment .....	144
Fair Value of Assets and Liabilities Acquired in Business Combinations .....	144
Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives .....	144
Employee Benefits Liability.....	144
Allowance for Doubtful Debts .....	144
Net Realisable Value Allowance .....	145
Taxes .....	145
Changes in Accounting Policies.....	145
Significant Accounting Policies .....	147
Index to the Notes to the Consolidated Financial Statements .....	153

**OAO TMK****Consolidated Income Statement***for the year ended December 31, 2014**(All amounts in thousands of US dollars, unless specified otherwise)*

	NOTES	<b>Year ended December 31,</b>	
		<b>2014</b>	<b>2013</b>
<b>Revenue:</b>			
<i>Sales of goods</i>	1	6,008,946	6,431,903
<i>Rendering of services</i>		5,921,889	6,328,930
Cost of sales	2	87,057	102,973
<b>Gross profit</b>		<b>(4,839,470)</b>	<b>(5,074,311)</b>
		<b>1,169,476</b>	<b>1,357,592</b>
Selling and distribution expenses	3	(349,949)	(379,205)
Advertising and promotion expenses	4	(14,468)	(12,481)
General and administrative expenses	5	(278,423)	(317,288)
Research and development expenses	6	(15,214)	(12,733)
Other operating income	7	7,604	17,779
Other operating expenses	7	(42,958)	(52,101)
Impairment of goodwill	17	(151,369)	(1,080)
Impairment of property, plant and equipment	16	(1,135)	(4,243)
Foreign exchange loss, net		(301,246)	(49,189)
Finance costs		(232,685)	(252,247)
Finance income		6,641	7,164
Gain on changes in fair value of derivative financial instruments		2,080	8,377
Share of profit of associates	11	273	176
Gain on disposal of subsidiary	10	–	1,862
<b>Profit/(loss) before tax</b>		<b>(201,373)</b>	<b>312,383</b>
Income tax expense	8	(15,276)	(97,843)
<b>Profit/(loss) for the period</b>		<b>(216,649)</b>	<b>214,540</b>
<b>Attributable to:</b>			
Equity holders of the parent entity		(215,559)	213,929
Non-controlling interests		(1,090)	611
		<b>(216,649)</b>	<b>214,540</b>
<b>Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)</b>	9	<b>(0.25)</b>	<b>0.25</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Consolidated Statement of Comprehensive Income**

for the year ended December 31, 2014

(All amounts in thousands of US dollars)

NOTES	2014	2013
<b>Profit/(loss) for the period</b>	<b>(216,649)</b>	<b>214,540</b>
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation to presentation currency <sup>(a)</sup>	(246,350)	(50,160)
Foreign currency loss on hedged net investment in foreign operations <sup>(b)</sup>	29 (viii) 29 (viii)	(602,032) 120,406
Income tax <sup>(b)</sup>		16,348
	<b>(481,626)</b>	<b>(65,394)</b>
Movement on cash flow hedges <sup>(a)</sup>	29 (ix)	1,758
Income tax <sup>(a)</sup>	29 (ix)	(406) 1,352
		(163) 383
<i>Items that may not be reclassified subsequently to profit or loss:</i>		
Net actuarial gains <sup>(a)</sup>	24	6,484
	<b>(720,140)</b>	<b>(111,903)</b>
<b>Other comprehensive income/(loss) for the period, net of tax</b>		
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>(936,789)</b>	<b>102,637</b>
<b>Attributable to:</b>		
Equity holders of the parent entity		(907,689)
Non-controlling interests		(29,100)
	<b>(936,789)</b>	<b>102,637</b>
(a) Other comprehensive income/(loss) for the period, net of tax, was attributable to equity holders of the parent entity and non-controlling interests as presented in the table below:		
	2014	2013
<b>Exchange differences on translation to presentation currency attributable to:</b>		
Equity holders of the parent entity		(218,161)
Non-controlling interests		(28,189)
	<b>(246,350)</b>	<b>(50,160)</b>
<b>Movement on cash flow hedges attributable to:</b>		
Equity holders of the parent entity		1,352
Non-controlling interests		2
	<b>1,352</b>	<b>383</b>
<b>Net actuarial gains attributable to:</b>		
Equity holders of the parent entity		6,305
Non-controlling interests		179
	<b>6,484</b>	<b>3,268</b>

- (b) The amount of foreign currency loss on hedged net investment in foreign operation, net of income tax, was attributable to equity holders of the parent entity.

*The accompanying notes are an integral part of these consolidated financial statements.***OAO TMK****Consolidated Statement of Financial Position**

as at December 31, 2014

(All amounts in thousands of US dollars)

NOTES	2014	2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	12	252,898
Trade and other receivables	13	728,340
Inventories	14	1,046,907
Prepayments and input VAT	15	105,143
Prepaid income taxes		7,939
Other financial assets		596
	<b>2,141,823</b>	<b>155</b>
<b>Non-current assets</b>		
Investments in associates	11	1,247
Property, plant and equipment	16	2,610,170
Goodwill	17	403,861
Intangible assets	17	273,242
Deferred tax asset	8	144,843
Other non-current assets	18	74,202
	<b>3,507,565</b>	<b>50,252</b>
<b>TOTAL ASSETS</b>	<b>5,649,388</b>	<b>7,418,668</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Trade and other payables	19	722,696
Advances from customers		63,162
Accounts payable to related parties	27	43,484
Provisions and accruals	20	41,397
Interest-bearing loans and borrowings	21	758,805
Finance lease liability	23	5,545
Derivative financial instruments	30	—
Dividends payable		1,889
Income tax payable		6,483
	<b>1,643,461</b>	<b>8,504</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	21	2,410,900
Finance lease liability	23	47,641
Deferred tax liability	8	205,667
Provisions and accruals	20	22,916
Employee benefits liability	24	21,044
Other liabilities	25	26,899
	<b>2,735,067</b>	<b>46,115</b>
<b>Total liabilities</b>	<b>4,378,528</b>	<b>3,718,429</b>
<b>Equity</b>		
Parent shareholders' equity	29	
Issued capital		336,448
Treasury shares		(319,149)
Additional paid-in capital		485,756
Reserve capital		16,390
Retained earnings		1,495,465
Foreign currency translation reserve		(820,254)
Other reserves		9,968
Non-controlling interests	26	1,204,624
	<b>66,236</b>	<b>2,311</b>
<b>Total equity</b>	<b>1,270,860</b>	<b>2,033,792</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>5,649,388</b>	<b>7,418,668</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**9.**CONSOLIDATED  
FINANCIAL STATEMENTS**OAO TMK****Consolidated Statement of Changes in Equity**  
**for the year ended December 31, 2014**

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent								Non-controlling interests	TOTAL
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves	Total		
<b>At January 1, 2014</b>	<b>326,417</b>	<b>(319,149)</b>	<b>391,192</b>	<b>16,390</b>	<b>1,737,098</b>	<b>(120,467)</b>	<b>2,311</b>	<b>2,033,792</b>	<b>95,827</b>	<b>2,129,619</b>
Loss for the period	–	–	–	–	(215,559)	–	–	(215,559)	(1,090)	(216,649)
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(699,787)	7,657	(692,130)	(28,010)	(720,140)
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(215,559)</b>	<b>(699,787)</b>	<b>7,657</b>	<b>(907,689)</b>	<b>(29,100)</b>	<b>(936,789)</b>
Issue of share capital (Note 29 i)	10,031	–	91,505	–	–	–	–	101,536	–	101,536
Dividends declared by the parent entity to its shareholders (Note 29 iv)	–	–	–	–	(26,074)	–	–	(26,074)	–	(26,074)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 29 v)	–	–	–	–	–	–	–	–	(1,367)	(1,367)
Acquisition of non-controlling interests in subsidiaries (Note 29 vi)	–	–	383	–	–	–	–	383	(576)	(193)
Contributions from non-controlling interest owners (Note 27)	–	–	–	–	–	–	–	–	1,013	1,013
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 29 vii)	–	–	2,676	–	–	–	–	2,676	439	3,115
<b>At December 31, 2014</b>	<b>336,448</b>	<b>(319,149)</b>	<b>485,756</b>	<b>16,390</b>	<b>1,495,465</b>	<b>(820,254)</b>	<b>9,968</b>	<b>1,204,624</b>	<b>66,236</b>	<b>1,270,860</b>

The accompanying notes are an integral part of these consolidated financial statements.

**9.**CONSOLIDATED  
FINANCIAL STATEMENTS**OAO TMK****Consolidated Statement of Changes in Equity**  
**for the year ended December 31, 2014 (continued)**

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Non-controlling interests	TOTAL	
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			
<b>At January 1, 2013</b>	<b>326,417</b>	<b>(319,149)</b>	<b>391,192</b>	<b>16,390</b>	<b>1,581,001</b>	<b>(9,796)</b>	<b>(1,297)</b>	<b>1,984,758</b>	<b>98,868</b>	<b>2,083,626</b>
Profit for the period	—	—	—	—	213,929	—	—	213,929	611	214,540
Other comprehensive income/(loss) for the period, net of tax	—	—	—	—	—	(110,671)	3,608	(107,063)	(4,840)	(111,903)
<b>Total comprehensive income/(loss) for the period, net of tax</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>213,929</b>	<b>(110,671)</b>	<b>3,608</b>	<b>106,866</b>	<b>(4,229)</b>	<b>102,637</b>
Dividends declared by the parent entity to its shareholders	—	—	—	—	(49,719)	—	—	(49,719)	—	(49,719)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 29 v)	—	—	—	—	—	—	—	—	(1,554)	(1,554)
Contributions from non-controlling interest owners (Note 27)	—	—	—	—	—	—	—	—	2,525	2,525
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 29 vii)	—	—	—	—	(8,113)	—	—	(8,113)	217	(7,896)
<b>At December 31, 2013</b>	<b>326,417</b>	<b>(319,149)</b>	<b>391,192</b>	<b>16,390</b>	<b>1,737,098</b>	<b>(120,467)</b>	<b>2,311</b>	<b>2,033,792</b>	<b>95,827</b>	<b>2,129,619</b>

*The accompanying notes are an integral part of these consolidated financial statements.*

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Consolidated Statement of Cash Flows**

for the year ended December 31, 2014

(All amounts in thousands of US dollars)

<b>Operating activities</b>	<b>NOTES</b>	<b>2014</b>	<b>2013</b>
Profit/(loss) before tax		(201,373)	312,383
<b>Adjustments to reconcile profit/(loss) before tax to operating cash flows:</b>			
Depreciation of property, plant and equipment		266,574	276,787
Amortisation of intangible assets	17	37,081	49,102
Loss on disposal of property, plant and equipment	7	4,395	5,861
Impairment of goodwill	17	151,369	1,080
Impairment of property, plant and equipment	16	1,135	4,243
Foreign exchange loss, net		301,246	49,189
Finance costs		232,685	252,247
Finance income		(6,641)	(7,164)
Gain on disposal of subsidiary	10	–	(1,862)
Gain on changes in fair value of derivative financial instruments		(2,080)	(8,377)
Share of profit of associates	11	(273)	(176)
Allowance for net realisable value of inventory		8,782	1,246
Allowance for doubtful debts		7,943	15,628
Movement in provisions		6,550	(5,989)
<b>Operating cash flows before working capital changes</b>		<b>807,393</b>	<b>944,198</b>
<b>Working capital changes:</b>			
Increase in inventories		(129,879)	(65,273)
Increase in trade and other receivables		(75,990)	(158,946)
(Increase)/decrease in prepayments		(20,801)	22,900
Increase in trade and other payables		41,362	162,818
Increase/(decrease) in advances from customers		25,981	(120,060)
<b>Cash generated from operations</b>		<b>648,066</b>	<b>785,637</b>
Income taxes paid		(53,316)	(82,204)
<b>Net cash flows from operating activities</b>		<b>594,750</b>	<b>703,433</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment and intangible assets		(293,061)	(396,794)
Proceeds from sale of property, plant and equipment		5,623	6,451
Acquisition of subsidiaries		(59,750)	(38,300)
Disposal of subsidiary		–	(1,906)
Issue of loans		(557)	(580)
Proceeds from repayment of loans issued		1,765	1,610
Interest received		3,196	3,456
Dividends received		80	2,674
<b>Net cash flows used in investing activities</b>		<b>(342,704)</b>	<b>(423,389)</b>
<b>Financing activities</b>			
Proceeds from share capital increase	29 (i)	101,536	–
Proceeds from borrowings		1,576,886	1,562,500
Réparation of borrowings		(1,422,984)	(1,655,971)
Interest paid		(250,654)	(253,616)
Payment of finance lease liabilities		(7,117)	(5,337)
Acquisition of non-controlling interests	29 (vi)	(193)	–
Contributions from non-controlling interest owners	27	1,013	2,525
Dividends paid to equity holders of the parent		(46,950)	(52,727)
Dividends paid to non-controlling interest shareholders		(4,083)	(4,185)
<b>Net cash flows used in financing activities</b>		<b>(52,546)</b>	<b>(406,811)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>199,500</b>	<b>(126,767)</b>
Net foreign exchange difference		(39,900)	(4,996)
Cash and cash equivalents at January 1		93,298	225,061
<b>Cash and cash equivalents at December 31</b>		<b>252,998</b>	<b>93,298</b>

The accompanying notes are an integral part of these consolidated financial statements.

**OAO TMK****Notes to the Consolidated Financial Statements  
for the year ended December 31, 2014**

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

**Corporate Information**

These consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the year ended December 31, 2014 were authorised for issue in accordance with a resolution of the General Director on March 4, 2015.

OAO TMK (the "Company"), the parent company of the Group, is an open joint stock company ("OAO"). Both registered and principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

As at December 31, 2014, the Company's controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

The Group is one of the world's leading producers of steel pipes for the oil and gas industry, a global company with extensive network of production facilities, sales companies and representative offices.

The principal activities of the Group are the production and distribution of seamless and welded pipes, including pipes with the entire range of premium connections backed by extensive technical support. Research centres established in Russia and in the United States are involved in new product design and development, experimental and validation testing and advanced metallurgical research.

**Basis of Preparation of the Financial Statements****Basis of Preparation**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements have been prepared on an accrual basis and under the historical cost convention, except as disclosed in the accounting policies below.

All Group's subsidiaries and associates have a December 31 accounting year-end.

**Functional and Presentation Currency**

The presentation currency for the purpose of these consolidated financial statements of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the Group's financial statements.

The functional currency of the Group's entities is the currency of their primary economic environment. The functional currencies of the Group's entities are the Russian rouble, US dollar, Euro, Romanian lei and Canadian dollar.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Basis of Preparation of the Financial Statements (continued)*****Functional and Presentation Currency (continued)***

On consolidation, assets and liabilities of Group companies reported in their functional currencies are translated into US dollars, the Group's presentation currency, at year-end exchange rates. Income and expense items are translated into US dollars at the weighted average rates of exchange or at the rate on the date of the transaction for significant items.

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the end of reporting period. All resulting differences are taken to the income statement with the exception of differences on foreign currency borrowings accounted for as hedges of net investment in foreign operations. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

**Significant Estimates and Assumptions**

The preparation of the consolidated financial statements requires management to exercise judgement and to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosures. These estimates and judgements are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from such estimates, and estimates can be revised in the future, either negatively or positively, depending upon the outcome or changes in expectations based on the facts surrounding each estimate.

The estimates and assumptions which can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

***Impairment of Property, Plant and Equipment***

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. This requires an estimation of the value in use of the cash-generating unit to which the item is allocated.

The value in use calculation is based on discounted cash flow-based (DCF) methods, which require the Group to make estimates of the expected future cash flows and to choose the suitable discount rate. These estimates may have a material impact on the recoverable value and the amount of the property, plant and equipment impairment.

Assets that suffered an impairment loss are tested for possible reversal of the impairment at each reporting date if indications exist that impairment losses recognised in prior periods no longer exist or have decreased.

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Estimates and Assumptions (continued)*****Useful Lives of Items of Property, Plant and Equipment***

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes accounted for as changes in accounting estimates in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

***Fair Value of Assets and Liabilities Acquired in Business Combinations***

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

***Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives***

The group tests at least annually whether goodwill and intangible assets with indefinite useful lives have suffered any impairment. The recoverable amount of cash-generating unit to which goodwill and intangible assets with indefinite useful lives allocated is determined based on value in use calculations. These calculations require the use of estimates. Revisions to the estimates may significantly affect the recoverable amount of the cash-generating unit.

***Employee Benefits Liability***

The Group companies provide a number of post-employment and other long-term benefits to their employees (pensions, lump-sum post-employment payments, jubilee payments, etc.). Such benefits are recognised as defined benefit obligations. The Group uses the actuarial valuation method for measurement of the present value of defined benefit obligations and related current service cost. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, rates of employee turnover and others. In the event that further changes in the key assumptions are required, the future amounts of the employment benefit costs may be affected materially.

***Allowance for Doubtful Debts***

Allowances for doubtful debts represent the Group's estimates of losses that could arise from the failure and inability of customers to make payments when due. These estimates are based on the ageing of customers' balances, specific credit circumstances and the Group's historical doubtful debts experience. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Estimates and Assumptions (continued)*****Net Realisable Value Allowance***

Inventories are stated at the lower of cost and net realisable value. Estimates of the net realisable value are based on the most reliable information available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of reporting period to the extent that such events confirm conditions existing at the end of the period.

***Taxes***

The Group is subject to taxes in different countries all over the world. Taxes and fiscal risks recognised in these consolidated financial statements reflect management's best estimate of the outcome based on the facts known at each reporting date in each individual country. These facts may include but are not limited to change in tax laws and interpretation thereof in the various jurisdictions where the Group operates.

Tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Furthermore, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The final taxes paid are dependent upon many factors, including negotiations with tax authorities in various jurisdictions, outcomes of tax litigation and resolution of disputes arising from tax audits. As at December 31, 2014, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

***Changes in Accounting Policies******Application of New and Amended IFRS and IFRIC***

The Group has adopted the following new and amended IFRS and IFRIC in the consolidated financial statements for the annual period beginning on January 1, 2014:

- IFRS 10 *Consolidated Financial Statements (amendments) – Investment Entities*;
- IFRS 12 *Disclosure of Interests in Other Entities (amendments) – Investment Entities*;
- IAS 27 *Separate Financial Statements (amendments) – Investment Entities*;
- IAS 32 *Financial Instruments: Presentation (amendments) – Offsetting Financial Assets and Financial Liabilities*;
- IAS 36 *Impairment of Assets (amendments) – Recoverable Amount Disclosures for Non-Financial Assets*;
- IAS 39 *Financial Instruments: Recognition and Measurement (amendments) – Novation of Derivatives and Continuation of Hedge Accounting*;
- IFRIC 21 *Levies*.

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Changes in Accounting Policies (continued)*****Application of New and Amended IFRS and IFRIC (continued)***

The principal effect of these changes in policies is discussed below:

***IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (amendments) – Investment Entities***

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The adoption of these amendments had no impact on the Group's financial position or performance.

***IAS 32 Financial Instruments: Presentation (amendments) – Offsetting Financial Assets and Financial Liabilities***

This amendment clarifies financial assets and financial liabilities offsetting rules. The adoption of this amendment had no impact on the Group's financial position or performance.

***IAS 36 Impairment of Assets (amendments) – Recoverable Amount Disclosures for Non-Financial Assets***

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The adoption of this amendment had no impact on the Group's financial position or performance.

***IAS 39 Financial Instruments: Recognition and Measurement (amendments) – Novation of Derivatives and Continuation of Hedge Accounting***

This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria. The adoption of this amendment had no impact on the Group's financial position or performance.

***IFRIC 21 Levies***

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The adoption of this new interpretation had no impact on the Group's financial position or performance.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Changes in Accounting Policies (continued)****New Accounting Pronouncements**

The following new or amended (revised) IFRS have been issued but are not yet effective and not applied by the Group. The listing of standards is those that the Group reasonably expects to have an impact on disclosures, financial position and performance when applied at a future date. The Group intends to adopt these standards when they become effective.

**IFRS 9 Financial Instruments (effective for financial years beginning on or after January 1, 2018)**

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard introduces new requirements for classification and measurement of financial assets and financial liabilities, impairment and hedge accounting. The Group is currently assessing the impact which this standard will have on the financial position and performance.

**IFRS 10 Consolidated Financial Statements, IAS 28 Investment in Associates and Joint Ventures (amendments) – Sale or Contribution of Assets (effective for financial years beginning on or after January 1, 2016)**

This amendment addresses an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendment is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are in a subsidiary. The amendment is not expected to have significant impact on the Group's financial position and performance.

**IFRS 11 Joint Arrangements (amendments) – Accounting for Acquisitions of Interests in Joint Operations (effective for financial years beginning on or after January 1, 2016)**

This amendment provides new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. This amendment specifies the appropriate accounting treatment for such acquisitions. The amendment is not expected to have significant impact on the Group's financial position and performance.

**IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after January 1, 2017)**

IFRS 15 replaces all current revenue recognition requirements under IFRS and applies to all revenue arising from contracts with customers and sales of some non-financial assets. The standard outlines the principles an entity must apply to measure and recognise revenue. Under this standard revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to the customer. The Group is currently assessing the impact which this standard will have on the financial position and performance.

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Changes in Accounting Policies (continued)****New Accounting Pronouncements (continued)****IAS 16 Property, Plant and Equipment, IAS 38 Intangible Assets (amendments) – Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after January 1, 2016)**

The amendments clarify that revenue reflects a pattern of economic benefits that are generated from operating a business rather than economic benefits are consumed through use of asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and only be used in very limited circumstances to amortise intangible assets. The amendments are not expected to have significant impact on the Group's financial position or performance.

**IAS 19 Employee Benefits (amendments) – Defined Benefit Plans: Employee Contributions (effective for financial years beginning on or after July 1, 2014)**

This amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. The amendment is not expected to have significant impact on the Group's financial position or performance.

**Improvements to IFRSs 2010-2012 cycle, 2011-2013 cycle (effective for financial years beginning on or after July 1, 2014) and 2012-2014 cycle (effective for financial years beginning on or after July 1, 2016)**

In December 2013 and September 2014, the IASB issued "Annual Improvements to IFRSs". The documents set out amendments to International Financial Reporting Standards primarily with a view of removing inconsistencies and clarifying wording. Amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. These improvements will not have significant impact on the financial position or performance of the Group.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies****Index to Accounting Policies**

A)	Basis of Consolidation .....	147
B)	Business Combination and Goodwill.....	148
C)	Cash and Cash Equivalents .....	148
D)	Financial Assets .....	148
E)	Inventories .....	150
F)	Property, Plant and Equipment .....	150
G)	Intangible Assets (Other than Goodwill) .....	150
H)	Impairment of Non-Financial Assets (Other than Goodwill) .....	150
I)	Borrowings .....	151
J)	Leases .....	151
K)	Provisions .....	151
L)	Employee Benefits Liability .....	151
M)	Government Grants .....	152
N)	Deferred Income Tax .....	152
O)	Equity .....	152
P)	Revenue Recognition .....	152

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies (continued)****A) Basis of Consolidation**

A subsidiary is an entity in which the Group has power to exercise control over its operations. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date when control over their activities is transferred to the Group and are no longer consolidated from the date when control ceases.

All intragroup balances, transactions and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Where necessary, accounting policies in subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to a parent. Non-controlling interests at the end of the reporting period represent the non-controlling interest shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the non-controlling interests' portion of movements in equity since the date of the combination. Non-controlling interest is presented within equity, separately from the parent's shareholders' equity.

Losses within subsidiary are attributed to the non-controlling interest even if that results in deficit balance.

When the Group increases its ownership interests in subsidiaries, the differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative.

When the Group grants put options to non-controlling interest shareholders at the date of acquiring control of a subsidiary the Group considers the terms of transaction to conclude on accounting treatment.

Where the terms of the put option provide the Group with a present ownership interest in the shares subject to the put, the shares are accounted for as acquired. Financial liabilities in respect of put options are recorded at fair value at the time of entering into the options, and are subsequently re-measured to fair value with the change in fair value recognised in the income statement.

When the terms of the put option do not provide a present ownership interest in the shares subject to the put, the Group determined that its accounting policy is to partially recognise non-controlling interests and to account such put options as the following:

- the Group determines the amount recognised for the non-controlling interest, including its share of profits and losses (and other changes in equity) of the subsidiary for the period;
- the Group derecognises the non-controlling interest as if it was acquired at that date;
- the Group records the fair value of financial liability in respect of put options; and
- the Group accounts for the difference between the non-controlling interest derecognised and the fair value of financial liability as a change in the non-controlling interest as an equity transaction (in accordance with the Group's policy for the increase of its ownership interests in subsidiaries).

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies (continued)****A) Basis of Consolidation (continued)****When the Group loses control over a subsidiary, it:**

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

**B) Business Combination and Goodwill***Acquisition of Subsidiaries*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are included in administrative expenses in the periods in which the costs are incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, are recognised either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

*Goodwill*

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. Goodwill is recorded in the functional currencies of the acquired subsidiaries.

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies (continued)****B) Business Combination and Goodwill (continued)***Goodwill (continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying amount may be impaired. As at the acquisition date, goodwill is allocated to each of the cash-generating units (groups of cash-generating units), expected to benefit from the synergies of the combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit (groups of cash-generating units), to which the goodwill relates. Where recoverable amount of cash-generating unit (groups of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**C) Cash and Cash Equivalents**

Cash is comprised of cash in hand and cash at banks.

Cash equivalents are comprised of short-term, liquid investments (with original maturity date less than 90 days) that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are carried at fair value.

**D) Financial Assets***Initial Recognition and Measurement*

The Group classifies its financial assets into the following categories: loans and receivables, financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, reassesses this designation at each reporting date.

Financial assets are initially recognised at fair value plus directly attributable transaction costs. However when a financial asset at fair value through profit or loss is recognised, the transaction costs are expensed immediately.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies (continued)****D) Financial Assets (continued)***Subsequent Measurement*

The subsequent measurement of financial assets depends on their classification as described below:

*Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted in an active market. Subsequent to initial measurement, such assets are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Trade receivables, which generally are short term, are carried at original invoice amount less an allowance for doubtful debts. An allowance for doubtful debts is established in case of objective evidence that the Group will not be able to collect amounts due according to the original terms of contract. The Group periodically analyses trade receivables and makes adjustments to the amount of the allowance. The amount of the allowance is the difference between the carrying amount and recoverable amount. The amount of the doubtful debts expense is recognised in the income statement.

*Financial Assets at Fair Value through Profit or Loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39. Gains or losses on held for trading assets are recognised in the income statement.

*Held-to-Maturity Investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity, when the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are recognised at amortised cost using the effective interest method less any allowance for impairment.

*Available-for-Sale Financial Assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised as other comprehensive income until the financial assets are derecognised or determined to be impaired, at which time the cumulative gain or loss is included in the income statement.

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies (continued)****D) Financial Assets (continued)***Derivatives*

Derivatives are financial instruments that change their values in response to changes in the underlying variable, require no or little net initial investment and are settled at a future date. Derivatives are primarily used to manage exposures to foreign exchange risk, interest rate risk and other market risks. Derivatives are subsequently remeasured at fair value on a regular basis and at each reporting date. The method of the resulting gain or loss recognition depends on whether the derivative is designated as a hedging instrument.

*Hedge Accounting*

For the purpose of hedge accounting, derivatives are designated as instruments hedging the exposure to changes in the fair value of a recognised asset or liability (fair value hedges) and as instruments hedging the exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedges). At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group applies hedge accounting and the risk management objective and strategy for undertaking the hedge. The Group assesses effectiveness of the hedges at inception and verifies at regular intervals and at least on a quarterly basis, using prospective and retrospective testing.

The Group's derivatives consist of interest rate swaps and currency forwards and their use is governed by the Group's policies which are consistent with Group's overall risk management strategy. These derivatives are designated as hedging instruments in cash flow hedges.

*Impairment of Financial Assets*

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include observable data about the following loss events: significant financial difficulties of the debtor, default or delinquency in interest or principal payments, the probability that the debtor will enter bankruptcy or other financial reorganisation.

The amount of the impairment loss is measured as a difference between the asset's carrying amount and its recoverable amount. The carrying amount of financial assets other than loans and receivables is reduced directly without the use of an allowance account and the amount of loss is recognised in the income statement.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies (continued)****E) Inventories**

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale. The cost of inventories is determined on the weighted average basis.

The costs of inventories are comprised of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. The value of work in progress and finished goods includes costs of raw materials, direct labor, direct production costs and indirect production overheads including depreciation. Financing costs are not included in stock valuation.

The Group periodically analyses inventories to determine whether they are damaged, obsolete or slow-moving or if their net realisable value has declined, and makes allowance for such inventories.

**F) Property, Plant and Equipment**

Property, plant and equipment, except for the items acquired prior to January 1, 2003, are stated at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value.

The items of property, plant and equipment acquired prior to January 1, 2003, the date of transition to IFRS, were accounted for at deemed cost being their fair value as at January 1, 2003.

Depreciation is calculated on a straight-line basis. Average depreciation periods, which represent estimated useful lives of respective assets, are as follows:

Land	Not depreciated
Buildings	8-100 years
Machinery and equipment	5-30 years
Other	2-15 years

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalised. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment and can be measured reliably. All other expenditures are recognised in the profit or loss as an expense when incurred.

**G) Intangible Assets (Other than Goodwill)**

Intangible assets (other than goodwill) are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies (continued)****G) Intangible Assets (Other than Goodwill) (continued)**

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that intangible asset may be impaired. Amortisation period and amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates. Amortisation expense of intangible assets is recognised in the income statement in the expense category consistent with the function of an intangible asset.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash-generating unit level.

**Research and Development**

Costs incurred on development (relating to design and testing of new or improved products) are recognised as intangible assets only when the Group can demonstrate technical feasibility of completing intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, availability of resources to complete and ability to measure reliably the expenditure during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from commencement of commercial production of the product on a straight-line basis over the period of its expected benefit. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

**H) Impairment of Non-Financial Assets (Other than Goodwill)**

An assessment is made at each reporting date to determine whether there is an objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the recoverable amount is assessed and, when impaired, the asset is written down to its recoverable amount, which is the higher of the fair value less costs to sell and the value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an orderly transaction between market participants, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, recoverable amount is determined for the cash-generating unit to which the asset belongs.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies (continued)****H) Impairment of Non-Financial Assets (Other than Goodwill) (continued)**

Impairment loss is recognised for the difference between estimated recoverable amount and carrying value. Carrying amount of an asset is reduced to its estimated recoverable amount and the amount of loss is included in the income statement for the period.

Impairment loss is reversed if there is an indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may be decreased and if subsequent increase in recoverable amount can be related objectively to event occurring after the impairment loss was recognised. Impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Intangible assets not yet available for use are tested for impairment annually.

**I) Borrowings**

Borrowings are initially recognised at fair value less directly attributable transaction costs. In subsequent periods, borrowings are measured at amortised cost using the effective interest method. Any difference between the initial fair value less transaction costs and the redemption amount is recognised within finance costs over the period of the borrowings.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of cost of respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**J) Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to finance costs in the income statement.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies (continued)****K) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that outflow of resources will be required to settle obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of time value of money is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of time value of money and where appropriate, risks specific to the liability. Where discounting is used, increase in provision due to the passage of time is recognised as a finance cost.

**L) Employee Benefits Liability*****Short-Term Employee Benefits***

Short-term employee benefits paid by the Group include wages, salaries, social security contributions, paid annual leave and paid sick leave, bonuses and non-monetary benefits (such as medical care). Such employee benefits are accrued in the year in which the associated services are rendered by employees of the Group.

***Defined Benefit Obligations***

The Group companies provide a number of post-employment and other long-term benefits to their employees (pensions, lump-sum post-employment payments, financial support to pensioners, jubilee payments, etc.).

All post-employment benefit plans are unfunded. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements. The liability recognised in the statement of financial position in respect of post-employment and other long-term employee benefits is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated by external consultants using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using yields on high-quality corporate bonds or, in countries where there is no deep market in such bonds, yields on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

Net benefit expense charged to the income statement consists of current service cost, interest expense, past service cost, gains and losses from settlement. Past service costs are recognised in profit or loss on the earlier of: the date of the plan amendment or curtailment, and the date when the Group recognises restructuring-related costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reflected in other comprehensive income/loss in the period in which they arise.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies (continued)****L) Employee Benefits Liability (continued)***Defined Contribution Plans*

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**M) Government Grants**

Grants from the government are recognised when there is a reasonable assurance that the grant will be received and the Group will comply with all conditions attached to it.

When the grant relates to an expense item, it is recognised as the decrease of respective expenses over the periods when the costs, which it is intended to compensate, are incurred.

Government grants relating to assets are included in non-current liabilities as deferred government grants and are credited to other income in the income statement on a straight-line basis over the expected lives of the related assets.

**N) Deferred Income Tax**

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income tax is recognised in the income statement, except to the extent that it relates to items directly taken to equity or other comprehensive income, in which case it is recognised against equity or other comprehensive income.

Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where deferred income tax arises from initial recognition of goodwill or of an asset or liability in transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where timing of reversal of temporary differences can be controlled and it is probable that temporary differences will not be reversed in the near future.

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Significant Accounting Policies (continued)****O) Equity***Share Capital*

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from proceeds in equity.

*Treasury Shares*

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of treasury shares.

*Dividends*

Dividends are recognised as a liability and deducted from equity at the end of the reporting period only if they are declared before or on the end of the reporting period. Dividends are disclosed in the financial statements when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period but before the financial statements are authorised for issue.

**P) Revenue Recognition**

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenues from sales of inventory are recognised when significant risks and rewards of ownership of goods have passed to the buyer. Revenues arising from rendering of services are recognised in the same period when the services are provided.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, revenue is measured at the fair value of goods or services provided.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***Index to the Notes to the Consolidated Financial Statements**

1) Segment Information.....	153
2) Cost of Sales .....	155
3) Selling and Distribution Expenses .....	155
4) Advertising and Promotion Expenses .....	155
5) General and Administrative Expenses .....	155
6) Research and Development Expenses.....	155
7) Other Operating Income and Expenses .....	155
8) Income Tax .....	156
9) Earnings per Share .....	156
10) Acquisition and Disposal of Subsidiaries.....	157
11) Investments in Associates .....	157
12) Cash and Cash Equivalents .....	157
13) Trade and Other Receivables.....	157
14) Inventories .....	157
15) Prepayments and Input VAT .....	158
16) Property, Plant and Equipment .....	158
17) Goodwill and Other Intangible Assets .....	159
18) Other Non-Current Assets .....	160
19) Trade and Other Payables .....	160
20) Provisions and Accruals .....	160
21) Interest-Bearing Loans and Borrowings .....	160
22) Convertible Bonds .....	161
23) Finance Lease Liability .....	161
24) Employee Benefits Liability .....	162
25) Other Non-Current Liabilities .....	162
26) Interests in Subsidiaries .....	163
27) Related Parties Disclosures .....	163
28) Contingencies and Commitments .....	164
29) Equity .....	165
30) Financial Risk Management Objectives and Policies .....	166
31) Subsequent Events .....	169

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

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***1) Segment Information (continued)**

<b>Year ended December 31, 2014</b>	<b>Russia</b>	<b>Americas</b>	<b>Europe</b>	<b>TOTAL</b>
<b>RECONCILIATION TO LOSS BEFORE TAX:</b>				
Adjusted EBITDA	<b>613,721</b>	<b>158,530</b>	<b>31,839</b>	<b>804,090</b>
Reversal of adjustments from operating profit to EBITDA	(231,016)	(80,391)	(16,615)	(328,022)
<b>OPERATING PROFIT</b>	<b>382,705</b>	<b>78,139</b>	<b>15,224</b>	<b>476,068</b>
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)
<b>OPERATING PROFIT/(LOSS) AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)</b>	<b>80,688</b>	<b>(73,896)</b>	<b>15,526</b>	<b>22,318</b>
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
<b>LOSS BEFORE TAX</b>				<b>(201,373)</b>
<b>Year ended December 31, 2013</b>	<b>Russia</b>	<b>Americas</b>	<b>Europe</b>	<b>TOTAL</b>
Revenue	4,483,004	1,664,735	284,164	<b>6,431,903</b>
Cost of sales	(3,390,965)	(1,453,201)	(230,145)	(5,074,311)
<b>GROSS PROFIT</b>	<b>1,092,039</b>	<b>211,534</b>	<b>54,019</b>	<b>1,357,592</b>
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)
<b>OPERATING PROFIT</b>	<b>530,093</b>	<b>56,558</b>	<b>14,912</b>	<b>601,563</b>
<b>ADD BACK:</b>				
Depreciation and amortisation	226,933	86,021	12,935	<b>325,889</b>
Loss on disposal of property, plant and equipment	2,614	2,049	1,198	<b>5,861</b>
Allowance for net realisable value of inventory	1,599	(703)	350	<b>1,246</b>
Allowance for doubtful debts	12,061	2,460	1,107	<b>15,628</b>
Movement in other provisions	2,910	(1,621)	446	<b>1,735</b>
<b>ADJUSTED EBITDA</b>	<b>776,210</b>	<b>144,764</b>	<b>30,948</b>	<b>951,922</b>
<b>Year ended December 31, 2013</b>	<b>Russia</b>	<b>Americas</b>	<b>Europe</b>	<b>TOTAL</b>
<b>RECONCILIATION TO PROFIT BEFORE TAX:</b>				
Adjusted EBITDA	<b>776,210</b>	<b>144,764</b>	<b>30,948</b>	<b>951,922</b>
Reversal of adjustments from operating profit to EBITDA	(246,117)	(88,206)	(16,036)	(350,359)
<b>OPERATING PROFIT</b>	<b>530,093</b>	<b>56,558</b>	<b>14,912</b>	<b>601,563</b>
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)
<b>OPERATING PROFIT AFTER IMPAIRMENT AND FOREIGN EXCHANGE LOSS</b>	<b>478,333</b>	<b>55,218</b>	<b>13,500</b>	<b>547,051</b>
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
<b>PROFIT BEFORE TAX</b>				<b>312,383</b>

**OAO TMK****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:

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

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

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:

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

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.

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

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

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****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:

	<b>2014</b>	<b>2013</b>
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:

	<b>2014</b>	<b>2013</b>
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>Total 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:

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

**OAO TMK****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:

	<b>2014</b>	<b>2013</b>
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>Total 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:

	<b>2014</b>	<b>2013</b>
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>Total 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:

	<b>2014</b>	<b>2013</b>
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>Total other operating income</b>	<b>7,604</b>	<b>17,779</b>

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

	<b>2014</b>	<b>2013</b>
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>Total other operating expenses</b>	<b>42,958</b>	<b>52,101</b>

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)**

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

**8) Income Tax**

Income tax expense for the year ended December 31 was as follows:

	<b>2014</b>	<b>2013</b>
Current income tax expense	61,721	77,059
Adjustments in respect of income tax of previous periods	(5,358)	3,306
Deferred tax expense/(benefit) related to origination and reversal of temporary differences	(41,087)	17,478
<b>Total income tax expense</b>	<b>15,276</b>	<b>97,843</b>

Profit/(loss) before tax is reconciled to tax expense as follows:

	<b>2014</b>	<b>2013</b>
Profit/(loss) before tax	(201,373)	312,383
Theoretical tax charge at statutory rate in Russia of 20%	(40,275)	62,477
Adjustments in respect of income tax of previous periods	(5,358)	3,306
Effect of items which are not deductible for taxation purposes or not taxable	70,525	20,021
Effect of different tax rates in countries other than Russia	(14,005)	10,551
Tax on dividends distributed inside the Group	1,326	904
Effect of differences in tax rates on dividend income	(9)	(326)
Increase due to acquisition of subsidiaries	—	479
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	3,210	145
Other	(138)	286
<b>Total income tax expense</b>	<b>15,276</b>	<b>97,843</b>

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2014, were as follows:

	<b>2014</b>	<b>Change recognised in income statement</b>	<b>Change recognised in other comprehensive income/(loss)</b>	<b>Currency translation adjustments</b>	<b>2013</b>
Valuation and depreciation of property, plant and equipment	(246,057)	(25,888)	—	79,252	(299,421)
Valuation and amortisation of intangible assets	(31,617)	1,707	—	(134)	(33,190)
Tax losses available for offset	169,140	48,957	120,406	(53,121)	52,898
Provisions and accruals	18,246	4,132	—	(4,684)	18,798
Finance lease obligations	8,319	2,827	—	(3,650)	9,142
Valuation of inventory	15,396	10,106	—	(2,800)	8,090
Valuation of accounts receivable	4,549	1,154	—	(1,876)	5,271
Other	1,200	(1,908)	(406)	(648)	4,162
<b>Reflected in the statement of financial position as follows:</b>	<b>(60,824)</b>	<b>41,087</b>	<b>120,000</b>	<b>12,339</b>	<b>(234,250)</b>
Deferred tax liability	(205,667)	33,938	—	58,269	(297,874)
Deferred tax asset	144,843	7,149	120,000	(45,930)	63,624

**OAO TMK****Notes to the Consolidated Financial Statements (continued)**

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

**8) Income Tax (continued)**

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2013 were as follows:

	<b>2013</b>	<b>Change recognised in income statement</b>	<b>Change recognised in other comprehensive income/(loss)</b>	<b>Acquisition and disposal of subsidiaries</b>	<b>Currency translation adjustments</b>	<b>2012</b>
Valuation and depreciation of property, plant and equipment	(299,421)	(16,486)	—	479	14,823	(298,237)
Valuation and amortisation of intangible assets	(33,190)	5,791	—	—	4	(38,985)
Tax losses available for offset	52,898	(16,950)	16,348	(117)	(3,701)	57,318
Provisions and accruals	18,798	2,544	—	(8)	(779)	17,041
Finance lease obligations	9,142	316	—	—	(694)	9,520
Valuation of inventory	8,090	7,785	—	(370)	152	523
Valuation of accounts receivable	5,271	3,456	—	(152)	(208)	2,175
Other	4,162	(3,934)	(163)	—	(171)	8,430
	<b>(234,250)</b>	<b>(17,478)</b>	<b>16,185</b>	<b>(168)</b>	<b>9,426</b>	<b>(242,215)</b>
Reflected in the statement of financial position as follows:						
Deferred tax liability	(297,874)	(7,987)	—	—	12,427	(302,314)
Deferred tax asset	63,624	(9,491)	16,185	(168)	(3,001)	60,099

Deferred tax assets were recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

As at December 31, 2014, the Group has not recognised deferred tax liability in respect of 907,714 (December 31, 2013: 1,372,526) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

**9) Earnings per Share**

Basic earnings per share are calculated by dividing the profit/(loss) for the period attributable to ordinary shareholders of the parent entity by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share are calculated by dividing the profit/(loss) for the period attributable to ordinary shareholders of the parent entity adjusted for interest expense and other gains and losses for the period, net of tax, relating to convertible bonds by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of shares that would be issued on the conversion of all the potential dilutive ordinary shares into ordinary shares.

Earnings/(loss) per share attributable to equity holders of the parent entity were as follows:

	<b>2014</b>	<b>2013</b>
Profit/(loss) for the period attributable to the equity holders of the parent entity	(215,559)	213,929
Weighted average number of ordinary shares outstanding	865,576,037	865,026,466
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	(0.25)	0.25

In the years ended December 31, 2014 and 2013, the convertible bonds were antidilutive.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****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:

	<b>Initial estimation of fair values</b>	<b>Final estimation of fair values</b>
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
<b>Total assets</b>	<b>27,602</b>	<b>27,602</b>
Trade and other payables	(1,002)	(1,002)
<b>Total liabilities</b>	<b>(1,002)</b>	<b>(1,002)</b>
<b>Total identifiable net assets</b>	<b>26,600</b>	<b>26,600</b>
<b>Purchase consideration</b>	<b>(26,600)</b>	<b>(26,600)</b>

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 OOO "Skladskoy Kompleks TMK"*

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

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

**OAO TMK****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:

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

**12) Cash and Cash Equivalents**

Cash and cash equivalents were denominated in the following currencies:

	<b>2014</b>	<b>2013</b>
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
	<b>252,898</b>	<b>93,298</b>

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:

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

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:

	<b>2014</b>	<b>2013</b>
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
<b>Gross inventories</b>	<b>1,070,136</b>	<b>1,347,371</b>
Allowance for net realisable value of inventory	(23,229)	(22,896)
<b>Net inventories</b>	<b>1,046,907</b>	<b>1,324,475</b>

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(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)
<b>Balance at the end of the year</b>	<b>23,229</b>	<b>22,896</b>

**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
<b>105,143</b>	<b>136,630</b>	

**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
<b>COST</b>							
Balance at January 1, 2014	1,442,677	3,220,619	67,389	76,175	25,262	677,754	<b>5,509,876</b>
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)
<b>BALANCE AT DECEMBER 31, 2014</b>	<b>1,023,064</b>	<b>2,509,724</b>	<b>56,435</b>	<b>56,511</b>	<b>28,813</b>	<b>194,343</b>	<b>3,868,890</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>							
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
<b>BALANCE AT DECEMBER 31, 2014</b>	<b>(214,935)</b>	<b>(973,538)</b>	<b>(25,238)</b>	<b>(38,232)</b>	<b>(6,777)</b>	<b>–</b>	<b>(1,258,720)</b>
<b>NET BOOK VALUE AT DECEMBER 31, 2014</b>	<b>808,129</b>	<b>1,536,186</b>	<b>31,197</b>	<b>18,279</b>	<b>22,036</b>	<b>194,343</b>	<b>2,610,470</b>
<b>NET BOOK VALUE AT JANUARY 1, 2014</b>	<b>1,155,672</b>	<b>1,930,492</b>	<b>33,705</b>	<b>28,037</b>	<b>19,695</b>	<b>677,754</b>	<b>3,845,355</b>

**OAO TMK****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
<b>COST</b>							
Balance at January 1, 2013	1,397,843	3,066,462	65,938	69,257	18,920	697,932	<b>5,316,352</b>
Additions	124,539	343,396	4,248	10,890	6,554	(489,627)	516,214
Assets put into operation	(4,854)	(34,406)	(1,440)	(1,037)	–	(1,948)	(43,685)
Disposals	–	–	–	–	–	–	–
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)
<b>BALANCE AT DECEMBER 31, 2013</b>	<b>1,442,677</b>	<b>3,220,619</b>	<b>67,389</b>	<b>76,175</b>	<b>25,262</b>	<b>677,754</b>	<b>5,509,876</b>
<b>ACCUMULATED DEPRECIATION AND IMPAIRMENT</b>							
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	2,082	28,505	1,164	928	–	–	33,579
Reclassifications	133	428	(561)	–	–	–	90,715
<b>BALANCE AT DECEMBER 31, 2013</b>	<b>(287,005)</b>	<b>(1,290,127)</b>	<b>(33,684)</b>	<b>(48,138)</b>	<b>(5,567)</b>	<b>–</b>	<b>(1,664,521)</b>
<b>NET BOOK VALUE AT DECEMBER 31, 2013</b>	<b>1,155,672</b>	<b>1,930,492</b>	<b>33,705</b>	<b>28,037</b>	<b>19,695</b>	<b>677,754</b>	<b>3,845,355</b>
<b>NET BOOK VALUE AT JANUARY 1, 2013</b>	<b>1,135,716</b>	<b>1,899,228</b>	<b>34,488</b>	<b>27,514</b>	<b>14,756</b>	<b>697,932</b>	<b>3,809,634</b>

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%).

## 9.

CONSOLIDATED  
FINANCIAL STATEMENTS

## OAO TMK

## Notes to the Consolidated Financial Statements (continued)

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

## 17) Goodwill and Other Intangible Assets

Movement in intangible assets for the year ended December 31, 2014 was as follows:

	Patents and trademarks	Goodwill	Software	Customer relationships	Proprietary technology	Other	TOTAL
<b>COST</b>							
Balance at January 1, 2014	211,881	601,341	21,858	472,300	14,100	8,599	<b>1,330,079</b>
Additions	528	–	19	–	–	1,748	<b>2,295</b>
Disposals	(51)	–	(22)	–	–	(829)	<b>(902)</b>
Currency translation adjustments	(767)	(36,548)	(9,022)	–	–	(3,855)	<b>(50,192)</b>
<b>BALANCE AT DECEMBER 31, 2014</b>	<b>211,591</b>	<b>564,793</b>	<b>12,833</b>	<b>472,300</b>	<b>14,100</b>	<b>5,663</b>	<b>1,281,280</b>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>							
Balance at January 1, 2014	(456)	(16,437)	(20,773)	(382,718)	(9,786)	(3,577)	<b>(433,747)</b>
Amortisation charge	(149)	–	(450)	(33,399)	(1,762)	(1,321)	<b>(37,081)</b>
Impairment	–	(151,369)	–	–	–	–	<b>(151,369)</b>
Disposals	44	–	22	–	–	402	<b>468</b>
Currency translation adjustments	193	6,874	8,724	–	–	1,761	<b>17,552</b>
<b>BALANCE AT DECEMBER 31, 2014</b>	<b>(368)</b>	<b>(160,932)</b>	<b>(12,477)</b>	<b>(416,117)</b>	<b>(11,548)</b>	<b>(2,735)</b>	<b>(604,177)</b>
<b>NET BOOK VALUE AT DECEMBER 31, 2014</b>	<b>211,223</b>	<b>403,861</b>	<b>356</b>	<b>56,183</b>	<b>2,552</b>	<b>2,928</b>	<b>677,103</b>
<b>NET BOOK VALUE AT JANUARY 1, 2014</b>	<b>211,425</b>	<b>584,904</b>	<b>1,085</b>	<b>89,582</b>	<b>4,314</b>	<b>5,022</b>	<b>896,332</b>

Movement in intangible assets for the year ended December 31, 2013 was as follows:

	Patents and trademarks	Goodwill	Software	Customer relationships	Proprietary technology	Other	TOTAL
<b>COST</b>							
Balance at January 1, 2013	209,746	607,742	23,420	472,300	14,104	7,380	<b>1,334,692</b>
Additions	606	–	88	–	–	2,690	<b>3,384</b>
Disposals	(1)	–	–	–	–	(905)	<b>(906)</b>
Increase due to acquisition of subsidiaries (Note 10)	1,606	–	–	–	–	–	<b>1,606</b>
Currency translation adjustments	(76)	(6,401)	(1,650)	–	(4)	(566)	<b>(8,697)</b>
<b>BALANCE AT DECEMBER 31, 2013</b>	<b>211,881</b>	<b>601,341</b>	<b>21,858</b>	<b>472,300</b>	<b>14,100</b>	<b>8,599</b>	<b>1,330,079</b>
<b>ACCUMULATED AMORTISATION AND IMPAIRMENT</b>							
Balance at January 1, 2013	(370)	(16,548)	(18,025)	(341,374)	(8,024)	(2,555)	<b>(386,896)</b>
Amortisation charge	(111)	–	(4,128)	(41,344)	(1,762)	(1,757)	<b>(49,102)</b>
Impairment	–	(1,080)	–	–	–	–	<b>(1,080)</b>
Disposals	1	–	–	–	–	525	<b>526</b>
Currency translation adjustments	24	1,191	1,380	–	–	210	<b>2,805</b>
<b>BALANCE AT DECEMBER 31, 2013</b>	<b>(456)</b>	<b>(16,437)</b>	<b>(20,773)</b>	<b>(382,718)</b>	<b>(9,786)</b>	<b>(3,577)</b>	<b>(433,747)</b>
<b>NET BOOK VALUE AT DECEMBER 31, 2013</b>	<b>211,425</b>	<b>584,904</b>	<b>1,085</b>	<b>89,582</b>	<b>4,314</b>	<b>5,022</b>	<b>896,332</b>
<b>NET BOOK VALUE AT JANUARY 1, 2013</b>	<b>209,376</b>	<b>591,194</b>	<b>5,395</b>	<b>130,926</b>	<b>6,080</b>	<b>4,825</b>	<b>947,796</b>

## OAO TMK

## Notes to the Consolidated Financial Statements (continued)

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

## 17) Goodwill and Other Intangible Assets (continued)

Customer relationships represent non-contracted interactions with clients. Remaining amortisation period for customer relationships is 2-4 years. Customer relationships are amortised using the diminishing balance method which reflects the pattern of consumption of the economic benefits that customer relationships provide.

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group.

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 210,306 (December 31, 2013: 208,700).

The carrying amount of goodwill and intangible assets with indefinite useful lives were allocated among cash-generating units as follows as at December 31:

	2014			2013
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
American division	322,572	208,700	472,968	208,700
Middle East division	36,241	–	36,241	–
Oilfield division	17,143	–	29,468	–
European division	5,805	–	6,566	–
Other cash-generating units	22,100	1,606	39,661	–
	<b>403,861</b>	<b>210,306</b>	<b>584,904</b>	<b>208,700</b>

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate the carrying value may be impaired.

Goodwill and intangible assets with indefinite useful lives were tested for impairment as at December 31, 2014. For the purpose of impairment testing of goodwill the Group determines value in use of each of its cash-generating units. The value in use was calculated using cash flow projections based on operating plans approved by management covering a period of five years with the adjustments to reflect the expected market conditions. Cash flows beyond five-year period were extrapolated using zero growth rate. The projected cash flows of American division for 2015-2017 were updated to reflect the current analysts' expectations about the decrease of demand for oil pipes in the US market.

The discount rates used in the calculations are presented in the table below:

Cash-generating units	Pre-tax discount rate, %
American division	10.83%
Middle East division	10.88%
Oilfield division	15.75%
European division	12.49%
Other cash-generating units	11.89%-15.21%

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***17) Goodwill and Other Intangible Assets (continued)**

As at December 31, 2014, the Group determined that the recoverable amount of American division was 1,054,894 (December 31, 2013: 1,270,592 using the pre-tax discount rate of 11.38%). The Group recognised the impairment loss of 150,396 in respect of American division goodwill in the year ended December 31, 2014.

The impairment of American division goodwill was primarily driven by expected decline in consumption of OCTG products in the US market due to the drop of oil prices in the past few months.

Based on external sources of information and management judgment the Group made the following assumption to calculate value in use of American division:

- forecast OCTG prices decrease by 9% in 2015 compared to 2014;
- forecast OCTG volumes decrease by 26% in 2015 compared to 2014;
- forecast raw materials costs (both scrap and HRC) decrease by \$150 in 2015 compared to 2014;
- OCTG volumes and prices are expected to steadily recover to the 2014 levels by 2017.

The reasonably possible deviations of assumptions from the underlying operating plans could affect the recoverable amount of American division. American division recoverable amount was the most sensitive to the growth of discount rate, changes in sales volumes, prices and costs. A 10% increase in the discount rate would result in an additional decrease of the recoverable amount by 123,563; a 5% rise in costs would result in an additional decrease of the recoverable amount by 801,007; a decrease in sales prices by 5% would result in an additional decrease of the recoverable amount by 990,120; a decrease in sales volume by 5% would result in an additional decrease of the recoverable amount by 197,585.

**18) Other Non-Current Assets**

Other non-current assets consisted of the following:

	<b>2014</b>	<b>2013</b>
Prepayment for acquisition of subsidiary (Note 27)	48,506	—
Prepayments for acquisition of property, plant and equipment	15,627	34,987
Loans to employees	2,497	5,193
Restricted cash deposits for fulfillment of guarantees	1,143	351
Long-term trade receivables	287	13,356
Other	6,180	15,184
<b>74,240</b>	<b>69,071</b>	
Allowance for doubtful debts	(38)	(18,819)
	<b>74,202</b>	<b>50,252</b>

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***19) Trade and Other Payables**

Trade and other payables consisted of the following:

	<b>2014</b>	<b>2013</b>
Trade payables	530,501	708,350
Accounts payable for property, plant and equipment	52,429	64,763
Liabilities for VAT	39,523	32,880
Payroll liabilities	21,095	31,685
Liabilities for property tax	12,980	16,898
Accrued and withheld taxes on payroll	11,361	16,123
Sales rebate payable	9,440	8,601
Liabilities under put options of non-controlling interest shareholders in subsidiaries	6,639	9,323
Notes issued to third parties	3,133	5,353
Liabilities for other taxes	1,309	1,840
Other payables	34,286	48,349
	<b>722,696</b>	<b>944,165</b>

**20) Provisions and Accruals**

Provisions and accruals consisted of the following:

	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Provision for bonuses	17,190	16,816
Accrual for long-service bonuses	9,396	15,286
Accrual for unused annual leaves, current portion	3,060	4,213
Current portion of employee benefits liability	2,366	6,215
Environmental provision, current portion	1,351	1,510
Other provisions	8,034	7,144
	<b>41,397</b>	<b>51,184</b>
<b>Non-current</b>		
Accrual for unused annual leaves	14,062	22,515
Environmental provision	4,133	3,887
Provision for bonuses	770	2,532
Other provisions	3,951	4,393
	<b>22,916</b>	<b>33,327</b>

**21) Interest-Bearing Loans and Borrowings**

Interest-bearing loans and borrowings consisted of the following:

	<b>2014</b>	<b>2013</b>
<b>Current</b>		
Bank loans	265,439	69,647
Interest payable	30,841	32,735
Current portion of non-current borrowings	152,135	292,522
Current portion of bearer coupon debt securities	311,000	—
Unamortised debt issue costs	(610)	(963)
<b>Total short-term loans and borrowings</b>	<b>758,805</b>	<b>393,941</b>
<b>Non-current</b>		
Bank loans	1,571,236	2,139,397
Bearer coupon debt securities	1,311,000	1,412,500
Unamortised debt issue costs	(8,201)	(11,298)
Less: current portion of non-current borrowings	(152,135)	(292,522)
Less: current portion of bearer coupon debt securities	(311,000)	—
<b>Total long-term loans and borrowings</b>	<b>2,410,900</b>	<b>3,248,077</b>

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***21) Interest-Bearing Loans and Borrowings (continued)****The Group's borrowings were denominated in the following currencies:**

	<b>Interest rates</b>	<b>2014</b>	<b>Interest rates</b>	<b>2013</b>
Russian ruble	Fixed 7.99%-13%	958,177	Fixed 7.35%-9.6%	1,183,323
	Fixed 5.25%	313,262	Fixed 5.25%	415,508
	Fixed 6.75%	505,525	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
US dollar	Variable: Liber (1m) + 2.25%-2.75% Liber (3m) + 2.75%-4.5%	386,679	Variable: Liber (1m) + 2.25%-3% Liber (3m-12m) + 1.4%-4.5%	484,711
	Fixed 5.19%	11,540	Fixed 5.19%	38,157
Euro	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
	–	–	Ribor (6m) + %	108
		<b>3,169,705</b>		<b>3,642,018</b>

**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").

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***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:

	<b>2014</b>	<b>2013</b>
Machinery and equipment	26,752	40,362
Transport and motor vehicles	7,791	668

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:

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

## 9.

CONSOLIDATED  
FINANCIAL STATEMENTS

## OAO TMK

## Notes to the Consolidated Financial Statements (continued)

(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
<b>Total minimum lease payments</b>	<b>66,626</b>	<b>51,765</b>
Less amounts representing finance charges	(14,861)	–
<b>Present value of minimum lease payments</b>	<b>51,765</b>	<b>51,765</b>

## 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
<b>At January 1</b>	<b>46,245</b>	<b>53,861</b>	<b>2,430</b>	<b>2,557</b>	<b>2,607</b>	<b>1,896</b>	<b>51,282</b>	<b>58,314</b>
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)
<b>Net benefit expense recognised in profit or loss</b>	<b>89</b>	<b>3,166</b>	<b>395</b>	<b>87</b>	<b>818</b>	<b>473</b>	<b>1,302</b>	<b>3,726</b>
(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 (gain)/losses	1,458	(698)	6	9	13	40	1,477	(649)
<b>Actuarial (gains)/losses recognised in other comprehensive (income)/loss</b>	<b>(6,285)</b>	<b>(3,332)</b>	<b>244</b>	<b>(185)</b>	<b>(443)</b>	<b>249</b>	<b>(6,484)</b>	<b>(3,268)</b>
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
<b>At December 31</b>	<b>18,820</b>	<b>46,245</b>	<b>1,993</b>	<b>2,430</b>	<b>2,597</b>	<b>2,607</b>	<b>23,410</b>	<b>51,282</b>
<b>Short-term</b>	<b>1,949</b>	<b>4,935</b>	<b>277</b>	<b>1,093</b>	<b>140</b>	<b>187</b>	<b>2,366</b>	<b>6,215</b>
<b>Long-term</b>	<b>16,871</b>	<b>41,310</b>	<b>1,716</b>	<b>1,537</b>	<b>2,457</b>	<b>2,420</b>	<b>21,044</b>	<b>45,067</b>

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).

## OAO TMK

## Notes to the Consolidated Financial Statements (continued)

(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%
Age-related curve	Standard	Standard	Crocker	Crocker	Standard	Standard
Turnover	depending on experience data for a year	depending on experience data for a year	Sarason	Sarason	Termination Table T-11	Termination Table T-11

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

	Volatility range		Russia		USA		Others		
	Low	High	Effect on obligation increase/(decrease)	Low	High	Effect on obligation increase/(decrease)	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
	<b>26,899</b>	<b>46,115</b>

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***26) Interests in Subsidiaries*****Principal Subsidiaries***

The major subsidiaries included in these consolidated financial statements are presented in the following table:

Company	Location	Effective ownership interest	
		December 31, 2014	December 31, 2013
<i>Manufacturing facilities</i>			
OAO "Seversky Tube Works"	Russia	96.54%	96.33%
OAO "Sinarsky Pipe Plant"	Russia	97.28%	97.28%
OAO "Taganrog Metallurgical Works"	Russia	96.38%	96.38%
OAO "Volzhsky Pipe Plant"	Russia	100.00%	100.00%
OOO "TMK INOX"	Russia	49.61%	49.61%
ZAO "TMK-CPW"	Russia	49.23%	49.13%
OAO "Orsky Machine Building Plant"	Russia	75.00%	75.00%
IPSCO Tubulars Inc.	USA	100.00%	100.00%
IPSCO Koppel Tubulars, L.L.C.	USA	100.00%	100.00%
IPSCO Tubulars (KY) Inc.	USA	100.00%	100.00%
IPSCO Tubulars (OK) Inc.	USA	100.00%	100.00%
Ultra Premium Oilfield Services, Ltd	USA	100.00%	100.00%
S.C. TMK-ARTROM S.A.	Romania	92.73%	92.73%
S.C. TMK-RESITA S.A.	Romania	100.00%	100.00%
TOO "TMK-Kaztrubprom"	Kazakhstan	100.00%	100.00%
TMK Gulf International Pipe Industry LLC	Oman	55.00%	55.00%
<i>Services for oilfield and gas industries</i>			
OOO "Predpriyatiye "Truboplast"	Russia	100.00%	100.00%
TMK NGS-Nizhnevartovsk	Russia	100.00%	100.00%
LLC TMK NGS-Buziluk	Russia	100.00%	100.00%
OFS International LLC	USA	75.00%	75.00%
Threading & Precision Manufacturing LLC	USA	75.00%	75.00%
Independent Inspection Services LLC	USA	75.00%	75.00%
Oilfield Services & Technologies LLC	USA	75.00%	0.00%
<i>Trading companies</i>			
ZAO "Trade House TMK"	Russia	100.00%	100.00%
TMK IPSCO International L.L.C.	USA	100.00%	100.00%
TMK IPSCO Canada, Ltd.	Canada	100.00%	100.00%
TMK Europe GmbH	Germany	100.00%	100.00%
TMK Italia s.r.l.	Italy	100.00%	100.00%
TMK Middle East FZCO	UAE	100.00%	100.00%
TOO "TMK-Kazakhstan"	Kazakhstan	100.00%	100.00%
TMK Global S.A.	Switzerland	100.00%	100.00%
<i>Research and development</i>			
OAO "Russian Research Institute of the Tube and Pipe Industries"	Russia	97.36%	97.36%
TMK R&D	Russia	100.00%	100.00%

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***26) Interests in Subsidiaries (continued)*****Non-controlling Interests***

The information about material non-controlling interests in subsidiaries is presented in the following table:

Company	2014		2013	
	Non-controlling interest, %	Non-controlling interest in net assets	Non-controlling interest, %	Non-controlling interest in net assets
TMK Gulf International Pipe Industry LLC	45.00%	16,879	45.00%	17,838
OAO "Sinarskaya heat and power plant"	33.08%	11,476	33.08%	20,740
S.C. TMK-ARTROM S.A.	7.27%	8,502	7.27%	8,716
OAO "Orsky Machine Building Plant"	25.00%	6,799	25.00%	11,270
OAO "Seversky Tube Works"	3.46%	6,364	3.67%	12,720
OAO "Taganrog Metallurgical Works"	3.62%	6,245	3.62%	10,971
OAO "Sinarsky Pipe Plant"	2.72%	5,784	2.72%	11,272
Other	—	4,187	—	2,300
		<b>66,236</b>		<b>95,827</b>

**27) Related Parties Disclosures*****Compensation to Key Management Personnel of the Group***

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group.

The compensation to key management personnel comprised of:

- Wages, salaries, social security contributions and other short-term benefits in the amount of 15,780 for the year ended December 31, 2014 (2013: 19,166);
- Provision for performance bonuses in the amount of 4,123 for the year ended December 31, 2014 (2013: 5,029).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the years ended December 31, 2014 and 2013.

The balance of loans issued to key management personnel amounted to 517 as at December 31, 2014 (December 31, 2013: 1,055). The Group guaranteed debts of key management personnel outstanding as at December 31, 2014 in the amount of 215 with maturity in 2016 (December 31, 2013: 2,323).

***Transactions with the Parent of the Company***

In December 2014, the Group approved interim dividends in respect of six months 2014, from which 266,796 thousand Russian roubles (4,896 at the exchange rate at the date of approval) related to the parent of the Company. As at December 31, 2014, no interim dividends were paid.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***27) Related Parties Disclosures (continued)***Transactions with the Parent of the Company (continued)*

In June 2014, the Group approved the distribution of final dividends in respect of 2013, from which 524,184 thousand Russian roubles (15,053 at the exchange rate at the date of approval) related to the parent of the Company. In July 2014, these dividends were fully paid.

In November 2013, the Group approved interim dividends in respect of six months 2013, from which 698,912 thousand Russian roubles (21,473 at the exchange rate at the date of approval) related to the parent of the Company. In January 2014, these dividends were paid in full amount.

In June 2013, the Group approved the distribution of final dividends in respect of 2012, from which 564,506 thousand Russian roubles (17,153 at the exchange rate at the date of approval) related to the parent of the Company. In August 2013, these dividends were paid in full amount.

On June 11, 2014 and April 16, 2013, the Group increased share capital of the subsidiary, OFS Development S.a.r.l. The share capital increase was partially financed by the parent of the Company, an owner of non-controlling interest in OFS Development S.a.r.l. Contribution received from the parent of the Company amounted to 1,013 in the year ended December 31, 2014 (2013: 2,525).

*Transactions with Entities under Common Control with the Company and Other Related Parties*

The following table provides balances with entities under common control with the Company and other related parties as at December 31:

	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	80,550	3,730
Prepayment for acquisition of subsidiary	48,506	—
Accounts receivable	4,731	4,576
Prepayments	10	30
Accounts payable for raw materials	(38,262)	(79,154)
Advances received	(2,825)	(6)
Other accounts payable	(480)	(643)

In the year ended December 31, 2014, the Group paid 2,729 million Russian roubles (59,750 at the historical exchange rates) to a related party as a consideration for 100% ownership interest in Chermetservis-Snabzhenie, one of the leaders in the Russian steel scrap market. As at December 31, 2014, the acquisition was not finalised, the prepaid amount was included in other non-current assets.

The following table provides the total amount of transactions with entities under common control with the Company and other related parties for the years ended December 31:

	<b>2014</b>	<b>2013</b>
Purchases of raw materials	604,690	606,506
Purchase of property, plant and equipment	5,359	—
Purchases of other goods and services	7,061	10,260
Sales revenue	14,195	11,382
Other income	702	86

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***28) Contingencies and Commitments***Operating Environment of the Group*

Significant part of the Group's principal assets are located in the Russian Federation and USA, therefore its significant operating risks are related to the activities of the Group in these countries.

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In 2014, the Russian economy was negatively impacted by a significant drop in crude oil prices and a significant devaluation of the Russian Rouble, as well as sanctions imposed on Russia by several countries. In December 2014, the Rouble interest rates have increased significantly after the Central Bank of Russia raised its key rate. The combination of the above resulted in reduced access to capital, a higher cost of capital, increased inflation and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects.

Although the US economy is growing, the drop in oil prices may result in the decline in oil exploration, drilling and production activities. As a result, the demand for the oil pipes in the US market may decrease accordingly. Significant decline in demand could have a negative impact on the Group's future financial position, results of operations and business prospects.

Management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances.

*Taxation*

Tax, currency and customs legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 3,760 at the exchange rate as at December 31, 2014. Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in material losses for the Group. Consequently, the amounts of the claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2014.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***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*

	<b>2014</b>	<b>2013</b>
<b>Number of shares</b>		
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each	991,907,260	937,586,094
<i>Issued and fully paid</i>		
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.

**OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***29) Equity (continued)***ii) Treasury Shares*

	<b>2014</b>	<b>2013</b>
Number of shares		
Cost	72,559,628	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.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****Notes to the Consolidated Financial Statements (continued)***(All amounts are in thousands of US dollars, unless specified otherwise)***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
<b>Movement on cash flow hedges</b>	<b>–</b>	<b>54</b>	<b>1,758</b>	<b>492</b>	<b>1,758</b>	<b>546</b>
Income tax	–	(8)	(406)	(155)	(406)	(163)
<b>Movement on cash flow hedges, net of tax</b>	<b>–</b>	<b>46</b>	<b>1,352</b>	<b>337</b>	<b>1,352</b>	<b>383</b>

**OAO TMK****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.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****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 (continued)***Interest Rate Risk (continued)*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit/(loss) before tax is affected through the impact on floating rate borrowings, as follows:

	<b>Basis points</b>	<b>Effect on profit/(loss) before tax</b>
<b>As at December 31, 2014</b>		
Increase in LIBOR	2	(40)
Decrease in LIBOR	(2)	40
<b>As at December 31, 2013</b>		
Increase in EURIBOR	7	(55)
Decrease in EURIBOR	(7)	55
<b>As at December 31, 2013</b>		
Increase in LIBOR	3	(76)
Decrease in LIBOR	(3)	76
<b>As at December 31, 2013</b>		
Increase in EURIBOR	13	(119)
Decrease in EURIBOR	(13)	119

*Foreign Currency Risk*

The Group's exposure to currency risk relates to sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries, and the Group's net investments in foreign operations. The currencies in which these transactions and balances primarily denominated are US dollars and euro.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows as at December 31:

	<b>2014</b>	<b>2013</b>
USD/RUR	(1,571,946)	(1,731,183)
EUR/RUR	(79,014)	(94,785)
USD/EUR	(5,584)	23,877
USD/RON	(4,893)	(14,185)
EUR/RON	(50,723)	(84,008)
KZT/RUR	10,350	8,700
USD/CAD	(25,049)	(9,441)

The Group hedged its net investments in foreign operations against foreign currency risk using borrowings in US dollars made by Russian companies of the Group and its exposure to currency risk related to USD denominated sales of Romanian subsidiaries using USD/RON forward contracts. The Group doesn't have other formal arrangements to manage currency risks of the Group's operations and balances. However, the Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk.

**OAO TMK****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 (continued)***Foreign Currency Risk (continued)*

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit/(loss) before tax and other comprehensive income/(loss). The movement in other comprehensive income/(loss) arises from gains or losses on the US dollar-denominated borrowings related to the effective portion of the hedge of net investments in foreign operations (Note 29 viii). In estimating reasonably possible changes for 2014 the Group assessed the volatility of foreign exchange rates during the year ended December 31, 2014 (2013: historical data for the three preceding years). The approach to the calculation of the volatility was changed in 2014 due to the increased volatility of Russian rouble against other currencies in the past few months.

	<b>As at December 31, 2014</b>					
	<b>Volatility range</b>		<b>Effect on profit/(loss) before tax</b>		<b>Effect on other comprehensive income/(loss)</b>	
	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>
USD/RUR	27.97%	-27.97%	(122,908)	122,908	(316,765)	316,765
EUR/RUR	28.70%	-28.70%	(22,677)	22,677	–	–
USD/EUR	6.15%	-6.15%	(343)	343	–	–
USD/RON	6.64%	-6.64%	(325)	325	–	–
EUR/RON	2.99%	-2.99%	(1,517)	1,517	–	–
KZT/RUR	32.52%	-32.52%	3,366	(3,366)	–	–
USD/CAD	6.37%	-6.37%	(1,596)	1,596	–	–

	<b>As at December 31, 2013</b>					
	<b>Volatility range</b>		<b>Effect on profit/(loss) before tax</b>		<b>Effect on other comprehensive income/(loss)</b>	
	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>	<b>Low</b>	<b>High</b>
USD/RUR	10.18%	-10.18%	(64,392)	64,392	(111,842)	111,842
EUR/RUR	7.84%	-7.84%	(7,431)	7,431	–	–
USD/EUR	9.24%	-9.24%	2,206	(2,206)	–	–
USD/RON	11.02%	-11.02%	(1,563)	1,563	–	–
EUR/RON	4.60%	-4.60%	(3,864)	3,864	–	–
KZT/RUR	9.96%	-9.96%	867	(867)	–	–
USD/CAD	7.42%	-7.42%	(701)	701	–	–

*Liquidity Risk*

Liquidity risk arises when the Group encounters difficulties to meet commitments associated with liabilities and other payment obligations. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of funding at competitive rates through the capital markets and banks and coordinates relationships with banks centrally. At present, the Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****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 (continued)****Liquidity Risk (continued)**

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

<b>As at December 31, 2014</b>	<b>Less than 1 year</b>	<b>1 to 2 years</b>	<b>2 to 3 years</b>	<b>3 to 4 years</b>	<b>&gt;4 years</b>	<b>TOTAL</b>
Trade and other payables	629,789	—	—	—	—	<b>629,789</b>
Accounts payable to related parties	43,484	—	—	—	—	<b>43,484</b>
Interest-bearing loans and borrowings:						
Principal	728,574	626,217	534,385	514,716	743,783	<b>3,147,675</b>
Interest	201,592	168,784	116,442	79,121	59,044	<b>624,983</b>
Finance lease liability	7,664	10,434	5,188	4,809	37,844	<b>65,939</b>
Dividends payable	1,889	—	—	—	—	<b>1,889</b>
Liabilities under put options of non-controlling interest shareholders in subsidiaries	6,639	—	—	15,326	—	<b>21,965</b>
Other non-current liabilities	<b>1,619,631</b>	<b>805,438</b>	<b>656,048</b>	<b>613,972</b>	<b>848,934</b>	<b>4,544,023</b>

<b>As at December 31, 2013</b>	<b>Less than 1 year</b>	<b>1 to 2 years</b>	<b>2 to 3 years</b>	<b>3 to 4 years</b>	<b>&gt;4 years</b>	<b>TOTAL</b>
Trade and other payables	835,416	—	—	—	—	<b>835,416</b>
Accounts payable to related parties	101,151	—	—	—	—	<b>101,151</b>
Interest-bearing loans and borrowings:						
Principal	362,168	902,118	561,187	493,876	1,302,195	<b>3,621,544</b>
Interest	220,498	182,787	146,618	112,464	137,340	<b>799,707</b>
Finance lease liability	5,968	5,739	5,503	5,365	44,051	<b>66,626</b>
Dividends payable	5,863	—	—	—	—	<b>5,863</b>
Liabilities under put options of non-controlling interest shareholders in subsidiaries	9,323	—	—	—	31,697	<b>41,020</b>
Other non-current liabilities	—	41	—	—	8,701	<b>8,742</b>
	<b>1,540,387</b>	<b>1,090,685</b>	<b>713,308</b>	<b>611,705</b>	<b>1,523,984</b>	<b>5,480,069</b>

**Credit Risk**

Credit risk is the potential exposure of the Group to losses that would be recognised if counterparties failed to perform or failed to pay amounts due. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of trade and other receivables, cash and cash equivalents.

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The monitoring activity of credit risk exposure is performed at the Group level according to set guidelines and measurement techniques to qualify and monitor counterparty risk.

**OAO TMK****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 (continued)****Credit Risk (continued)**

The Group sells goods to some of the biggest Russian and international companies on credit terms. It is the Group's policy that all customers applying for the credit terms are subject to credit verification procedures.

As at December 31, 2014, accounts receivable from the three biggest debtors of the Group amounted to 207,044 (December 31, 2013: 317,162). Management determines concentration by reference to receivables from particular customers as percentage of total accounts receivable.

The ageing analysis of trade and other receivables and other financial assets is presented in the table below:

	<b>2014</b>	<b>2013</b>
	<b>Gross amount</b>	<b>Impairment</b>
	<b>Gross amount</b>	<b>Impairment</b>
Current trade and other receivables – not past due	646,515	(18,345)
Current trade and other receivables – past due		
less than 30 days	61,489	(1,188)
between 30 and 90 days	17,608	(282)
over 90 days	38,197	(20,385)
Accounts receivable from related parties – not past due	4,749	(18)
Non-current trade and other receivables – not past due	5,215	(38)
Other – not past due	4,253	—
	<b>778,026</b>	<b>(40,256)</b>
	<b>781,817</b>	<b>(4,459)</b>

Movement in allowance for doubtful debts was as follows:

	<b>2014</b>	<b>2013</b>
Balance at the beginning of the year	54,991	42,759
Utilised during the year	(6,284)	(800)
Additional increase in allowance	13,997	16,032
Currency translation adjustment	(22,448)	(3,000)
<b>Balance at the end of the year</b>	<b>40,256</b>	<b>54,991</b>

**Capital Management**

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators. In addition, the Group is subject to externally imposed capital requirements (debt covenants) which are used for capital monitoring. Through 2014, the Group was in compliance with such externally imposed capital requirements. The Group met its objectives for managing capital.

Capital includes equity attributable to the equity holders of the parent entity. The Group manages its capital structure and adjusts it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividend payments.

**9.****CONSOLIDATED  
FINANCIAL STATEMENTS****OAO TMK****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 (continued)***Fair Value of Financial Instruments Carried at Fair Value*

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following financial instruments recorded at fair value:

	<b>2014</b>	<b>2013</b>
Embedded Conversion Option	—	(2,080)
<b>Total current derivative financial instruments</b>	<b>—</b>	<b>(2,080)</b>
Interest rate swaps	(2,076)	(3,501)
<b>Total non-current derivative financial instruments</b>	<b>(2,076)</b>	<b>(3,501)</b>

Financial instruments at fair value were measured by the Group using valuation techniques based on observable market data (Level 2 fair value measurement hierarchy).

The Group's derivative financial instruments comprised of interest rate swaps and currency forwards. The use of derivatives was governed by the Group's policies consistent with the overall risk management strategy of the Group. The derivatives were designated as hedging instruments in cash flow hedges. The valuation techniques applied to derivatives included forward pricing and swap models, using present value calculations. The models incorporated various inputs including the credit quality of counterparties, foreign exchange forward rates and interest rate curves.

During the reporting period, there were no transfers between Level 1 and Level 2 fair value measurement hierarchy, and no transfers into and out of Level 3 fair value measurement hierarchy.

*Fair Value of Financial Instruments not Carried at Fair Value*

For financial assets and financial liabilities that are liquid or having a short-term maturity (cash and cash equivalents, short-term accounts receivable, short-term loans) the carrying amounts approximate their fair value.

**OAO TMK****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 (continued)***Fair Value of Financial Instruments not Carried at Fair Value (continued)*

The following table shows financial instruments which carrying values differ from fair values:

	<b>2014</b>	<b>2013</b>
	<b>Par value</b>	<b>Fair value</b>
	<b>Par value</b>	<b>Fair value</b>
<b>Financial liabilities</b>		
Fixed rate long-term bank loans	1,161,283	1,089,008
Variable rate long-term bank loans	408,379	405,099
5.25 per cent convertible bonds	311,000	289,043
6.75 per cent loan participation notes due 2020	500,000	291,665
7.75 per cent loan participation notes due 2018	500,000	320,000
	<b>500,000</b>	<b>500,000</b>
	<b>523,315</b>	<b>523,315</b>

For quoted debt instruments (bonds and loan participation notes) the fair values were determined based on quoted market prices. The fair values of unquoted debt instruments were estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

**31) Subsequent events***Acquisition of ChermetServis-Snabzhenie*

On February 9, 2015, the Group acquired 100% ownership interest in ChermetServis-Snabzhenie specialising on scrap supply to steel plants, which includes not only collection, processing and distribution of ferrous scrap, but also comprehensive procurement services.

*Convertible Bonds*

The Group fully redeemed its convertible bonds due 2015.