>> TMK ANNUAL REPORT
2014

2014

TMK
ANNUAL REPORT

1. TMK PROFILE

LEADING PRODUCER

Consolidation of production assets across the globe, scientific and engineering innovations, and a geographically diversified sales network have allowed the Company to create a modern vertically integrated industrial group manufacturing and supplying high-tech and competitive pipe products.

THE COMPANY'S STRATEGY » **P. 15**

TMK PROFILE

1.

TMK PROFILE

In 2014, TMK's pipe sales totalled
4.4 million tonnes

TMK is one of the world's leading producers and suppliers of steel pipe for the oil and gas industry. The Company's shares are traded on the London Stock Exchange, the OTCQX trading platform in the United States, and on the Moscow Exchange.

The Company was founded in 2001 and currently integrates 30 production assets in Russia, the United States, Canada, Oman, the UAE, Romania and Kazakhstan. TMK's core business is the production and sales of seamless and welded pipe, including large diameter pipe, pipe with premium connections, combined with an extensive range of services in heat treatment, protective coating, premium connections threading, warehousing and pipe repairing.

TMK consists of Russian pipe production sites: Volzhsky Pipe Plant, Seversky Tube Works, Sinarsky Pipe Plant and Taganrog Metallurgical Works; twelve production facilities in the United States and Canada, owned by TMK IPSCO; TMK-ARTROM and TMK-RESITA in Romania; and TMK GIPI in Oman. The Company includes four oilfield service assets in Russia, incorporated in TMK Oilfield Services division, TMK-Kaztrubprom (Kazakhstan), service center TMK Premium (Abu Dhabi, UAE), and pipe servicing, oil and gas accessory production and well completion assets located in the USA. In February 2015, to ensure a complete scrap supply cycle at Russian TMK facilities, the Company acquired a leading player in the Russian steel scrap market, ChermetServis-Snabzhenie.

TMK's two research centers, the Russian Research Institute for the Tube and Pipe Industries (RosNITI) in Chelyabinsk (Russia) and R&D center in Houston (USA), are involved in new product design and development, experimental and validation testing, and advanced metallurgical research. To foster innovation and boost its R&D potential, the Company set up an R&D facility in the Skolkovo Innovation Center (Russia).

Consolidation of production assets across the globe, scientific and engineering innovations, and a geographically diversified sales network have allowed the Company to create a modern vertically integrated industrial group manufacturing and supplying high-tech and competitive pipe products.

TMK's unique production and service capacities ensure supply to a wide range of customers and offer effective solutions to their operational challenges.

In 2014, TMK's pipe sales totalled 4.4 million tonnes. The largest share of TMK's sales belongs to higher-margin oil country tubular goods (OCTG) supplied to customers in over 80 countries.

2.

ADDRESS TO SHAREHOLDERS

Chairman of the Board of Directors of TMK
DMITRY PUMPYANSKY

TMK CEO
ALEXANDER SHIRYAEV

DEAR SHAREHOLDERS,
DEAR FRIENDS,

Let us summarise TMK's performance in 2014 and set targets for 2015.

Our total pipe sales amounted to 4,402 thousand tonnes, enabling us to keep our leading positions in the key markets and become the world's largest pipe company by physical volume of sales for the sixth time in a row.

However, year 2014 was noted for a number of global factors adversely affecting the Russian and global economy, pipe market, and the Company as one of its leaders. The significant decrease in oil prices, rouble devaluation, as well as growing international tensions, affected our results. We were able to largely offset these negative developments by ramping up production and improving sales mix, which drove our key indicator, EBITDA, above the market expectations.

At the same time, it was impossible, for reasons beyond our control, to maintain the previous year's level of key financials. The oil price slump had an adverse effect on drilling programs and pipe supplies to oil and gas companies, which account for over 70% of our sales. Another negative factor was a significant rouble devaluation at the end of the year. It was mainly the rouble and euro decline against the US dollar, our reporting currency, that drove down TMK's revenue by 7%, EBITDA by 16% and EBITDA margin by 2 pp. On the other hand, this had a positive effect on the Company's financial liabilities, decreasing TMK's total debt as at the year-end by USD 471 MM to USD 3,223 MM.

With regards to our operating performance, the past year was one of the most successful in the Company's history. We kept the leader's position in pipe shipments to Russian oil and gas companies. In 2014, the Russian Division's shipments totalled approximately 3 million tonnes. Almost all of the division's plants hit record highs in terms of output, steel production and rouble revenue. We managed to boost large diameter pipe sales to Gazprom and Transneft, while preserving our leadership in the Russian oil and gas seamless pipe market, with the Company's market share of 60% to grow further in 2015.

The American Division also ended the reporting year with high shipment volumes of 1,019 thousand tonnes. Our share of the American OCTG market amounted to 10%. An important event here was the positive outcome of the investigation against Korea, Turkey, Vietnam, India, Ukraine and Taiwan, with anti-dumping duties imposed on imported welded products. This resulted in better market competition terms. However, due to lower oil prices and stronger US dollar, the North American market saw the rig count going down and competition with Asian manufacturers intensifying, thus offsetting the anti-dumping effect for pipe producers.

Last year, the TMK's Strategic Investment Program was generally completed. We commissioned a new hot rolling pipe mill – FQM – at the Seversky Tube Works with total annual capacity of about 600 thousand tonnes of high-quality seamless pipe.

TMK increased its premium connection pipe shipments **by 16.7%**

Thanks to many years of consistent efforts to upgrade our production facilities and billions of dollars invested, the Company has created an advanced technological and production platform embodying state-of-the-art innovations, securing a solid basis for growth for decades to come. We upgraded and expanded our steelmaking facilities, and launched modern seamless and large diameter welded pipe rolling mills, thus substantially increasing our capacity and ensuring the highest possible product quality. In fact, major of the Company's plants were practically rebuilt.

This Program has provided us with clear competitive advantages, and we must make the best use of them in the current environment. We are able to produce almost any tubular products complying with the highest requirements. In addition, we can now manage our CAPEX better, as we no longer have to finance large-scale projects in progress.

Production of premium products is the key to ensuring higher margins. In 2014, despite the shrinking Russian premium market, TMK increased its premium connection pipe shipments by 16.7% y-o-y. As a result, our Russian premium market share went up from 57% to 65% and keeps growing in 2015. We have become a full-fledged player in the international high-tech pipe market and approved a global strategy for our premium segment.

In 2014, we continued to develop and produce high-tech innovative products. RosNITI, TMK's R&D Centre in Houston, R&D teams at plants, and top specialist research institutions completed 240 studies over the year. TMK's new research and development facility creation at Skolkovo Innovation Center was initiated.

We continued to enter into mid- and long-term agreements on scientific and technological cooperation with oil and gas majors. In 2014, we launched such-like programs with Gazprom, LUKOIL, Surgutneftegaz and Gazpromneft, and established working groups with Rosneft. We know what type of products customers expect from us, and engage them in the design, production and testing of advanced tubular products intended to develop hard-to-reach hydrocarbon deposits. We believe that in the future this will help us further strengthen our profound long-term relations with oil and gas majors growing them into technological partnerships. We plan to further develop our oilfield services in Russia and globally to service our customers' needs.

Last year, our long-standing cooperation with RUSNANO reached a new level. In early 2015, it acquired a 5.476% stake in TMK, thus investing RUB 5.5 bn to further develop our joint projects.

As part of the ongoing integration of relevant production assets, in 2015 TMK purchased ChermetServis-Snabzhenie, a steel scrap company (currently renamed TMK CHERMET). This company has been the main supplier of scrap for our capacities for many years. Its integration will boost our profits and ensure reliability of scrap supplies to the Company's Russian plants.

It is necessary to expand our international footprint, develop unique and innovative tubular products, and further deepen our relations with customers and suppliers.

Rouble devaluation against the US dollar improved our Russian facilities' competitive positions versus pipe imported to the country, including in the high-tech pipe segment, where we have already invested considerable efforts. This trend also encourages us to supply more to international markets. Although the main focus is still on our domestic markets, Russia and North America, we are committed to strengthening our footprint in the Middle East, North Africa and CIS.

In 2015, TMK's major risks lie in lower level of drilling. We need to align the Company's strategy with the new global environment, and make the best of our growth opportunities. It is necessary to expand our international footprint, develop unique and innovative tubular products, and further deepen our relations with customers and suppliers.

We will have to find sources to improve our operating efficiency. In 2014, all TMK's production facilities continued to implement efficiency programs, with the total effect amounting to over USD 100 MM; in 2015 these initiatives are becoming even more important.

Despite negative trends and uncertainties in the economy, the Company is committed to fulfill its social responsibilities to its employees in 2015. Our focus areas also include retaining highly qualified professionals and motivating our workforce for a better performance. At the same time, the Company's key priority is to act in the interest of its shareholders and investors.

We strongly believe that after the ongoing decline in the energy and pipe markets we will see an upturn, and we are fully prepared for it in all technical and organisational respects.

Chairman of the Board of Directors
Dmitry Pumpyansky

CEO
Alexander Shiryaev

3. KEY EVENTS

TOGETHER WITH THE CUSTOMER

TMK and Gazprom signed an R&D cooperation agreement for 2015-2020, focusing on the development of new tubular products, import substitution initiatives, exchange of best practices and joint research.

R&D INITIATIVES AND COOPERATION » **P. 42**

TMK KEY EVENTS

2014

3.
KEY EVENTS

45 thousand tonnes
of LDP should be supplied to the Bovanenkovo-Ukhta gas transit system

JANUARY
TMK-INOX, a joint venture of TMK and RUSNANO, set in operation a coil slitting line shipped by SYTCO (Switzerland). The new equipment enables TMK-INOX to produce annually up to 8 thousand tonnes of stainless industrial pipe ranging in diameter from 8 to 114 mm and meeting the highest international standards.

TMK IPSCO (American division) signed and proceeded to implement two three-year contracts to supply both OCTG and line pipe to Shell for onshore and offshore applications.

FEBRUARY
TMK received an official confirmation that the pipe made of the Company's Russian-produced billets are eligible for use by Iraq's South Oil Company (SOC) that enjoys the exclusive right to develop oilfields in the south of the country.

MARCH
Taganrog Metallurgical Works (TAGMET) (Russian division) was qualified by Kuwait Oil Company (KOC), one of the Middle East oil majors, as an approved supplier of TMK UP PF and TMK UP PF ET premium connections.

TMK and Baker Hughes Incorporated announced their intention to develop joint integrated well completion solutions. Targeted at both onshore and offshore fields, the solutions will provide turnkey well completions based on the technical and manufacturing capabilities of both companies.

APRIL
TMK signed an agreement with Gazprom Neft to apply formula pricing to determine the price of tubular products. Price formula is based on market prices for commodities and feedstock used in pipe production.

MAY
TMK signed a contract with Yamal LNG to supply premium tubular products from 2014 through 2020, with Yamal LNG's overall demand for premium pipe products during this period estimated at 48 thousand tonnes.

TMK shipped the first LDP batch for Gazprom's Bovanenkovo-Ukhta pipeline. The Company expects to supply a total of 45 thousand tonnes of LDP to the Bovanenkovo-Ukhta gas transit system.

TMK and Sakhalin Energy signed a memorandum of understanding. After completing all the required certification procedures TMK will be able to join Sakhalin Energy's pool of suppliers.

2014

The launch of FQM pipe rolling mill at the Seversky Tube Works allowed the Company to increase capacity utilization **by about 250 thousand tonnes**

JUNE

TMK shipped over 2 thousand tonnes of X60-grade line pipe to a largest international oil company, Saudi Aramco (Saudi Arabia).

TMK and Skolkovo signed an agreement to set up an R&D center which will focus on developing efficient technologies for oil and gas exploration and production, transportation of hydrocarbons, and delivering new solutions to improve energy efficiency in the iron and steel industry.

TMK's Board of Directors made a decision to approve a share capital increase by the issuance of additional shares in the amount of 56,000,000 shares under open subscription.

JULY

TMK launched a refurbished combined heat and power plant (CHPP) at the Sinarsky Pipe Plant (Russian division). The plant's heat output increased by 15% to 680 GCal/h, while its power generation capacities doubled reaching 192 kWh per year.

TMK and LUKOIL signed an R&D cooperation programme for 2014-2016, providing for the launch of import-substituting and new types of high-performance tubular products. TMK GIPI signed a contract to ship 18.4 thousand tonnes of casing pipe to Petroleum Development Oman (PDO). PDO uses this resistant casing pipe for drilling and well development.

TMK GIPI signed a contract to ship 18.4 thousand tonnes of casing pipe to Petroleum Development Oman (PDO). PDO uses this resistant casing pipe for drilling and well development.

SEPTEMBER

TMK ran ISO 13679:2002 CAL IV tests on the premium connection TMK UP PF with lubricant-free coating GreenWell. The tests confirmed the applicability of TMK's premium connections both in onshore and offshore drilling and production projects in challenging environments.

TMK and Gazprom signed a special pricing agreement on large diameter pipe shipments for the Power of Siberia project. The new pricing will improve TMK's capacity utilization planning and sales mix.

OCTOBER

TMK commissioned a new continuous pipe rolling FQM (Fine Quality Mill) at the Seversky Tube Works (Russian division), driving the Company's total seamless pipe capacity utilization by about 250 thousand tonnes.

NOVEMBER

TMK signed an agreement with Magnitogorsk Iron and Steel Works (MMK) to apply formula pricing to determine the price of wide hot rolled sheets shipped to TMK's plants.

TMK supplied a complete set of high-tech tubular products and equipment to Surgutneftegaz to build a drill column for a well approximately 5,000 m deep.

2014–2015

In February 2015
TMK acquired ChermetServis-Snabzhenie, one of the leading players in the Russian ferrous steel scrap market

DECEMBER

According to a survey of Russian oil and gas companies specialising in offshore deposits, TMK is the best supplier of tubular products for offshore developments. The supplier ranking was prepared for the upcoming conference Offshore Oil and Gas Contracts 2014.

TMK won Transneft's tender to supply over 30 thousand tonnes of LDP from January through April 2015.

TMK and Gazprom signed an R&D cooperation agreement for 2015-2020, focusing on the development of new tubular products, import substitution initiatives, exchange of best practices and joint research.

TMK issued additional shares equivalent to 5.476% through a public offering. TMK received RUB 5.5 bn.

RUSNANO purchased 5.476% of TMK's shared to invest in the expansion of production of high-tech pipe with improved performance for the oil and gas industry.

FEBRUARY 2015

TMK was qualified by the Missan Oil Company (MOC), one of Iraq's oil majors, as an approved supplier of tubular products for the oil and gas industry manufactured from the Russian feedstock.

TMK and Gazprom Neft signed a technological partnership programme for 2015-2017, seeking to jointly support conceptual engineering for well completion equipment and technologies at the Chona Group and Kuyumbinskoye field.

TMK redeemed its 5.25% convertible bonds due 2015 convertible into GDRs each representing four ordinary shares of TMK.

TMK acquired ChermetServis-Snabzhenie, one of the leading players in the Russian ferrous steel scrap market. The deal value totalled about RUB 2.73 bn.

MARCH 2015

TMK shipped a batch of high-tech casing pipe for Tatneft to produce super-viscous oil at the Ashalchinskoye field in Tatarstan. The batch included casing pipe with TMK UP QX premium connections.

TMK and Gazprom Burenie, one of the largest Russian drilling companies for the construction of wells, signed a strategic three-year contract for the supply of drill pipe. TMK will be the company's leading supplier providing Gazprom Burenie with a comprehensive offering of drill pipe.

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4.

COMPANY OVERVIEW

STRATEGIC INVESTMENTS

In 2014, TMK completed most of its Strategic Investment Programme launched in 2004. Over the past 10 years, the Company's facilities underwent a large-scale modernisation resulted in fully upgraded production capacities.

STRATEGIC INVESTMENT PROGRAMME FOR 2004–2014 – STAGES AND OUTCOME » **P. 16**

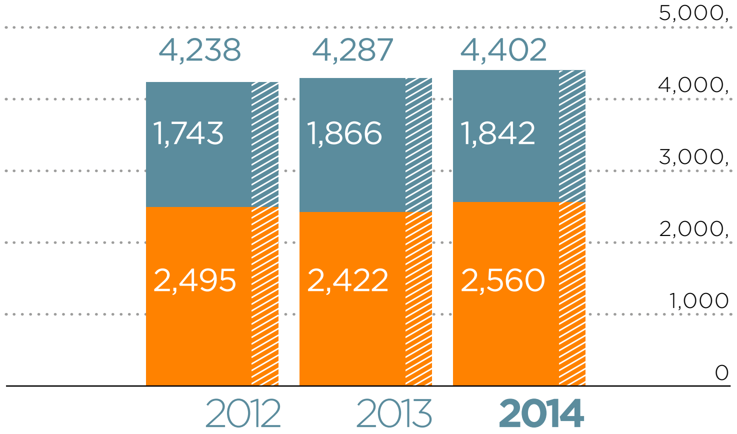
TMK COMPANY OVERVIEW

4.1 KEY INDICATORS

GRAPH **4.1**

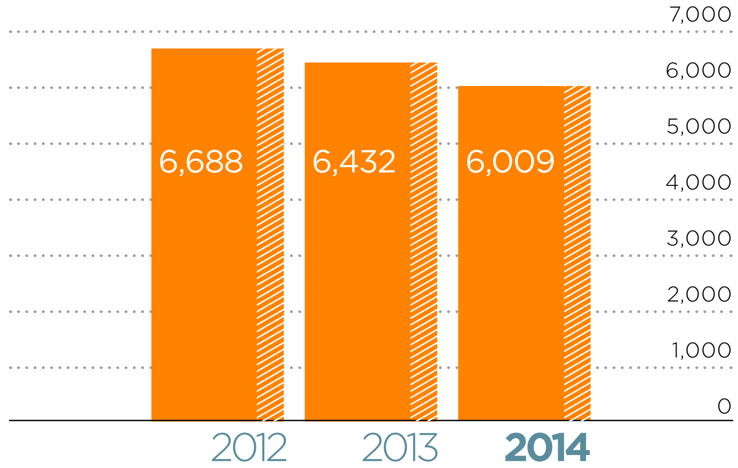
Sales
• 2012-2014
/ thousand tonnes /

• Seamless
• Welded



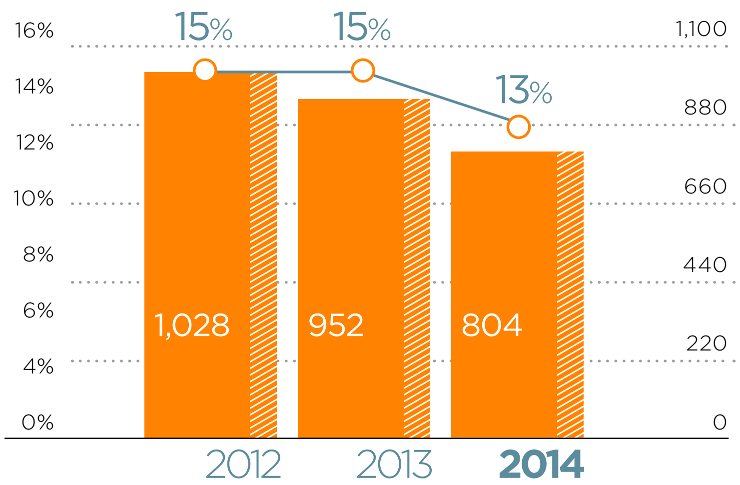
GRAPH **4.2**

Revenue
• 2012-2014
/USD m /



GRAPH **4.3**

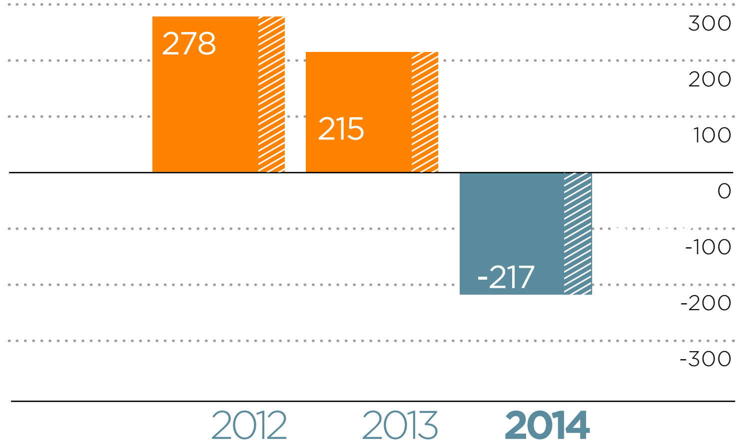
EBITDA, and EBITDA margin
• 2012-2014
/ USD m, % /



GRAPH **4.4**

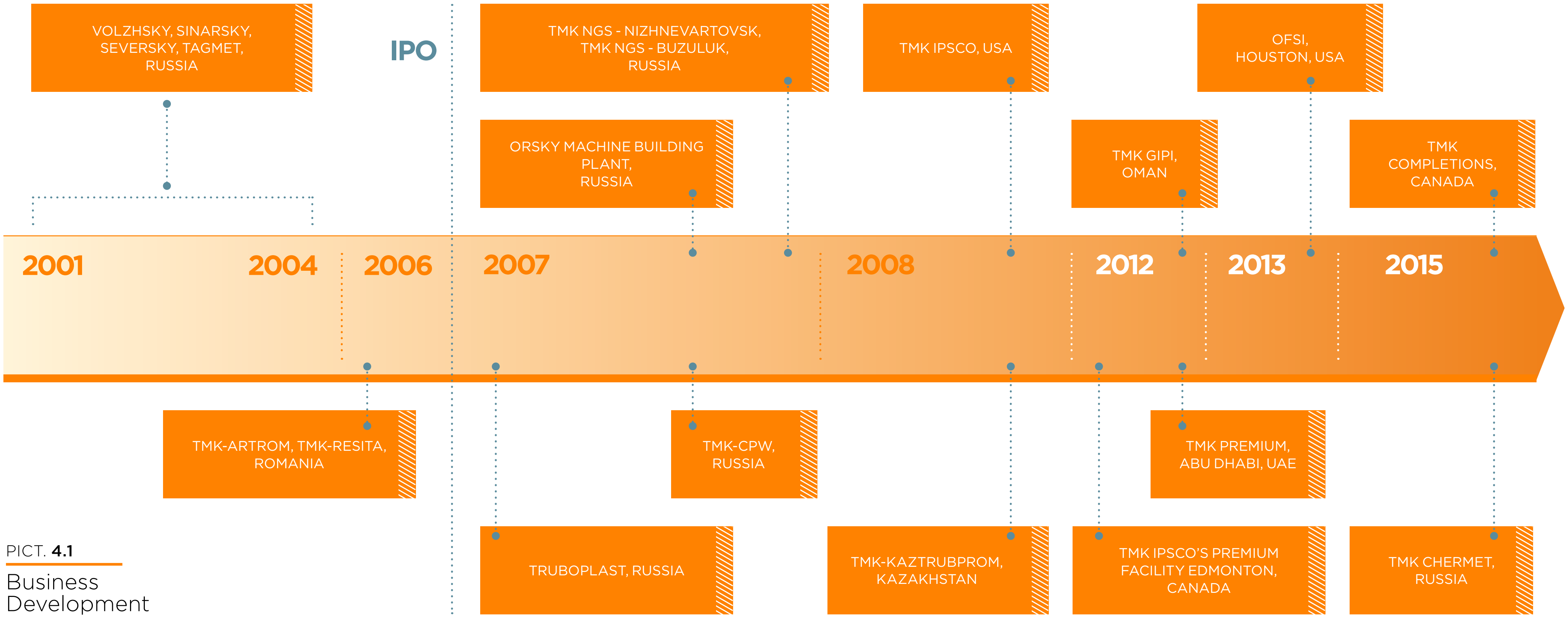
Net income*
• 2012-2014
/ USD m /

* Net income was negatively affected by FX loss of USD 301 m as compared to USD 49 m in 2013, and impairment loss of USD 153 m.



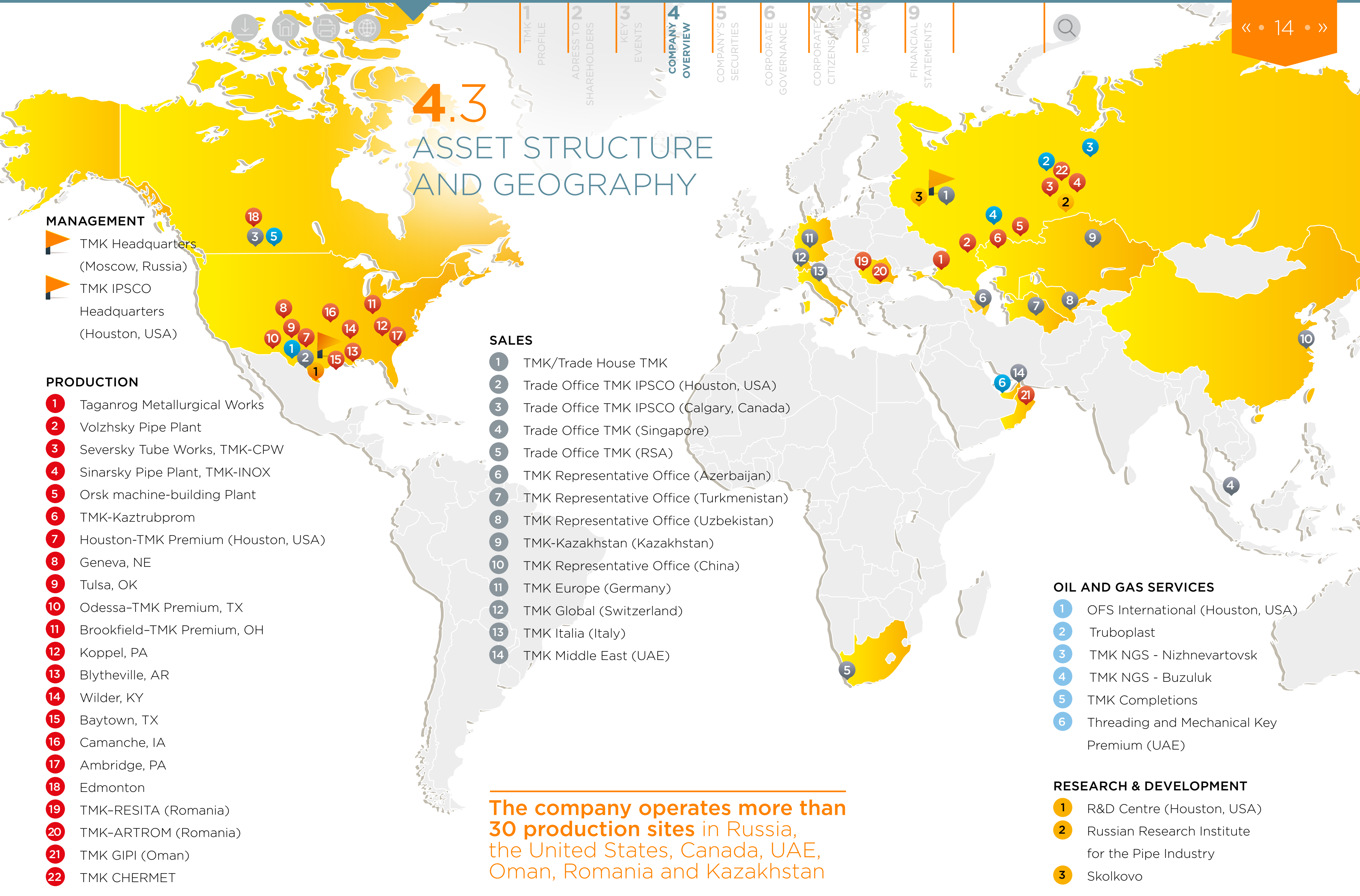
4.2 BUSINESS DEVELOPMENT

In February 2015, in line with its vertical integration strategy TMK purchased ChermetServis-Snabzhenie, one of the leading players in the Russian steel scrap market. The acquisition will help us to ensure full scrap supply cycle for Russian plants and thereby guarantee feedstock security.



PICT. **4.1**
Business Development

4.3 ASSET STRUCTURE AND GEOGRAPHY



MANAGEMENT

- TMK Headquarters (Moscow, Russia)
- TMK IPSCO Headquarters (Houston, USA)

PRODUCTION

1. Taganrog Metallurgical Works
2. Volzhsky Pipe Plant
3. Seversky Tube Works, TMK-CPW
4. Sinarsky Pipe Plant, TMK-INOX
5. Orsk machine-building Plant
6. TMK-Kaztrubprom
7. Houston-TMK Premium (Houston, USA)
8. Geneva, NE
9. Tulsa, OK
10. Odessa–TMK Premium, TX
11. Brookfield–TMK Premium, OH
12. Koppel, PA
13. Blytheville, AR
14. Wilder, KY
15. Baytown, TX
16. Camanche, IA
17. Ambridge, PA
18. Edmonton
19. TMK–RESITA (Romania)
20. TMK–ARTROM (Romania)
21. TMK GIPI (Oman)
22. TMK CHERMET

SALES

1. TMK/Trade House TMK
2. Trade Office TMK IPSCO (Houston, USA)
3. Trade Office TMK IPSCO (Calgary, Canada)
4. Trade Office TMK (Singapore)
5. Trade Office TMK (RSA)
6. TMK Representative Office (Azerbaijan)
7. TMK Representative Office (Turkmenistan)
8. TMK Representative Office (Uzbekistan)
9. TMK-Kazakhstan (Kazakhstan)
10. TMK Representative Office (China)
11. TMK Europe (Germany)
12. TMK Global (Switzerland)
13. TMK Italia (Italy)
14. TMK Middle East (UAE)

The company operates more than 30 production sites in Russia, the United States, Canada, UAE, Oman, Romania and Kazakhstan

OIL AND GAS SERVICES

1. OFS International (Houston, USA)
2. Truboplast
3. TMK NGS - Nizhnevartovsk
4. TMK NGS - Buzuluk
5. TMK Completions
6. Threading and Mechanical Key Premium (UAE)

RESEARCH & DEVELOPMENT

1. R&D Centre (Houston, USA)
2. Russian Research Institute for the Pipe Industry
3. Skolkovo

4.4 STRATEGY

In 2014, the Company had to operate in a challenging macroeconomic environment due to the Russian currency devaluation, falling oil prices and higher interest rates. At the same time, the weakening rouble served as a driver to boost exports. The domestic demand for TMK products remains solid, while restrictions on the export of American and European oil and gas technologies to Russia will strengthen our market position in the future. The EU and US sanctions motivated Russian oil and gas companies, such as Gazprom, to refocus eastwards, and we are going to sell our products to China natural gas supply projects.

The main stages of the Strategic Investment Programme have been completed. Today, TMK is one of the most advanced production platforms globally. Our current strategic goals include:

- capex reduction;
- production efficiency increase;
- opex reduction;
- deleverage to the level of Net Debt / EBITDA at 2.5x;
- product mix improvement, with a focus on high value-added products;
- new premium product development and sales, with a view to import substitution in Russia's oil and gas industry and increase in the share of premium products in OCTG pipe shipments to over 30% by 2018;
- oilfield services development across our operating areas.

4.5 STRATEGIC INVESTMENT PROGRAMME FOR 2004–2014 – STAGES AND OUTCOME

TMK'S SUCCESS IN PIPE PRODUCTION MODERNIZATION was highly renowned by the Russian Government.

In 2014, TMK completed most of its Strategic Investment Programme launched in 2004. Over the past 10 years, the Company's facilities underwent a large-scale modernisation resulted in fully upgraded production capacities. With cutting-edge equipment and technologies in place, TMK has significantly boosted its market potential by:

- improving pipe quality characteristics and cutting production costs;
- generally providing our facilities with our own billets and improving their quality;
- expanding our product mix and increasing oil and gas pipe output, including premium products;
- enhancing our product performance through advanced controls along with testing and coating tools implementation;
- mitigating our environmental footprint.

Total investments in the production upgrade, advanced technologies implementation and steelmaking equipment amounted to USD 3.8 bn.

Our largest projects included:

- steelmaking facilities at TAGMET with 950 thousand tonnes of steel per year;
- steelmaking facilities at the Seversky Tube Works with 950 thousand tonnes of steel per year;
- production line for large diameter longitudinal pipe at the Volzhsky Pipe Plant with 600 thousand tonnes of pipe per year;
- PQF pipe rolling mill at TAGMET with 600 thousand tonnes of pipe per year;
- FQM pipe rolling mill at the Seversky Tube Works with 635 thousand tonnes of pipe per year.

MAIN STAGES OF THE STRATEGIC INVESTMENT PROGRAMME

2004

AUT equipment for seams and LDP end sections, Volzhsky

2005

Continuous caster #1, Volzhsky
650 ktpa

2006

Upsetter, Sinarsky
36 ktpa

Continuous caster, TAGMET
950 ktpa

Upsetter, TAGMET
36 ktpa

Three-roll rerolling mill for billets, Sinarsky
350 ktpa

Continuous caster, Seversky
950 ktpa

2007

Non-destructive pipe testing equipment, Volzhsky

CPE pipe rolling line, TMK-ARTROM
100 ktpa

Continuous caster, TMK-RESITA
450 ktpa

Welded pipe production line, TMK-CPW
100 ktpa

Steelmaking
Seamless pipe production
Welded pipe production
Finishing
Quality control
New equipment
Upgrade

AUT	Automated ultrasonic testing
EAF	Electric Arc Furnace
LDP	Large Diameter Pipe
VIT	Vacuum Insulated Tubing

MAIN STAGES OF THE STRATEGIC INVESTMENT PROGRAMME

2008

EAF (135 t), Seversky
950 ktpa

Vacuum degasser, TMK-RESITA
450 ktpa

Hot rolling section of the TPA 50-200 seamless tube mill, Volzhsky
250 ktpa

Tubing pipe production line, TMK NGS-Buzuluk
11 ktpa

Smooth inner coating line, Volzhsky
600 ktpa

Conservation coating line, Volzhsky
200 ktpa

Heat treatment facility, Volzhsky
340 ktpa

Threaded pipe finishing line, Volzhsky
200 ktpa

Heat treatment facility, Sinarsky
200 ktpa

Three-roll rerolling mill for billets, TMK-ARTROM
100 ktpa

PQF pipe rolling mill, TAGMET
600 ktpa

Longitudinal pipe production line, Volzhsky
650 ktpa

2009

Three-layer outer coating line, Volzhsky
650 ktpa

Conservation coating line, Sinarsky
200 ktpa

EAF (150 t), Volzhsky
900 ktpa

Scrap shearing facility, Seversky
200 ktpa

Vacuum degasser, Seversky
950 ktpa

Heat treatment facility, TAGMET
200 ktpa

MAIN STAGES OF THE STRATEGIC INVESTMENT PROGRAMME

2010

Scrap shearing facility, Seversky
200 ktpa

Hot rolling section of the TPA 159-426 seamless tube mill, Volzhsky
720 ktpa

Continuous caster #3, Volzhsky
650 ktpa

Coupling shop, Volzhsky
420 kpcspa

Vacuum degasser, TAGMET
950 ktpa

2011

Second production line for premium threaded connection pipe, Brookfield (USA)
40 ktpa

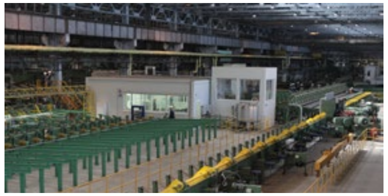
Non-destructive testing equipment, TAGMET

Automated section for magnetic particle inspection of coupling outer surface, Sinarsky

Conservation coating line, TAGMET
200 ktpa

Production facility for casing pipe with premium threaded connections, Orsk
24 ktpa

Long-length tube manufacturing, Sinarsky
50 ktpa



2012

Welded stainless steel pipe production line, TMK-INOX
10 ktpa

MAIN STAGES OF THE STRATEGIC INVESTMENT PROGRAMME

2013

Facility for premium threaded connection pipe production and service, Edmonton (Canada)
32 ktpa

Non-destructive testing equipment, Sinarsky

Protective inner coating line, TMK NGS-Nizhnevartovsk
32 ktpa

Long-length tube manufacturing, TMK-INOX
7 ktpa

VIT production facility, Sinarsky
20 kmpa

EAF (135 t), TAGMET
950 ktpa

Ultrasonic testing unit for drill pipe weld junction, Sinarsky

2014

Slitting unit, TMK-INOX
10 ktpa

UKV-25 automated ultrasonic pipe testing system, TMK-INOX

High-performance automated seamless pipe quality control lines, Sinarsky

FQM pipe rolling mill, Seversky
635 ktpa

AUT equipment for line pipe bodies and end sections, Volzhsky

Non-destructive testing line for OCTG, Sinarsky

Coupling production equipment, Sinarsky
88 kpcspa*

Hydrotester and coupling machines of the premium threaded connection pipe finishing line, Sinarsky
37 ktpa*

Pipe end forming and calibration unit, Sinarsky
40 ktpa*

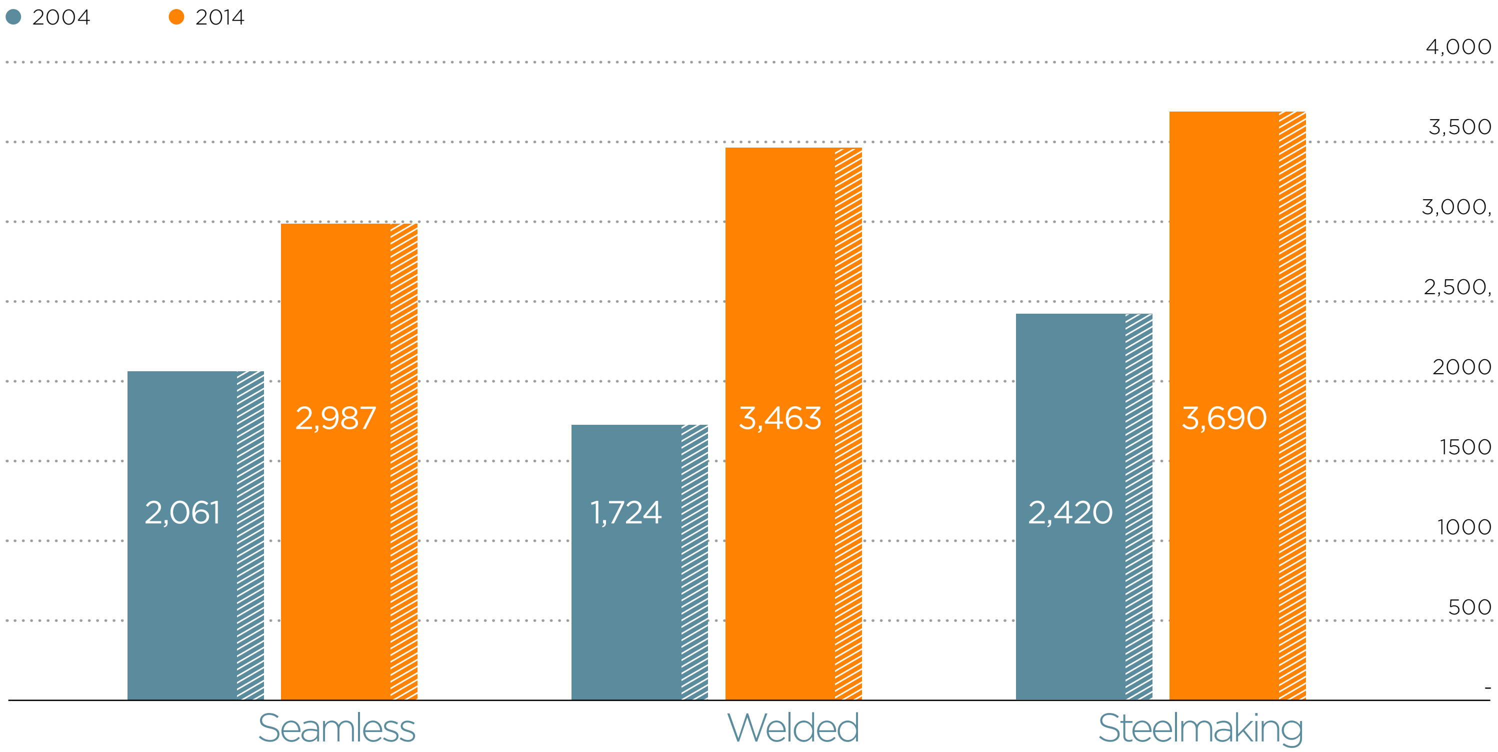
Pipe threading machines at premium threaded connection pipe finishing line, Sinarsky
47 ktpa*

* To be commissioned in 2015

In 2014, we invested USD 293 m to develop our production capacities, and TMK's capex plan for 2015–2016 will amount to around USD 519 m to enhance our finishing operations: heat treatment, pipe finishing, coating and threading operations, coupling production, improvement of controls. The plan includes boosting heat treatment efficiency and treading capacity, and establishing an outer coating line at TMK IPSCO facilities. This will guarantee our products higher value and quality.

GRAPH **4.5**

TMK's facilities production capacity*
• 2004-2014
/ thousand tonnes /
*including acquisitions



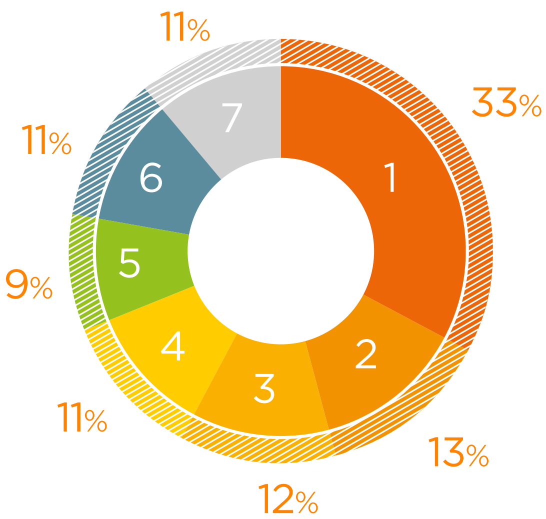
4.6 TMK'S MARKET POSITION

In 2014, TMK supplied a total of 4,402 thousand tonnes of steel pipe, up 3% year-on-year. Since 2009, the Company has been the world's leading producer of steel pipe.

The main focus of our business is the production of goods for the oil and gas industry. Oil country tubular goods account for 78% of TMK's total sales.

GRAPH **4.6**

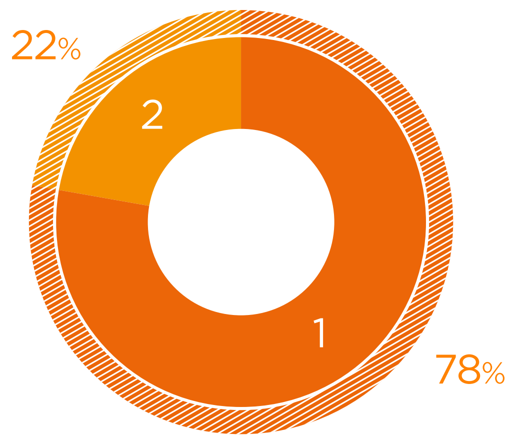
Product portfolio • 2014



1. Seamless OCTG
2. Seamless line pipe
3. Seamless industrial pipe
4. Welded OCTG
5. Welded line pipe
6. Welded industrial pipe
7. Welded LD

GRAPH **4.7**

Sales by industry • 2014



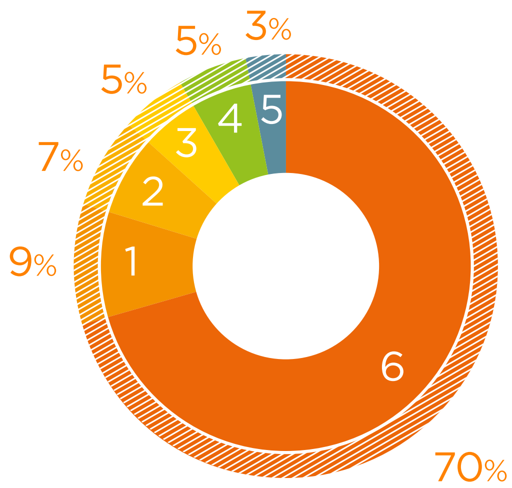
1. Oil & Gas
2. Other (Machine Building, Engineering, Constructing & Public Utilities etc.)

Most of our products are supplied to major oil and gas companies. The key consumers of our products include Russian companies, such as Rosneft, Gazprom, Surgutneftegas, LUKOIL, Transneft and Gazprom Neft.

We also supply a significant amount of our products to Bourland and Leverich, an American leading provider of premium oil country tubular goods (OCTG). In 2014, our top five customers accounted for 32% of TMK's total sales.

GRAPH **4.8**

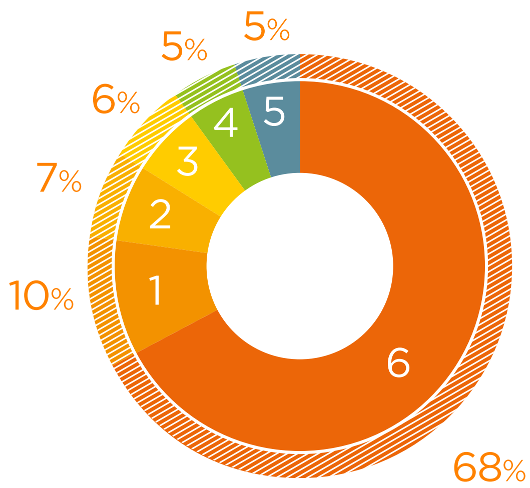
Sales by customer • 2013



- 1. Rosneft + TNK-BP
- 2. Gazprom
- 3. Surgutneftegaz
- 4. Bourland and Leverich
- 5. Lukoil
- 6. Other

GRAPH **4.9**

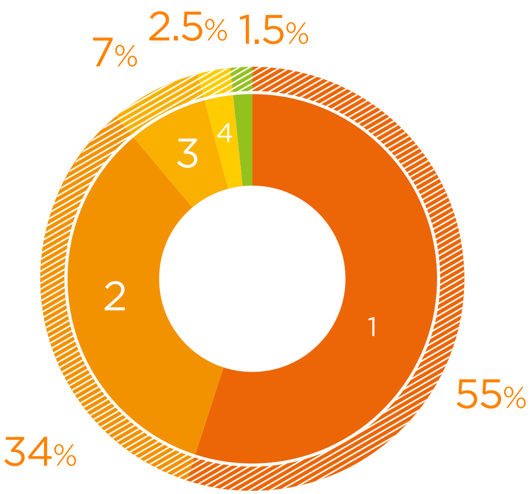
Sales by customer • 2014



- 1. Rosneft
- 2. Gazprom
- 3. Surgutneftegaz
- 5. Lukoil
- 4. Bourland and Leverich
- 6. Other

GRAPH **4.10**

Sales geography (by revenue) • 2014



- 1. Russia
- 2. Americas
- 3. Europe
- 4. Cent.Asia & Caspian Region
- 5. Middle East & Gulf Region

We ship our products to over 80 countries through a geographically diversified network of our dealers and representative offices around the globe. In 2014, the Russian market accounted for 55% of our total revenue, the American market — 34% and the European market — 7%.

The Central Asia, Middle East and the Caspian region contributed 4% to TMK's revenue. Our geographically diversified assets and sales help us to mitigate risks and uncertainties while taking advantages of the opportunities offered by each market.

PIPE SALES BY DIVISION, THOUSAND TONNES

	Russian Division			American Division			European Division		
	2014	2013	Change, %	2014	2013	Change, %	2014	2013	Change, %
TOTAL, INCLUDING	**3,198**	**3,085**	**4%**	**1,019**	**1,027**	**-1%**	**185**	**175**	**5%**
Seamless pipe, including	2,014	1,927	5%	361	319	13%	185	175	5%
OCTG	1,128	1,079	5%	317	279	13%	0	0	-
Welded pipe, including	1,184	1,158	2%	658	708	-7%	0	0	-
Large diameter pipe	468	442	6%	0	0	-	0	0	-

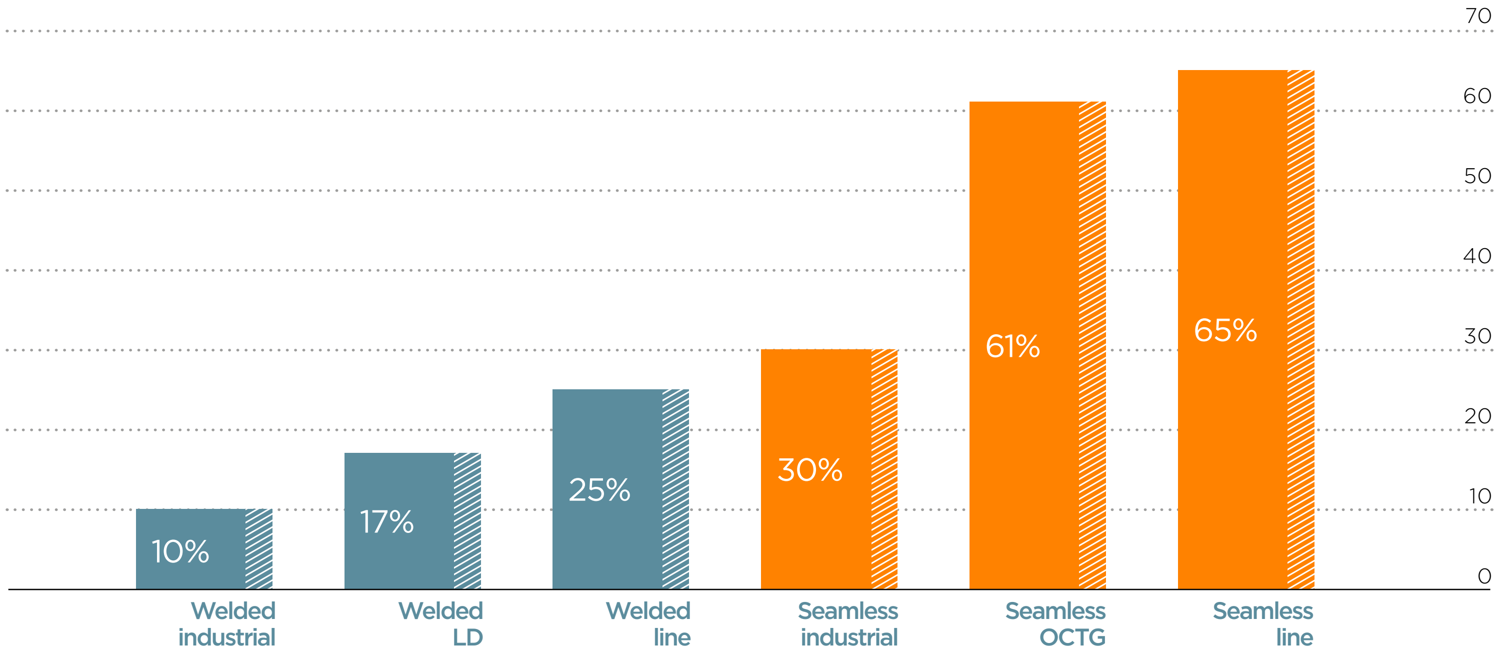
4.7 RUSSIAN PIPE MARKET

In 2014, the Russian pipe market was 9% up year-on-year mainly driven by a growing demand for oil and gas pipe, specifically, large diameter pipe.

We maintain leadership in the domestic pipe industry. As at 2014 year-end, our share of the Russian market was 24%, with TMK's seamless line pipe accounting for 65% and seamless OCTG for 61% of the market.

GRAPH **4.11**

TMK's share of the Russian pipe market by product type • 2014



LARGE DIAMETER PIPE

In 2014, the Russian market for large diameter pipe (LDP) gained 44% year-on-year mainly due to a higher demand for LDP from Gazprom and Transneft running a number of large oil and gas pipeline construction projects. Our domestic LDP sales grew by 35% year-on-year while our share in Russia's LDP market amounted to 17% as at 2014 year-end.

Gazprom and Transneft remained our largest LDP customers accounting for 55% and 23% of our LDP sales, respectively. Our LDP shipments to Gazprom rose by 35% and to Transneft by 29% year-on-year.

In 2014, we set up production and provided the supply of the following types of complex LDP for the oil and gas sector:

- concrete coated longitudinal pipe of 720 mm with 15-19.6 mm walls designed for deep water pipelines. A 3.5 thousand tonnes batch of these LDP was supplied to the deep water pipeline of the Arctic terminal for the year-round oil export from the Novoportovskoe field developed by Gazprom Neft;
- 1,420 mm K60-grade longitudinal pipe designed for gas pipelines operating at 11.8 MPa. The pipe was supplied for the construction of the booster compressor station in NOVATEK's Yurkharovskoye field located within the Arctic Circle, in the south-east of the Taz peninsula;
- crack resistant longitudinal pipe of 1,220 mm with 22.7 mm walls withstanding pressure of up to 11.8 MPa. A 18.5 thousand tonnes batch of these LDP was shipped for the Expansion of the United Gas Supply System project to supply gas to the South Stream pipeline (for the crossover pipeline between the Russkaya and Kazachya compressor stations).

OIL COUNTRY TUBULAR GOODS AND PREMIUM PRODUCTS

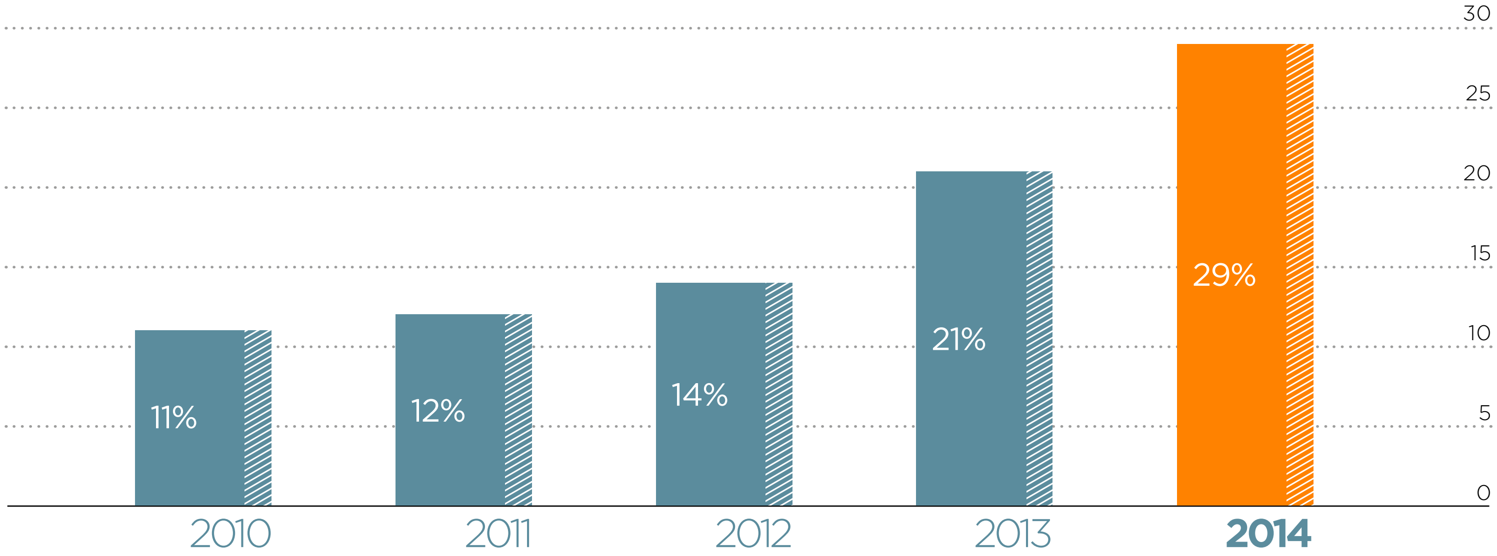
In 2014, our domestic OCTG shipments decreased by 6% year-on-year. The decline resulted from a slowdown in development drilling due to a lower efficiency of conventional drilling and a move towards more advanced methods of drivage.

As at 2014 year-end, the premium OCTG market shrank by almost 10% year-on-year due to a lower demand for this type of products. Our share in the premium OCTG market grew by 8% due to import of premium products decline and decrease in market presence of other Russian manufacturers.

The total amount of OCTG with premium connections shipped by TMK's Russian division increased by 2% in 2014.

GRAPH **4.12**

Share of horizontal drilling in the total Russian development drilling



Source: TMK estimate

11.5 thousand tonnes

of casing pipe and tubing TMK premium connections were supplied to Yamal LNG in 2014

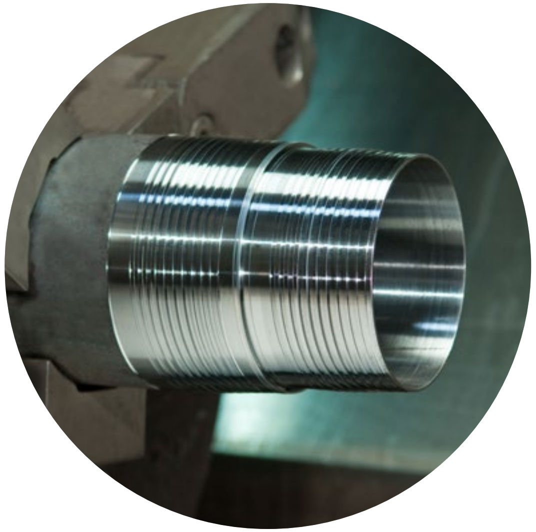
A more active construction of Russian pipelines drove the demand for line pipe up. The Russian seamless and welded line pipe markets grew by 5% and 9% compared to 2013, respectively. We increased our sales of seamless line pipe by 12% to 543 thousand tonnes, with the sales of welded line pipe down by 6%.

We are consistently working towards supplying top-quality high-tech and reliable tubular products to oil and gas companies to meet our consumers' needs and help them to produce hydrocarbons in adverse climate and geological conditions, including Far North locations and offshore.

As a token of trust from leading oil and gas producers, a long-term contract was signed between TMK and Yamal LNG to supply 48 thousand tonnes of premium pipe in 2014-2020 for the development of the Yuzhno-Tambeyskoe gas condensate field in the north-east of the Yamal Peninsula. In 2014, we supplied 11.5 thousand tonnes of cold resistant casing pipe and tubing with TMK UP PF, TMK UP FMT and TMK UP FMC premium connections, as well as accessories to Yamal. The pipe for the project was manufactured by TAGMET, the Seversky Tube Works, the Orsky Machine Building Plant and TMK-Kaztrubprom. We have been cooperating with Yamal LNG since 2012.

As an example of comprehensive cooperation with its customers, TMK supplied a set of high-tech tubular products and drilling equipment to Surgutneftegas to build a drill column for a well approximately 5,000 m deep. The supply included drill pipe with TMK TDSAMC premium joints — compliant with API Spec 5DP/ISO 11961 standard S- and G-grade pipe with inner coating, as well as thick-walled pipe and drilling equipment (elevators and protectors) produced by third parties. Designed by TMK Premium Service, TMK TDSAMC extended-length double shoulder, hard-faced, high-torque tool joints are used for construction and workover of wells in adverse geological conditions and drilling wells with a high drift angle. The inside of thick-walled pipe were protected by TMK CDP coating designed by TMK's experts to meet the client's strictest requirements.

In 2014, we supplied the first batch of P110-grade 177.8 mm casing pipe with TMK UP FMC threaded connections to Rospan International, a Rosneft's subsidiary. For the first time we also shipped L80-grade super chrome (13Cr) steel tubing compliant with API 5CT standard and high requirements for inner surface quality. Supplied with TMK UP PF premium threaded connections, the pipe was designed for controlled directional, extended-reach wells with horizontal departure (extended reach drilling) in the Urengoyskoye field. Resistant to aggressive environments (carbon dioxide), heavy-duty L80-grade 13Cr steel tubing pipe are used for upper parts of horizontal directional wells.



TMK supplied P110-grade premium casing pipe without couplings with TMK UP FJ connections to Gazprom Neft. The pipe is used to fix leaks in pipe strings during workover activities. We also shipped casing pipe without couplings with TMK UP FJ connections to LUKOIL-Western Siberia for reconstruction of complex wells in horizontal sidetracking.

In the reporting period, TMK shipped the first batch of casing pipe with TMK UP QX premium connections to Tatneft. TMK UP QX connections are unique as they are easily assembled to be used for directional drilling. Tatneft will be using the pipe for heavy oil production by means of SAGD — Steam Assisted Gravity Drainage technology — at the Ashalchinskoye and Yuzhno-Ashalchinskoye fields. In 2014, we also supplied a batch of casing pipe with TMK UP PF connections to Tatneft to produce super-viscous oil at the Ashalchinskoye field.

Our unique products ensured our success in the tender for the supply of casing pipe with TMK UP FMC threaded connections to Bashneft-Polyus. This was the first shipment of our premium products to Trebs and Titov fields. Located in the Nenets Autonomous Area of the Arkhangelsk Region, these fields are among the largest onshore oil reservoirs discovered in Russia.

We shipped the first batch of C110-grade H2S-resistant trim tubing pipe tested for sulphide stress corrosion cracking and supplied with TMK UP PF threaded connections for the first hydraulic fracturing at the Chinarevskoye field in Kazakhstan.The Volzhsky Pipe Plant, Sinarsky Pipe Plant, Orsky Machine Building Plant and TMK-Kaztrubprom — our Russian-based enterprises — began producing H2S-resistant pipe of this grade. When used for hydraulic fracturing, the pipe is exposed to multiple intermittent loads of up to 85.0 MPa. TMK has become the only Russian producer of such pipe formerly supplied from abroad.

According to a poll of oil and gas companies specialising in offshore development held during NEFTEGAZSHELF — 2014, TMK ranked first among suppliers of tubular products for offshore drilling.

Only top-quality high-tech tubular products are applicable in offshore fields as leakproof properties of casings, safe drilling environment and pipe sinking as well as compliance with strict environmental requirements are all essential for offshore drilling. Our products were successfully used in offshore drilling in 2014. For instance, pipe with TMK UP PF threaded connections were sunk in the well from ASTRA jack-up drilling rig at the Rakushechnoye field in the Caspian Sea, while tubing pipe with TMK UP FMT threaded connections were used at Korchagin field developed by LUKOIL-Nizhnevolzhskneft.

We continue to develop new products expanding the product range of oil and gas pipe that meet and often exceed the strictest international quality standards in terms of physical, chemical and geometrical properties. Our pipe can be used for horizontal and deep-hole drilling, in the most adverse climate and geological conditions, complex well configurations and aggressive environments.

TMK PIPE was used in construction of Otkritie Arena stadium

INDUSTRIAL PIPE

In 2014, the Russian seamless industrial pipe market declined by 4% year-on-year, while the welded industrial pipe market grew by 4% year-on-year. Our shares in both markets remained almost flat (11% in the welded pipe market and 30% in the seamless pipe market).

Although TMK mainly focuses on production of pipe for the oil and gas industry, we continuously develop and launch new products used in the construction, housing and utilities sector, as well as automotive and nuclear industry.

In 2014, we set up production of impact resistant seamless pipe shipped for the construction of Zenit Arena stadium retractable roof in St Petersburg. We also produced and supplied pipe for steel works of stadium roof in Samara and galvanised pipe for the outer steel frame of Otkritie Arena stadium in Moscow. The three stadiums will be hosting events of the 2018 FIFA World Cup.

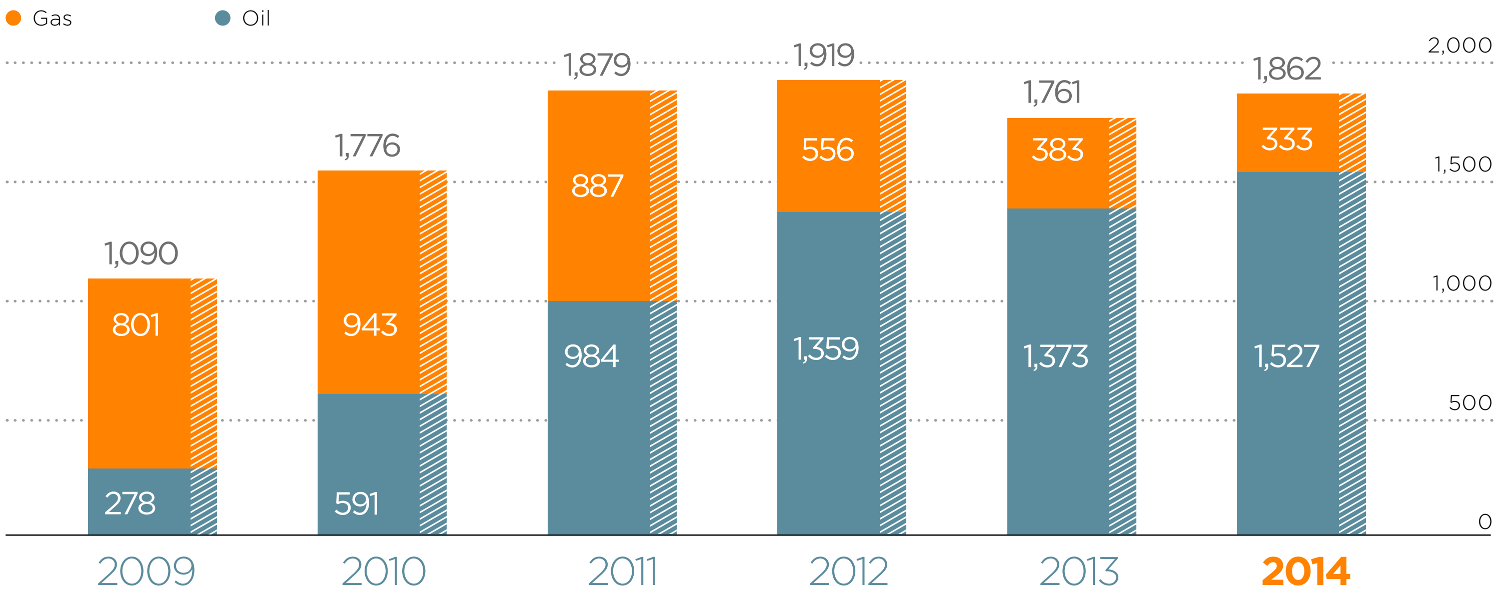
We continue expanding and upgrading our production capacities to meet the needs of high-tech industries. TMK-INOX, a joint venture of TMK and RUSNANO, produces stainless pipe of 8-114 mm, including specialised pipe, used in nuclear, aircraft, automotive, aerospace and energy industries and manufactured in line with the world's best practices as well as Russian and international standards. In 2014, the share of TMK-INOX of the stainless pipe market increase and accounted for 15% compared to 11% in 2013, with its domestic sales volumes up 37%.

4.8 NORTH AMERICAN MARKET

According to Baker Hughes, the average rig count in the US increased by 6% year-on-year to 1,862 in 2014 from 1,761 in 2013, due to an increase in oil drilling activity.

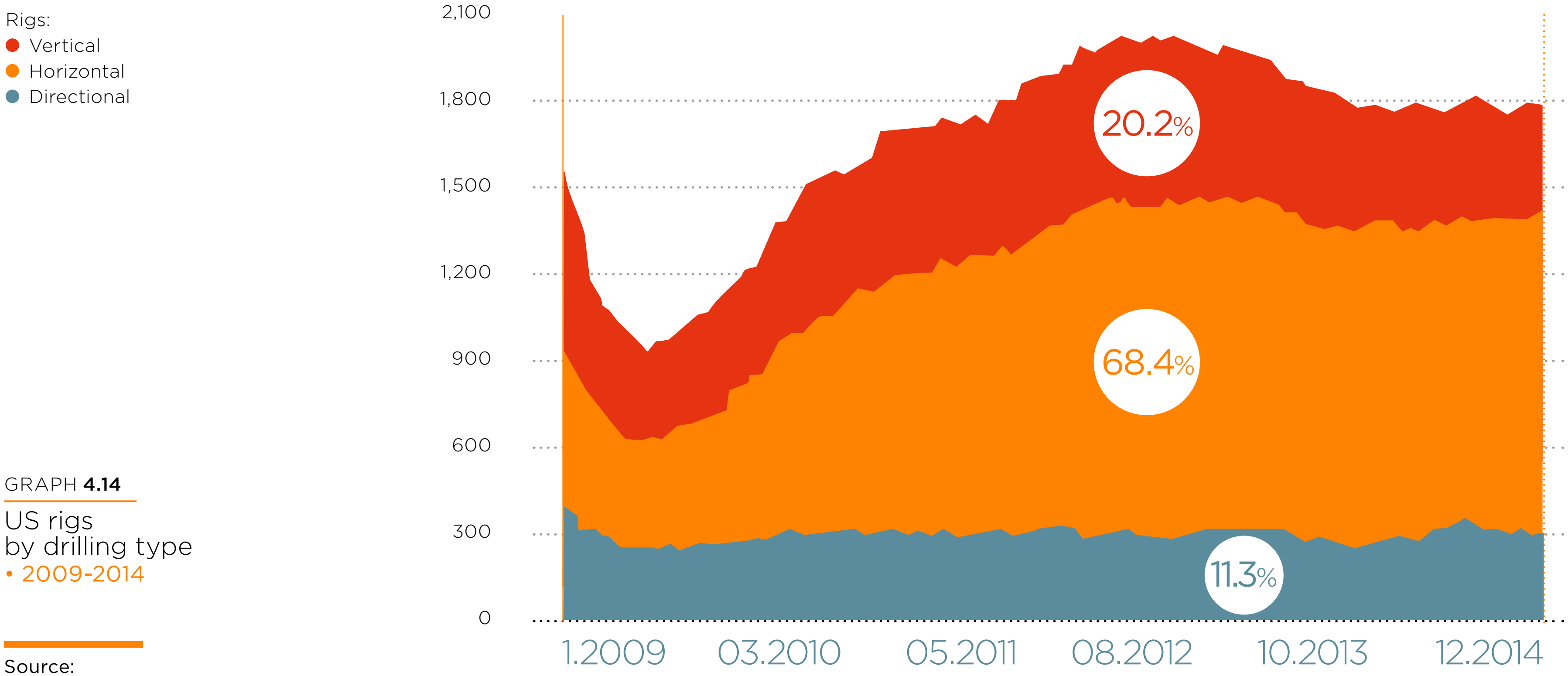
GRAPH **4.13**

US oil and gas rig count • 2009-2014



Source:
Baker Hughes

Further to an increase in rig count, more pipe per rig was used, as operators continued to drill more horizontal wells, which typically consume more pipe. Year-on-year, the combined horizontal and directional rig count grew from 75% of total rigs in 2013 to 80% in 2014.

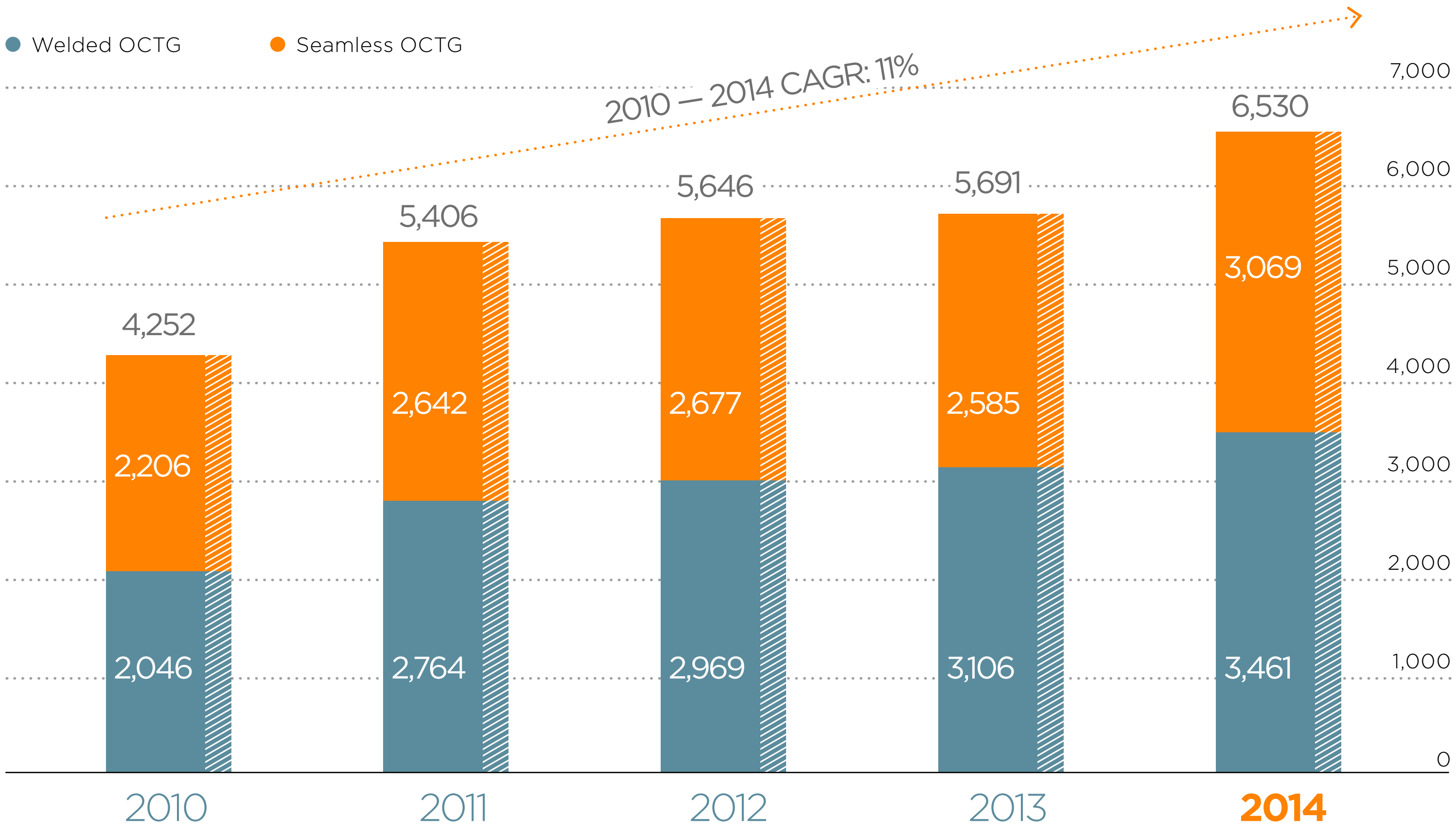


GRAPH **4.14**

US rigs
by drilling type
• 2009-2014

Source:
Baker Hughes

The growth in rig count, combined with an increase in the number of tonnes consumed per rig, due to greater drilling efficiencies and an increase in the number of horizontal wells, led to an estimated increase in US OCTG consumption of 18%.



GRAPH **4.15**

US OCTG consumption • 2010-2014 /thousand tonnes/

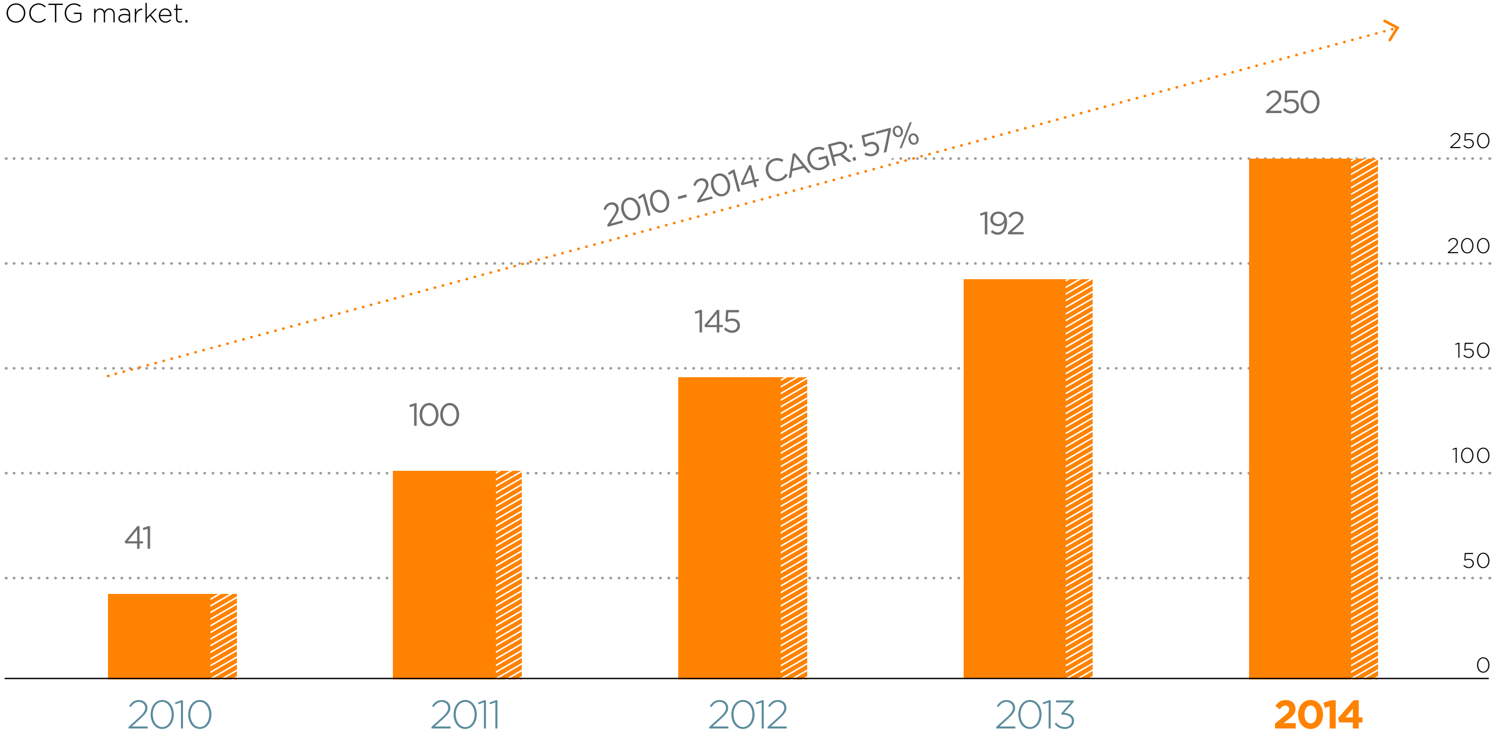
Source: Preston Pipe Report, TMK estimate

Premium connection pipe sales by our American facilities rose to

250 thousand tonnes

A decision to impose anti-dumping duties on OCTG imports to the US from several countries taken in July enabled local producers to increase their share in the OCTG market.

As a result, premium connection pipe sales by our American facilities rose to 250 thousand tonnes.



GRAPH **4.16**

Premium connection pipe sales by the American division

• 2010-2014
/thousand tonnes/

Source: TMK estimate

A key development in both the oil and gas shale plays was a continuation in the improvement of technology, which allowed oil and natural gas producers to increase the number of frac-stages and the length of horizontal wells, which in turn allowed wells to become more productive. As a result, the demand for seamless pipe and higher value added premium connections increased, also from shale oil drillers, as they require better performing pipe for more complex well-designs.

In 2014, TMK IPSCO finalized the design and prototyping of five new premium connections, which the Company expects to test and introduce to the market in 2015. These connections include improvements to legacy connections as well as the design of new connections.

The Company also successfully develops several proprietary steel grades for OCTG, as well as various corrosive resistant grades for OCTG and line pipe.

4.9 EUROPEAN MARKET

CPE PIPE ROLLING LINE
at TMK-ARTROM (Slatina, Romania)

For the full year 2014, the reduced demand and overcapacity led to stronger competition in the European market and downward pressure on prices. Additional challenges came from rising imports of seamless and welded pipe from non-EU countries. Despite the deteriorating market environment, the European division in 2014 sold 185 thousand tonnes of pipe, up 5% year-on-year.

In 2014, the European division took the following steps to retain and strengthen its foothold in the European market:

- launched production of new high-value added steel grades;
- extended the share of products for energy and automotive industries; and
- attested TMK-ARTROM as an authorised supplier for major companies, such as General Electric, Dacia (a subsidiary of Renault) and NIS (Petroleum Industry of Serbia).

4.10 THE MIDDLE EAST MARKET

PIPE PRODUCTS OF TMK GIPI
(Sohar, Oman)

We strive to expand our footprint in major oil and gas regions, including the Middle East. In 2014, TMK's facilities remained committed to building up their reputation with the local oil and gas majors.

TMK GIPI welded line pipe was successfully tested by Kuwait-based Saudi Arabian Chevron and the UAE's Masdar City project. In addition, a number of products by TMK's Russian facilities were qualified by oil and gas companies of the Middle East and North Africa, including Abu Dhabi Company for Offshore Oil Operations (ADCO) based in the UAE, Missan Oil Company in Iraq, Cairn India, Gulf of Suez Petroleum Company (GUPCO), Mansoura Petroleum and East Zeit Petroleum Company (Zeitco) in Egypt.

TMK GIPI, a major producer of tubular products in Oman, continues to assert its leadership in the country and the Middle East supplying line pipe for the oil and gas industry.

In 2013, TMK GIPI received a recognition award from Petroleum Development Oman (PDO) for the successful production and delivery of pipe for the 158 km South Oman Gas Line project. Controlled by the government of Oman, Petroleum Development Oman is a leading oil and gas producer accounting for over 70% of oil and almost entire gas production in the country.

In 2014, TMK GIPI signed a contract to ship 18.4 thousand tonnes of casing pipe to be used by PDO for drilling and well development.

4.11 PREMIUM CONNECTIONS AND OILFIELD SERVICES

We are one of the world's largest premium connections producers and the absolute leader in the Russian premium connections market. Pipe with premium connections is used for oil and gas wells under difficult operating conditions, including offshore, deep-sea and Far North locations, horizontal and directional wells, and hard-to-reach hydrocarbon (shale gas and oil sand) field development. This type of threaded connections offers high strength and tightness, along with enhanced resistance to considerable torsional, bending and tensile stresses.

TMK UP PF
TMK UP PF ET

TMK UP QX

In 2014, the demand for premium connections kept growing; shipments of OCTG with premium connections developed by our Russian and American facilities amounted to 421 thousand tonnes, up 17% year-on-year.

In 2014, TMK's facilities implemented the technology of lubricant-free dry polymer coating for threaded connections — Green Well. The technology requires no lubricant for coupling of casing and tubing pipe, considerably reducing the sinking preparation time and cutting costs of oil and gas producers while developing resources.

TMK UP PF premium connections with Green Well coating successfully passed the ISO 13679 CAL IV test at TMK IPSCO R&D center in Houston, USA.

Last year, TAGMET, TMK's Russian facility, was qualified by Kuwait Oil Company (KOC), a Middle Eastern oil major, as an approved supplier of TMK UP PF and TMK UP PF ET premium connections, offering new opportunities to promote our premium products in the Middle East, one of the largest energy markets.

TMK UP PF connections are used in tubing and casing pipe strings for wells with intense dogleg severity. TMK UP PF ET connection ensures high tightness of the casing at extreme loads and torque, and can be used in complex oil and gas production technologies, such as casing drilling.

In 2014, TMK launched new TMK UP QX premium connection for high-viscosity oil production. Casing pipe with TMK UP QX connections is used by Tatneft at the Ashalchinskoye field in the Republic of Tatarstan.

This connection has high compressive, tensile and bending strength, is compliant with the CAL IV requirements and therefore can be used for hard-to-get oil production. Another distinctive feature of TMK UP QX threaded connection is that it allows inclined drill mast assembly.

The product is used to produce super-viscous oil with steam-assisted gravity drainage (SAGD), where a pair of parallel horizontal wells are drilled: one to inject steam into the formation to heat the oil viscosity, the other to pump out the oil.

TMK UP CWB

TMK UP MAGNA

The shallow oil bearing formations at the Ashalchinskoye field make drift deviation impossible and directional drilling is used. The first sinking of casing with TMK connections was assisted by TMK NGS-Buzuluk's team.

Last year, TMK UP CWB connections were used by Rospan International in casing drilling, which helps to avoid complications, for example, when drilling through formations with different pressures. It was the first time TMK's premium threaded connections were used in this type of drilling.

TMK CWB connections are also used for reaming down to save time in horizontal well construction.

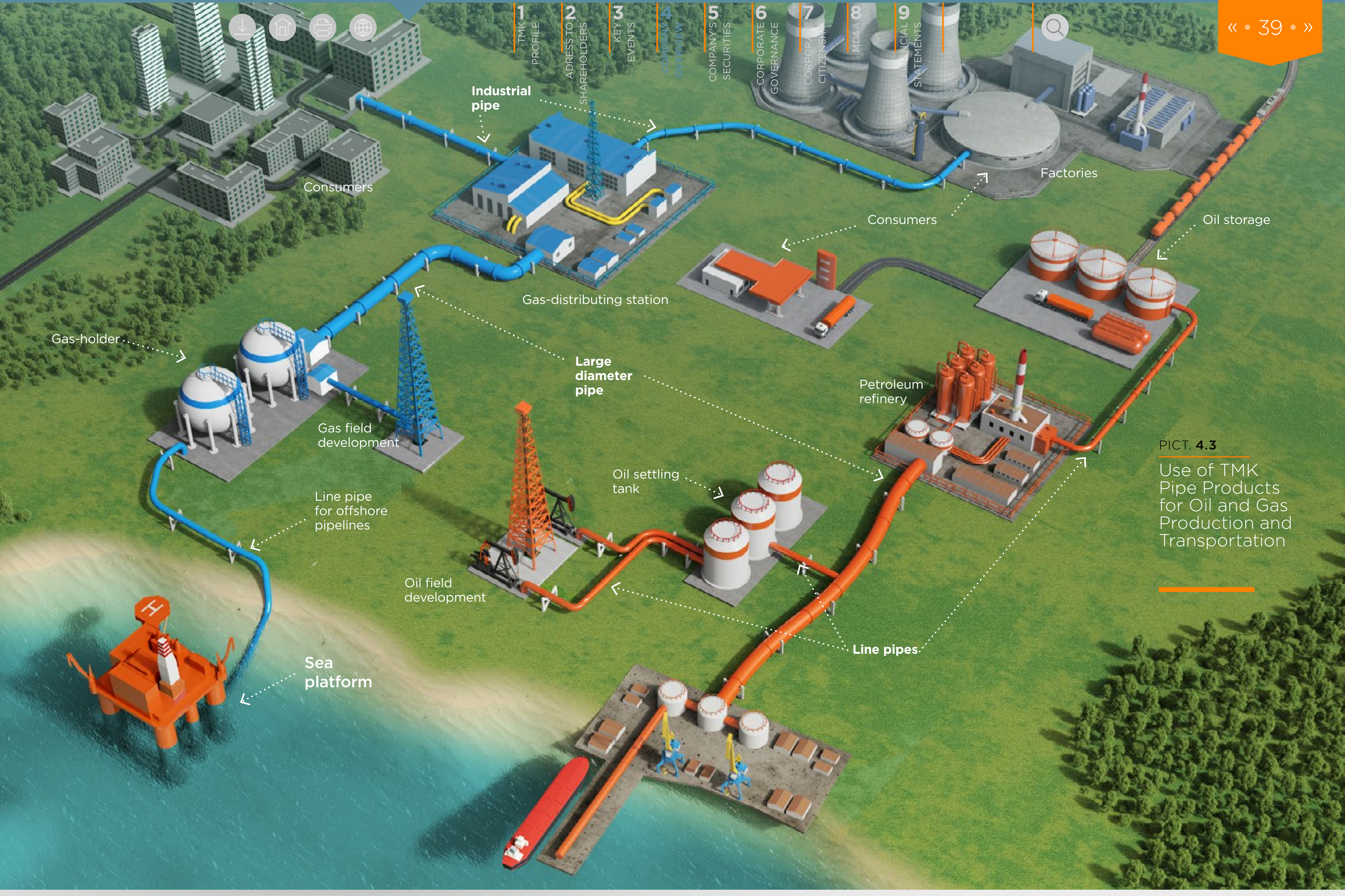
In 2014, we developed and successfully tested TMK UP Magna premium connection for 340-508 mm pipe, which can be used as surface casing. This connection has additional retainers to prevent excessive torsion in sinking and a specific thread profile to ensure easy and safe assembly of large diameter casing pipe.

Our oilfield services include drill, tubing and casing pipe production and repairs, heat treatment, protective coating, production of a vast selection of pipe string components and borehole equipment, as well as pipe threading, pipe and pump rod service and repairs, etc.

In 2014, we enhanced our offering with engineering services for the sinking of casing and tubing pipe with threaded connections, and established a dedicated service center at TMK NGS-Buzuluk. In 2014, the TMK NGS-Buzuluk team oversaw over 50 sinking procedures at the fields of Rosneft-Stavropolneftegaz, LUKOIL-Nizhnevolzhskneft, Tatneft, Yamal LNG, Zhaikmunai, etc.

We also contribute to oilfield service companies' operations. Fox example, we performed sinking for Schlumberger, and Halliburton uses our threading, pipe repair and down-hole equipment manufacturing facilities.

Expansion of range of products and services we offer lies at the core of our development strategy.

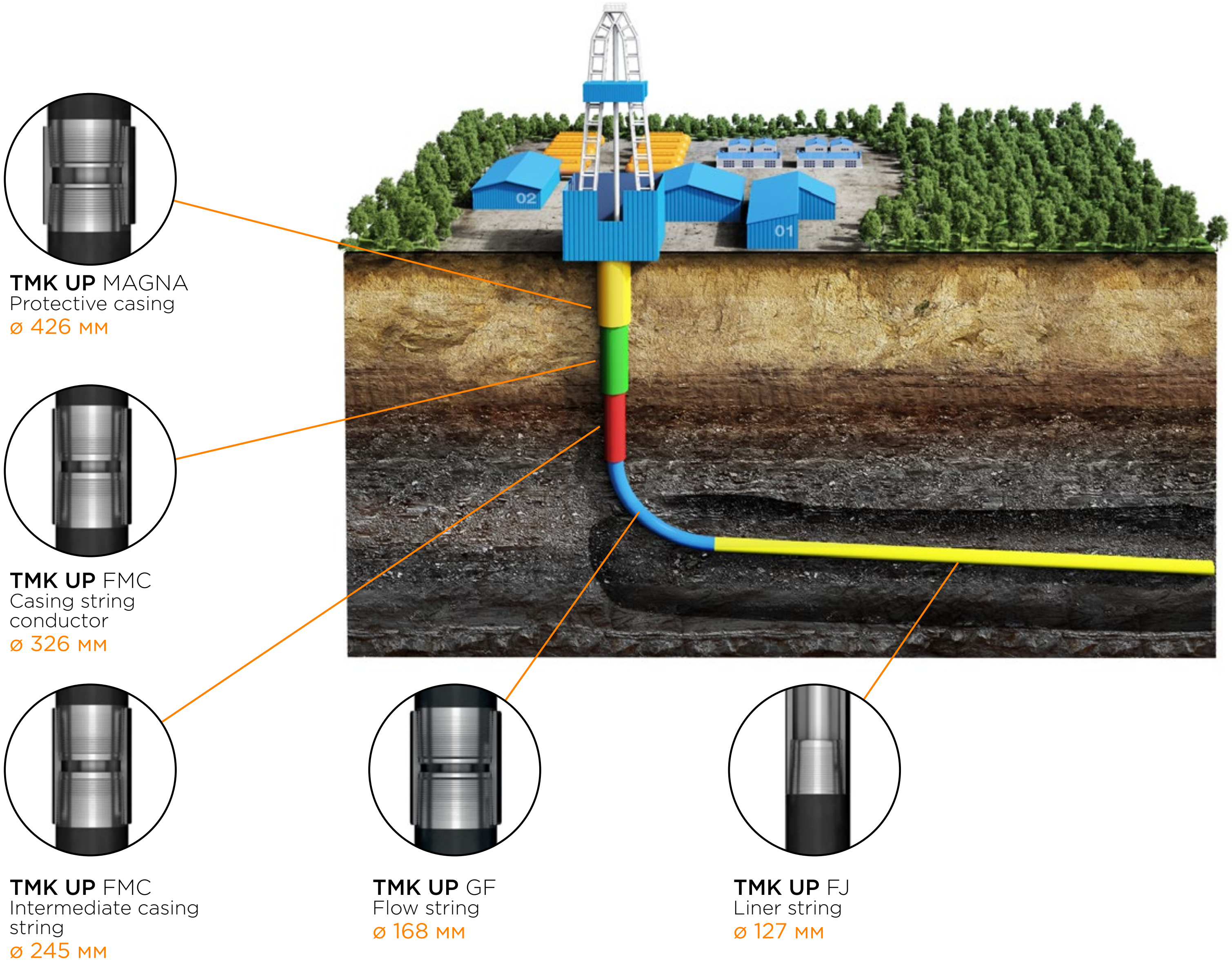


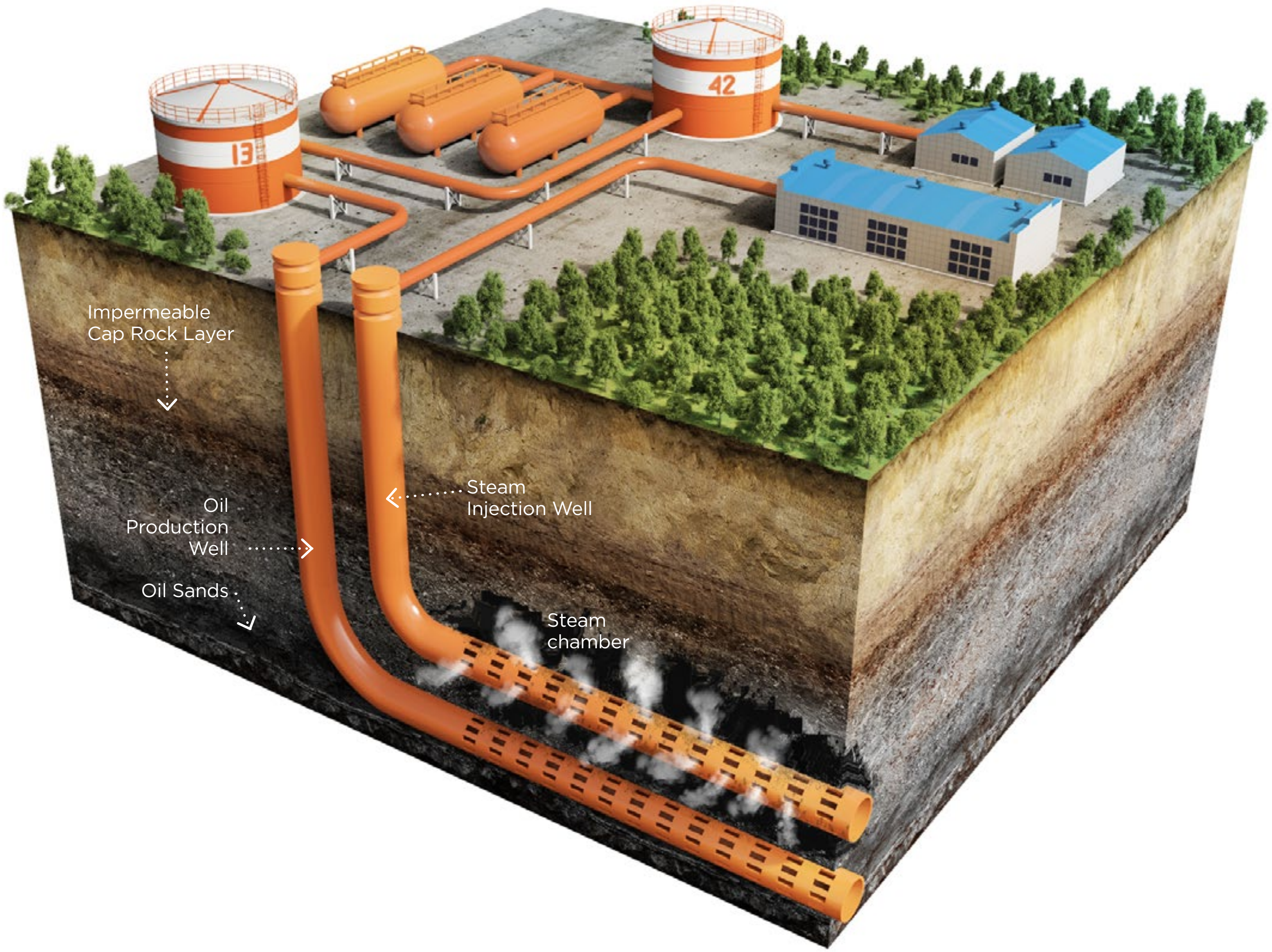
PICT. **4.3**

Use of TMK Pipe Products for Oil and Gas Production and Transportation

PICT. **4.4**

Pipe string with TMK UP Premium Connections





PICT. **4.5**

Steam-assisted gravity drainage (SAGD) technology

4.12 R&D INITIATIVES AND COOPERATION

New technologies and innovative products introduction is the key competitive drivers in the global pipe market. TMK's research centers RosNITI located in Chelyabinsk (Russia) and TMK's Houston-based R&D center (USA) are engaged in extensive research liaising with specialised R&D organizations and universities and aligning scientific and technological cooperation with TMK's major consumers. The centers assist TMK's enterprises in developing new facilities, technologies and products.

The centers mainly focus on:

- boosting economic efficiency of pipe and billets manufacturing;
- streamlining pipe technologies to enhance the product's operational properties, quality and exterior, cut costs, improve working conditions and mitigate environmental impact;
- developing new production capacities of TMK's enterprises;
- creating new technologies to manufacture new products;
- improving regulatory framework and technical documentation, developing national and corporate standards (the Company's local standards) for pipe, billets and flat-rolled products.

We consistently build up our R&D activities. In 2014, TMK signed an agreement with the Skolkovo Joint Directorate on Assets and Services Management on the design and construction of TMK's R&D facility in the Skolkovo Innovation Center. Although completion is scheduled in 2016, the facility has already started its activities as a Skolkovo resident member. To pursue the top priority goals of the Skolkovo Energy Cluster, the center has started working on new technologies and materials for welded pipe used for highly efficient and safe long-haul transportation of hydrocarbons and designing pipe and threaded connections for unconventional and hard-to-reach hydrocarbon fields.

The developments piloted and brought on-stream in 2014 include:

- production technologies for large diameter pipe with improved strain capacity designed for pipelines in seismically active fault zones and tectonically active regions. The new longitudinal welding technological conditions ensure high local viscosity around welded junctions. The pipe prototypes were tested and approved by Gazprom VNIIGAZ;
- new design approaches adopted and applied to technological tools for electric pipe welding machines capable to handle high-strength steels on existing equipment ensuring high quality and consumer properties of small and medium diameter pipe;
- more extensive use of computer simulation methods for the key technological processes of seamless pipe production to enhance the performance of the main pipe rolling mills. A new roll pass design was developed and tested for three-high rolling mills;
- refined requirements for the chemical composition of steel and the production technology of seamless pipe suitable for drilling in adverse conditions based on the results of laboratory tests, tests of prototypes and on-site tests of the new types of pipe for linear pipeline segments;
- optimal steel compositions and heat treatment methods for high-strength T95 and C110-grade tubing and casing pipe resistant to sulphide stress corrosion cracking;
- effective chemical compositions successfully tested for commercial production of cold resistant L80 and C95-grade tubing made of new types of 13Cr steel highly resistant to carbon dioxide corrosion;
- approaches to selecting the right steel compositions for tubing suitable for corroded wells. New steel compositions with various chrome contents were developed to improve pipe resistance to corrosion under typical conditions; tubing with polymer inner coating designed for high-temperature and corrosive environments was brought on-stream.

IN DECEMBER 2014, TMK entered into an R&D cooperation agreement with Gazprom for the period of 2015-2020

In December 2014, we entered into an R&D cooperation agreement with Gazprom for the period of 2015-2020. The agreement outlines a cooperation programme focusing on the development of new tubular products, import substitution initiatives, best practices sharing and joint research. We are planning to develop and launch 25 products, including 10 new products and 15 import replacement products, such as pipe with improved strain capacity for deep water pipelines; tubing, casing and drilling pipe for wells in adverse conditions and offshore projects. The programme actively promotes further steps in the development of TMK's premium products, including products with lubricant-free coating and in application of new compositions and materials. We have been successfully building up R&D cooperation with Gazprom since 2003. The companies signed medium-term R&D cooperation agreements in 2006 and 2012. These helped to launch dozens of new products, including vacuum insulated tubing), 13Cr-grade pipe, high-strength grade pipe used in aggressive environments, etc.

For many years, we have been cooperating with Gazprom Neft and supplying pipe for oil production and transportation, including those with premium threaded connections. Our R&D cooperation programme has been effective since 2013. We have jointly concluded that TMK's production capacity, product range and R&D potential as well as geography of its assets enables the Company to meet Gazprom Neft's ongoing and future demand for any type of tubular products for both onshore and offshore projects. We decided to expand the scope of our cooperation with Gazprom Neft to set up a technological partnership, We signed a technological partnership programme for 2015-2017. The programme mainly focuses on developing and supplying new and import replacement products, providing services, supporting conceptual engineering for well construction equipment and technologies and looking into an opportunity to create a single R&D platform for the development of Gazprom Neft's new complicated oil fields. Another work stream of the programme focuses on integrated well completion, also by applying multi-stage hydraulic fracturing.

5. COMPANY'S SECURITIES

TMK'S SHARES

As at 31 December 2014, 24.93 % of OAO TMK shares were free float, with approximately 70 % of them traded as GDRs on the London Stock Exchange.

TMK'S SHAREHOLDERS » P. 47

TMK SECURITIES

5. COMPANY'S SECURITIES

SHARE CAPITAL AND DIVIDENDS

As of 1 January 2014, the share capital of OAO TMK was comprised of 937,586,094 fully paid-up ordinary shares, each with a nominal value of RUB 10.

In June 2014, OAO TMK Board of Directors made a decision to increase the authorised capital through a public offering of 56,000,000 additional shares at a price of RUB 101.25 per share.

In December 2014, the Company issued 54,321,166 shares. The bulk of TMK's additional shares was acquired by RUSNANO, which became the holder of 5.476% of OAO TMK's shares. The other shareholders owning 5% of votes or more remained the same in 2014.

As at 31 December 2014, the number of fully paid-up ordinary shares issued by OAO TMK was 991,907,260.

In accordance with the changes to the authorised capital of OAO TMK in Q1 2015, now it totals nine billion nine hundred and nineteen million seventy two thousand six hundred roubles (RUB 9,919,072,600) and is divided into nine hundred and ninety-one million nine hundred and seven thousand two hundred and sixty (991,907,260) ordinary registered shares with a nominal value of ten roubles (RUB 10) each (outstanding shares).

OAO TMK does not have any preferred shares, either outstanding or authorised.

NUMBER OF SHARES AS AT 31 DECEMBER 2014:

	Number of shares	%
TMK Steel Ltd, incl. affiliates*	672,030,999	67.75%
TMK subsidiaries	53,577	0.005%
TMK Bonds S.A.**	71,505,956	7.21%
Rockarrow Investments Limited	1,014,095	0.102%
Free float	247,302,633	24.93%
TOTAL:	**991,907,260**	**100.00%**

As at 31 December 2014, 24.93% of OAO TMK shares were free float, with approximately 70% of them traded as GDRs on the London Stock Exchange. OAO TMK Board of Directors and Management held a total of 457,690 shares, or 0.046% of the authorised capital.

OAO TMK securities are listed on the Russian and international stock exchanges.

Shares are listed on the Moscow Exchange under the TRMK ticker (Bloomberg: TRMK:RM/Reuters: TRMK.MM).

GDRs are listed on the London Stock Exchange under the TMKS ticker (Bloomberg: TMKS:LI/Reuters: TRMKq.L).

	REG.S	144A
CUSIP:	87260R201	87260R102
SEDOL:	B1FY0V4	B1G3K21
ISIN:	US87260R2013	US87260R1023

American depository receipts (ADR) are traded on the OTC platform (OTCQX) under the TMKXY ticker (Bloomberg: TMKXY:US/Reuters: TMKXY.PK).

CUSIP:	87260R300
SEDOL:	B4VF6B4
ISIN:	US87260R3003

* The main beneficiary is Dmitry Pumpyanskiy.

** TMK Bonds S.A. holds 17,876,489 global depositary receipts (GDR) of TMK, representing 71,505,956 OAO TMK shares, or 7.21% of the authorised capital, to secure commitments to convert the bonds issued by TMK Bonds S.A. in February 2010, totalling USD 412.5 m and maturing in 2015, into TMK GDRs. These bonds were fully redeemed on 11 February 2015.

DIVIDEND HISTORY:

PERIOD	DIVIDENDS DECLARED PER SHARE*, RUB	TOTAL DECLARED DIVIDENDS, RUB	DIVIDENDS PAID** VERSUS TOTAL DIVIDENDS DECLARED, %
2008	1.75	1,527,751,750.00	99.99%
2009	-	-	
2010	0.85	796,948,180.00	99.98%
2011	3.63	3,403,437,521.22	99.98%
2012	2.34	2,193,951,459.96	99.98%
2013	1.82	1,706,406,691.08	99.98%
1H 2014	**0.397**	**393,786,159.48**	**99.98%**

As at 31 December 2014, TMK market capitalisation totalled USD 533 m.

* The specified amount of dividends declared per share is the amount of interim and annual dividends declared per share, excluding the interim dividends for 2008 and 1H 2014

** dividends were not fully paid because of the failure of certain shareholders to provide accurate banking details or failure to reach shareholders at the addresses attached to their accounts

6.

CORPORATE GOVERNANCE REPORT

GOVERNANCE PRINCIPLES

We are systematically improving our corporate governance framework by introducing the best practices and fully complying with applicable laws and listing requirements.

TMK'S CORPORATE GOVERNANCE STRUCTURE » **P. 51**

TMK CORPORATE GOVERNANCE

6.1

OAO TMK BOARD OF DIRECTORS' STATEMENT OF COMPLIANCE WITH THE CORPORATE GOVERNANCE PRINCIPLES SET OUT IN THE CORPORATE GOVERNANCE CODE RECOMMENDED BY THE BANK OF RUSSIA TO ISSUERS OF SECURITIES ACCEPTED FOR TRADING ON THE OFFICIAL MARKET

The scale of TMK's operations and its engagement in both Russian and foreign stock markets impose a high degree of responsibility. We are systematically improving our corporate governance framework by introducing the best practices and fully complying with applicable laws and listing requirements.

2011 saw TMK, a company with a London Stock Exchange standard listing, adopt the Corporate Governance Code of OAO TMK. The Company strictly complies with the Code in its business and annually confirms it in reports.

In 2014, we started aligning our internal documents and corporate governance procedures with the new MICEX Stock Exchange listing rules that were approved on 31 December 2013. Due to the Russian financial market regulator's adopting a new Russian Corporate Governance Code, TMK needed more time to incorporate its provisions into its own framework.

The Corporate Governance System of OAO TMK is based on the Russian Corporate Governance Code principles, with certain implementation mechanisms to some extent different from the Code's recommendations. TMK's corporate governance practices are regulated by the Company's internal policies available on TMK's web site (http://www.tmk-group.ru/Documents), and generally reflected in TMK's Corporate Governance Code (http://www.tmk-group.ru/media_ru/files/51/corp_gov_code_ru.pdf). In 2014, TMK's corporate governance practices were in full compliance with the Company's Corporate Governance Code.

This Report briefly describes the most significant aspects of TMK's corporate governance model and practices, including the Report on the Company's compliance with the principles and recommendations set out in the Corporate Governance Code. Compliance with the Russian Corporate Governance Code principles was assessed in accordance with the methodology recommended by the MICEX (http://moex.com/s22).

We are steadfast in our commitment to the Russian Corporate Governance Code principles, which we are going to continue to roll out to the benefit of all stakeholders. Another step in this process will be the adoption of a new version of TMK's Corporate Governance Code.

6.2

OAO TMK'S CORPORATE GOVERNANCE STRUCTURE

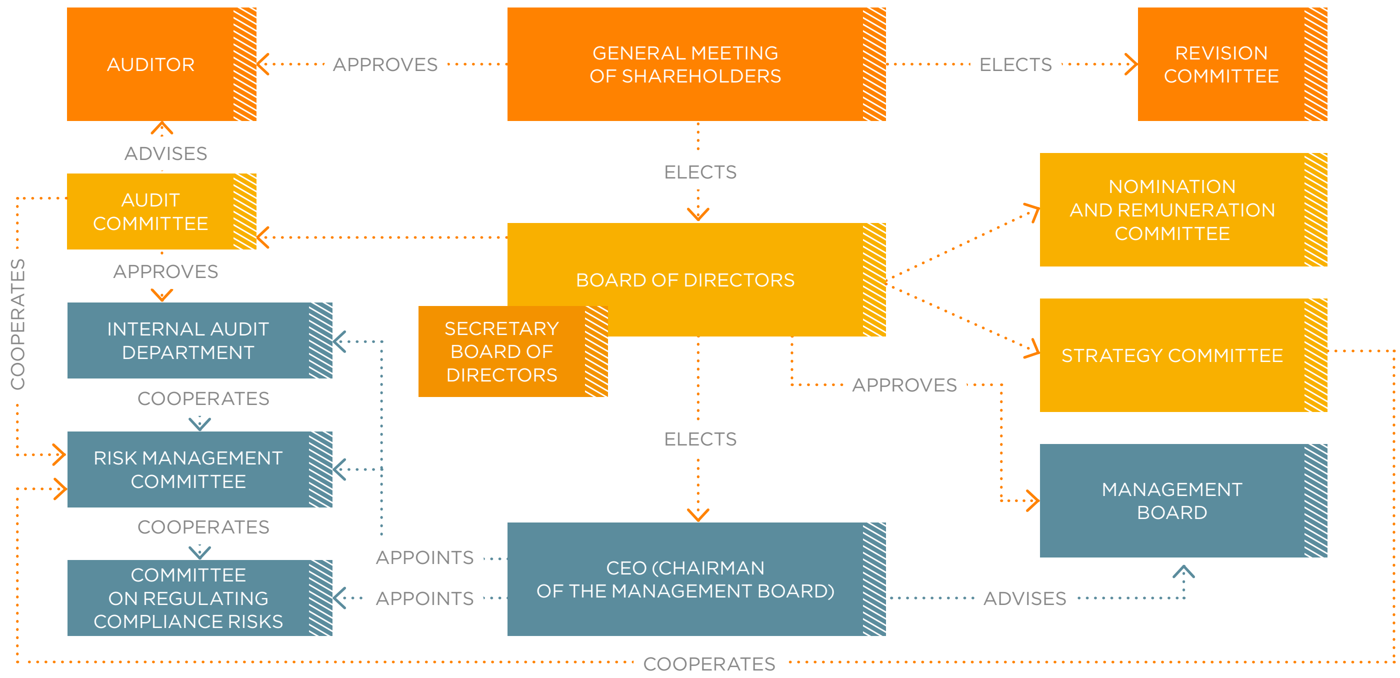
The General Meeting of Shareholders is OAO TMK's supreme governance body, with the primary powers delegated by shareholders to the Board of Directors. In order to ensure the Company's day-to-day management, the Board of Directors elects the CEO and approves the members of the Management Board as advised by the CEO. The Board of Directors also nominates candidates to executive bodies and to the boards of directors of OAO TMK's controlled entities.

It establishes committees whose resolutions are of an advisory nature.

To ensure efficient control over the Company's financial and economic activities, as well as compliance with the Russian laws and regulations, the General Meeting of Shareholders elects the Revision Committee and approves the Company's auditor.

SCHEME **6.1**

OAO TMK's corporate governance structure



6.3

RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS

Shareholders may exercise their rights set forth in the Company's Articles of Association primarily by participating in the General Meeting, as well as by determining the amount and procedures of dividend payment. We comply with all recommendations on material corporate actions, which allows us to protect the rights of shareholders and ensure equitable treatment.

The General Meeting of Shareholders is convened annually. In addition, extraordinary meetings may be held, if so resolved by the Board of Directors or requested by the Revision Committee, auditor or shareholder (s) holding at least ten per cent of shares.

Shareholders owning at least two per cent of shares may put forward proposals as regards the agenda for the Annual General Meeting, propose candidates to the Board of Directors, the Revision Committee, and the Counting Commission, as well as convene Board of Directors meetings.

In 2014, the Annual General Meeting of Shareholders was held along with one extraordinary meeting. The meetings' agenda included, inter alia, approval of the Company's annual report and annual financial statements, distribution of profits for 2013 and 1H 2014, election of the Board of Directors and the Revision Committee, auditor approval, and approval of related-party transactions.

Our Dividend Policy sets out the key terms for paying out dividends, the procedure for determining their amount and for a resolution to pay them, as well as responsibility for partial or delayed payment (http://www.tmk-group.ru/media_ru/files/51/divpolicy_150307_l.pdf). See the Company's Securities section for details on dividend payments in 2014.

6.4 BOARD OF DIRECTORS

MEMBERS OF THE BOARD

TMK's Board of Directors is structured to ensure the balance of experience, qualifications and independence of directors, which enables the Board to manage the Company in an efficient and competent manner and make fair and independent judgements and decisions in line with the best interests of TMK and its shareholders. The Board of Directors is composed of persons with impeccable business and personal reputations, as well as skills and expertise to efficiently perform its functions. In 2014, the Board did not change and consisted of eleven directors.

As of the Annual Report date, five out of eleven directors were independent: they did not depend on the Company's officials, affiliates, significant counterparties and competitors or state agencies that might challenge their impartiality. The directors are independent in accordance with both TMK's and Russian Corporate Governance Codes. Their independent status is to be confirmed by the Nomination and Remuneration Committee each time they are elected to the Board.

Following the Annual General Meeting of Shareholders of 19 June 2014, the Board of Directors of TMK was re-elected and as at 31 December 2014 it was composed as follows:

Dmitry
PUMPYANSKIY

Chairman of the Board of Directors, non-executive director. Born in 1964. Graduated from Kirov Urals Polytechnic Institute in 1986. PhD in Technical Sciences, Doctor of Economics. Founder and beneficial owner of TMK. Has been with TMK since 2002, Chairman of the Board of Directors since 2004. Mr Pumpyanskiy was awarded a second class Medal of the Order for Merit to the Fatherland, a forth class Order for Merit to the Fatherland and Order of Honour, is a Russian Government prize winner in Science and Technology, was conferred a Honorary Metallurgist title and pronounced the winner of the 6th Director of the Year National Award in Chairman of the Board: Contribution to the Development of Corporate Governance nomination in 2011. Currently actively engaged in public work aimed at fostering the Russian metals industry. Fields of interest: metals industry economics and physics of metals. Authored 4 monographs and over 70 scientific papers.

Principal place of employment:
President at Sinara Group.

Relevant experience:
Member of the Management Board of the Chamber of Commerce and Industry of the Russian Federation, Chairman of the Board of Trustees of the Russian Ski-Jumping and Nordic Combined Federation, Chairman of the Supervisory Board of the Ural Federal University, member of the Board of Directors of Sinara — Transport Machines, SKB-Bank and Non-profit Organisation Foundation for Development of the Center for Elaboration and Commercialisation of New Technologies, member of the Board of Trustees of the ISTOKI Endowment Fund, President of the Regional Employers' Association — Sverdlovsk Regional Union Of Industrialists And Entrepreneurs (employers), Chairman of the Board of Directors of Sinara Group, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, member of the Supervisory Board of Non-Profit Partnership Russian Steel. Formerly, Board member at various industrial and financial companies, CEO at TMK, top executive at Russian metals and pipe companies.

Directly holds 0.007% **in the authorised capital of TMK.**

Mikhail
ALEKSEEV

Independent director, Chairman of the Nomination and Remuneration Committee, member of the Audit Committee. Member of the Board of Directors since 2011. Born in 1964. Graduated from the Moscow Finance Institute in 1986 and completed a post-graduate degree programme there in 1989, Doctor of Economics.

Principal place of employment:
Chairman of the Management Board of UniCredit Bank.

Relevant experience:
Chairman of the Board of Directors of RN Bank, member of the Board of Directors, member of Aeroflot's Audit Committee, member of the Management Board of BARN B. V. (the Netherlands), member of the boards of the Association of Russian Banks and Association of Regional Banks of Russia, Chairman of the Supervisory Board of UniCredit Leasing, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs. Formerly, member of the Board of Directors and the Board's Strategy Committee at Rostelecom, member of the Board of Directors of MICEX, a number of financial companies, Chairman of the Board and CEO of Rosprombank, Senior Vice President and Deputy Chairman of the Management Board of Rosbank, Deputy Chairman of the Management Board of ONEXIM Bank, Board member at Intersectoral Commercial Bank (Mezhkombank), Deputy Head of the General Directorate of the Ministry of Finance of the USSR.

Holds no shares in TMK.

Elena
BLAGOVA

Executive Director, has been with TMK simce 2007, member of the Board of Directors since 2013. Born in 1959. Graduated from the Chelyabinsk Lenin Komsomol Polytechnic Institute in 1982 and the Moscow State Open University in 1993, was awarded a second class Medal of the Order for Merit to the Fatherland and a Honorary Metallurgist title.

Principal place of employment:
Deputy CEO for Special and New Projects at TMK.

Relevant experience:
Member of the Board of Directors of the Volzhsky Pipe Plant, Managing Director of the Volzhsky Pipe Plant.

Holds 0.003% **in the authorised capital of TMK.**

Andrey
KAPLUNOV

Executive Director. Has been with TMK since 2001, member of the Board of Directors since 2005. Born in 1960. Graduated from the Moscow Finance Institute in 1982 and later completed a postgraduate degree programme there, PhD in Economics. Commended by the Ministry of Industry and Trade of the Russian Federation.

Principal place of employment:
First Deputy CEO of TMK.

Relevant experience:
Member of the Management Board of TMK, Board Chairman at TMK's Russian pipe plants and TMK Trade House, member of the Board of Directors of Sinara Group, Deputy Chairman of the Board of Directors of SKB-Bank, Board member at the Big Pension Fund, member of the Board of Trustees of the Sinara Mini-Football Club (Sverdlovsk Regional Sports Non-Governmental Fund). Formerly, Director of the HR and Development at Inkombank and Rosbank, Vice President of Guta-Bank, Deputy Head of the Currency and Finance Department at Zarubezhneft, Associate Professor at the Economic Theory Department of the Moscow Finance Institute.

Holds 0.0116% **in the authorised capital of TMK.**

Peter
O'BRIEN

Independent Director, Chairman of the Audit Committee. Member of the Board of Directors since 2012. Born in 1969. Graduated from Duke University (USA) in 1991 and obtained an MBA from Columbia University Business School in 2000. Took a course in AMP (Advanced Management Program) at Harvard Business School in 2011. In 2008, Mr O'Brien won the National Award of the Independent Directors Association in a special category Contribution to the Improvement of Corporate Transparency.

Relevant experience:
Member of the Board of Directors and Chairman of the Audit Committee at IGSS, member of the Supervisory Board of the European Pension Fund. Formerly, Chairman of the Board of Directors at RusRailLeasing, member of the Board of Directors and Chairman of the Audit Committee at HRT Partipacoes, member of the Management Board, Vice President, Head of the Group of Financial Advisors to the President of Rosneft, Executive Director of Morgan Stanley in Russia, Vice President at Troika Dialog Investment Company, officer at the Press Center of the US Department of the Treasury.

Holds no shares in TMK.

Sergey
PAPIN

Non-executive director, member of the Board of Directors since 2005, member of the Nomination and Remuneration Committee. Has been with TMK since 2002. Born in 1955. Graduated from the Donetsk Polytechnic Institute in 1977. Mr Papin was awarded a Badge of Honour and a certificate of merit from the Ministry of Industry and Energy of the Russian Federation.

Principal place of employment:
Vice President at Sinara Group.

Relevant experience:
Vice President, member of the Board of Directors of Sinara Group, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, member of the Boards of Directors of Kalugaputmash, Ural Locomotives, Burgas Resort, Arkhyz — Sinara, Sinara — Transport Machines. Formerly, member of the Boards of Directors of Intourist-Sinara, Lyudinovsky Locomotive Plant, Ural Locomotives (formerly, Ural Rolling Stock Manufacturing Plant), Deputy CEO for External and Special Projects at TMK, Vice President of Inkombank and Guta-Bank.

Holds 0.008% **in the authorised capital of TMK.**

Robert Mark
FORESMAN

Independent director, member of the Nomination and Remuneration Committee. Member of the Board of Directors since 2012. Born in 1968. Graduated from Bucknell University (USA) in 1990 and Harvard University Graduate School of Arts and Sciences in 1993. Obtained a certificate from the Moscow Power Engineering Institute in 1989.

Principal place of employment:
Managing Director of Barclays PLC, Barclays Country Manager for Russia.

Relevant experience:
Head of Barclays Capital in Russia; formerly, member of the Supervisory Board of Vnesheconombank's VEB Capital, Deputy Chairman of the Management Board at Renaissance Capital, member of the Supervisory Board of Evrofinance Mosnarbank, Chairman of the Management Committee for Russia and CIS at Dresdner Kleinwort Wasserstein, Head of Investment Banking for Russia and CIS at ING Barings. Worked for the International Finance Corporation on private equity transactions and project financing.

Holds no shares in TMK.

Igor
KHMELEVSKIY

Non-executive director, member of the Audit Committee. Has been with TMK since 2003, member of the Board of Directors since 2004. Born in 1972. Graduated from the Ural State Law Academy and Shadrinsk State Pedagogical Institute in 1995, awarded a certificate of merit from the Ministry of Industry and Energy of the Russian Federation.

Principal place of employment:
Vice President at Sinara Group.

Relevant experience:
Member of the Board of Directors of Sinara Group, Director of Bravecorp Limited, Tirelli Holdings Limited, TMK Steel Limited and Sinara Capital Management. Formerly, Director of Fudberg Holding Ltd and TMK Global AG, Member of the Administrative Board of TMK — Artrom S. A., Deputy CEO for Legal Practice at TMK, Head of the Legal Department at Sinara Group.

Holds no shares in TMK.

Oleg
SCHEGOLEV

Independent director, member of the Strategy Committee. Member of the Board of Directors since 2012. Born in 1962. Graduated from the Moscow Finance Institute in 1984.

Relevant experience: First Vice President at Russneft, First Deputy Chairman of the Management Board and First Deputy CEO at Itera, Executive Director at Slavneft, Chairman and Board member at various oil & oilfield service companies, Deputy Head of the Department for Long-term Planning of the Fuel and Energy Complex at the Ministry of Energy of the Russian Federation, chief expert, deputy head, head of department at Sibneft (now Gazprom Neft).

Member of the Supervisory Board of the Independent Directors Association (IND) of Russia.

Holds no shares in TMK.

Alexander
SHIRYAEV

Executive director. Member of the Strategy Committee. Has been with TMK since 2003, member of the Board of Directors since 2005. Born in 1952. Graduated from the Sverdlovsk Institute of National Economy in 1991. Mr Shiryaev was awarded by the Sverdlovsk Region with a second class Badge of Merit and an Honorary Metallurgist title.

Principal place of employment:
CEO of TMK.

Relevant experience:
Chairman of the Management Board of TMK, Board member at TMK's Russian pipe plants, Chairman of the Board of Orsky Machine Building Plant, member of the Board of Sinara Group and TMK Trade House. Formerly, Deputy CEO for Development and CEO at Sinara Group, Chief Financial Officer at TMK, CEO at Uralshina.

Holds 0.017% **in the authorised capital of TMK.**

Alexander
SHOKHIN

Independent director, Chairman of the Strategy Committee. Member of the Board of Directors since 2008. Born in 1951. Graduated from Lomonosov Moscow State University in 1974. PhD, Doctor of Economics, Professor. Mr Shokhin was awarded with a third and a fourth class Orders for Merit to the Fatherland, Order of Honour, second class Order of Holy Prince Daniel of Moscow and a medal in commemoration of the 850th Anniversary of Moscow. In 2008, he won the National Award of the Independent Directors Association in the Independent Director nomination.

Principal place of employment:
President of the Russian Union of Industrialists and Entrepreneurs.

Relevant experience:
The Russian Union of Industrialists and Entrepreneurs, President of the National Research University Higher School of Economics, Chairman of the Renumeration and Personnel Committee at Russian Railways, member of the Board of Directors of UTLS, JSC, Chairman of the Audit Committee at Burovoya Kompaniya Eurasia (BKE), member of International Advisory Board — Senior Advisor at Bank of America Merrill Lynch,. Formerly, member of the Board of Directors of Russian Railways, member of the Board of Directors of Baltika Breweries, Fortum, TNK-BP Limited, Lukoil, Burovaya Kompaniya Eurasia, member of the Public Chamber of the Russian Federation, Chairman of the Supervisory Board at Renaissance Capital Investment Group, deputy of the State Duma (three convocations), Minister of Labour and Employment and Minister of Economy, Head of the Russian Agency for International Cooperation and Development, worked as Deputy Head of the Russian Government twice, former Russia's representative to the IMF and World Bank.

Holds no shares in TMK.

As at 31 December 2014, the members of the Board of Directors held no interests in affiliated companies and did not enter into TMK shares acquisition/disposal transactions; there is no conflict of interest.

Maxim
KURBATOV

Secretary of the Board of Directors (Corporate Secretary). Born in 1967. Graduated from Kirov Urals Polytechnic Institute, the Academy of National Economy under the Government of the Russian Federation and the Moscow State Law Academy.

Has been with TMK since 2002. Headed the CEO's Executive Office and the Corporate Governance function at TMK.

Has been the Secretary of the Board of Directors since 2005.

According to the Independent Directors Association, four of TMK's independent directors were on the list of the 50 best independent directors in 2014.

ACTIVITIES OF THE BOARD OF DIRECTORS IN 2014

In 2014, the Board of Directors held 30 meetings, including eight meetings in person.

The most significant and complex issues discussed at the Board meetings:

- TMK's investment programme for 2015;
- TMK's target structure for 2015;
- TMK's consolidated budget for 2015;
- TMK's management accounts and consolidated financial statements;
- development of a uniform compensation policy at TMK's American Division;
- approval of TMK's Business Plan for 2014-2020;
- implementation of the performance improvement programmes;
- streamlining TMK's governance structure;
- adjustment of the 2014 investment programme;
- independent assessment of the Board's performance;
- recommendations for the General Meeting of Shareholders on the dividend payout for 2013 and interim dividend payout for 1H 2014.

REMUNERATION TO THE MEMBERS OF THE BOARD OF DIRECTORS

In accordance with Russian laws (Article 64 of the Federal Law On Joint Stock Companies), members of the Board of Directors may be remunerated, if so resolved by the General Meeting of Shareholders. TMK shareholders have adopted the following principles and procedures outlined in the Regulations on the Board of Directors with respect to its remuneration:

- only non-executive directors are entitled to remuneration for the performance of their duties;
- the remuneration is to be fair and is to match long-term interests of shareholders;
- the remuneration to be paid includes:
  — a fixed base remuneration of the Chairman or a member of the Board payable on a monthly basis in the amount of 1/12 of the fixed annual amount;
  — additional remuneration for the performance of the duties of the Chairman or a member of a Board Committee payable every six months in the amount of 1/2 of the approved annual additional remuneration;
- payments to the members of the Board of Directors are governed by the terms of the Standard Contract approved by the General Meeting of Shareholders.
- the amount of remuneration payable to a member of the Board of Directors is to be decided by the General Meeting of Shareholders on the basis of the Board of Director's recommendations.

The Board of Directors is comprised of 5 independent directors, 3 non-executive directors and 3 executive directors.

In 2014, the members of the Board of Directors received a total of USD 1.89 m of remuneration.

6.5

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has three standing committees: Audit Committee, Nomination and Remuneration Committee and Strategy Committee. The committees have been formed in compliance with the Corporate Governance Code of OAO TMK, which specifically requires that the Audit Committee and the Nomination and Remuneration Committee include independent directors only or, if reasonably impossible, independent directors and non-executive directors only.

Committee members remained unchanged in 2014.

PARTICIPATION OF BOARD MEMBERS IN BOARD AND COMMITTEE MEETINGS IN 2014

	Board of Directors	Audit Committee	Nomination and Remuneration Committee	Strategy Committee
	(30 meetings)	(9 + 1 joint meetings)	(7 + 1 joint meetings)	(5 + 2 joint meetings)
D. Pumpyanskiy (Chairman)	30			
M. Alekseev	30	6	8	
A. Kaplunov	30			
Peter O'Brien	30	10		
S. Papin	30		8	
E. Blagova	27			
R. Foresman	28		6	
I. Khmelevskiy	30	10		
A. Shiryaev	30			7
A. Shokhin	30			7
O. Schegolev	30			7

AUDIT COMMITTEE

Peter O'Brien	Chairman of the Audit Committee, independent director
M. Alekseev	Member of the Audit Committee and Chairman of the Nomination and Remuneration Committee, independent director
I. Khmelevskiy	Member of the Audit Committee, non-executive director

Peter O'Brien, Chairman of the Audit Committee, and M. Alekseev, Member of the Audit Committee, comply with the Russian Corporate Governance Code recommendations for the reporting review and assessment competencies.

In 2014 and from 1 January 2015 to 31 March 2015, the Audit Committee's principal activities included the following:

- analysis of the accounting policies and oversight of the Company's financial statements;
- review of the Company's standards and procedures for internal control and risk management, assessment of the efficiency of the respective systems and development of recommendations for their improvement;
- review of the plans and reports of the Internal Audit Department, including as regards preventing the abuse of the insider information, assessment of the Department's performance;
- cooperation with the Revision Committee;
- presentation of recommendations to the Board of Directors as regards selecting an external auditor, assessment of the external auditor's independence;
- review of the audit plan and scope, active discussions with the external auditor of matters arising out of the audit.

OVERSIGHT OF THE EXTERNAL AUDIT BY THE AUDIT COMMITTEE

The Committee reviewed the following key matters regarding the preparation and audit of TMK's FY 2014 and interim consolidated and separate accounting (financial) statements:

- development of the audit plan for the consolidated financial statements of TMK Group (TMK and subsidiaries) prepared for the financial year in accordance with the International Financial Reporting Standards (IFRS);
- external auditor's opinion on TMK's accounting (financial) statements prepared under the Russian law and on TMK Group's consolidated financial statements in accordance with IFRS;
- review of the letter from TMK's external auditor regarding the internal control issues based on the results of the annual audit, assessment of the Company's existing controls for the preparation of financial statements;
- assessment of the external auditor's performance and work quality;
- selection of an external independent auditor of TMK's consolidated and separate accounting (financial) statements for 2015-2017.

The Audit Committee has reviewed TMK's financial statements prepared under the Russian accounting (financial reporting) standards together with the auditor's opinion and has recommended that the Board of Directors submit the annual accounting (financial) statements for approval at the Annual General Meeting of Shareholders.

The Committee reviewed and gave a positive assessment of external and internal audit.

NOMINATION AND REMUNERATION COMMITTEE

M. Alekseev	Chairman of the Nomination and Remuneration Committee and member of the Audit Committee, independent director
S. Papin	Member of the Audit Committee, non-executive director
Robert Mark Foresman	Member of the Nomination and Remuneration Committee, independent director

The Nomination and Remuneration Committee seeks to create a favourable environment for the engagement of qualified personnel in the Company's governance and incentives for their efficient performance, as well as to streamline the corporate governance system and align it with the best international practices.

In the reporting period, the Committee reviewed and presented to the Board of Directors recommendations that included:

- assessment of the performance of the Company's top executives in the previous reporting period, core KPIs and incentive terms for the next planning period;
- matters related to development of a uniform compensation policy at TMK's American Division;
- matters pertaining to standardising the corporate governance system, streamlining the organisational structure and optimising headcount of the management and various employees at TMK plants;
- organisational and staff matters in the operation of TMK divisions;
- matters related to the activities of the NGS* companies of TMK's Russian Division;
- matters pertaining to remuneration of the Company's directors;
- headcount and payroll indicators for TMK divisions' budget for the planned period, monitoring of productivity indicators and quick response to changes in economic environment;
- matters related to consistent employee training and development;
- current and future HR focus areas, development of professional standards, assessment of working conditions, organisation of the youth scientific and technical conference;
- activity planning of TMK's corporate governance bodies, preparation and organisation of the Annual General Meeting of Shareholders.

* NGS companies are oilfield service companies

Additionally, the Committee presented to the Board of Directors recommendations on electing the Chairman and members of the Board and its Committees for the corporate year, as well as on the affirmation of the CEO's authority for a new period and on electing the members of the Management Board.

The Committee carried out comprehensive assessment of the corporate governance framework and outlined its development objectives. The Committee's recommendations aided the Board of Directors in making well-balanced decisions supported by effective implementation and control tools.

In the reporting period, the Committee followed the approved Regulations on the Nomination and Remuneration Committee and the Action Plan, which was duly amended on an as-needed basis to match the Company's priorities.

The Committee meetings were regularly attended by TMK's top executives and top managers, which facilitated efficient communication and resulted in more thought-out and constructive recommendations.

STRATEGY COMMITTEE

A. Shokhin	Chairman of the Audit Committee, independent director
O. Schegolev	Committee member, independent director
A. Shiryaev	Committee member, CEO, Chairman of the Management Board

The Strategy Committee's duties are to develop recommendations on the Company's business priorities and its growth strategy and present these to the Board of Directors.

In 2014, the Committee reviewed and presented to the Board of Directors recommendations on the following key matters:

- implementation of TMK's 2020 Business Plan;
- analysis and monitoring of TMK's target markets through 2017;
- TMK's investment programme for 2014;
- TMK's technical sales system;
- TMK's budget for 2014;
- recommendations on M&A transactions, asset disposal and joint ventures;
- risks map for 2014 and measures to mitigate key risks in 2014;
- dividend payout recommendations based on the Company's dividend policy.

6.6 ASSESSMENT OF THE BOARD'S PERFORMANCE

The Nomination and Remuneration Committee meeting held in late April 2014 assessed the performance of the Board of Directors and the status of TMK's corporate governance in 2013-2014 as follows.

The Company has all the key elements of efficient corporate governance in place and functioning in concert: the Board with a considerable number of independent directors, proactive Board Committees, efficient internal audit function, independent external audit, disclosure procedures. The performance of the Board on the whole and the Board's Chairman personally has been deemed satisfactory.

The Board of Directors performance has been regularly assessed since 2006. The composition of the Board and its procedures meet the requirements of the modern corporate practices, which helps its members to make constructive and balanced decisions in a timely manner.

Based on the available information, the independent directors have been deemed compliant with the specified requirements, and their performance in the Board of Directors and its Committees — effective.

In the reporting period, non-executive directors were generally provided with adequate payments within the remuneration and cost compensation framework.

The matters reviewed by the Board's Committees during the reporting period were aligned with TMK's development priorities and fell within the Committees' scopes of competence.

The Corporate Secretary's performance was in line with the existing good corporate practice and can be deemed satisfactory.

Communications of the Board of Directors and its Committees with the Management Board and other top managers has been deemed effective. Prompt information sharing allowed the management to make constructive decisions in a timely manner and efficiently oversee their implementation.

6.7 EXECUTIVE MANAGEMENT

TMK's day-to-day operations are managed by the CEO and the Management Board. The CEO also acts as the Chairman of the Management Board.

COMPOSITION OF THE MANAGEMENT BOARD

There were no changes in the Management Board in 2014. As at 31 December 2014, the Management Board consisted of eight members:

Alexander
SHIRYAEV

Chairman of the Management Board.
See the Board of Directors section for a detailed biography.

Principal place of employment:
CEO of TMK

Sergey
BILAN

Born in 1962. Graduated from the Rostov Institute of Railway Transport Engineers in 1984 and from the Budget and Treasury Academy of the Russian Finance Ministry in 2004. Has been conferred an Honorary Metallurgist title and was awarded a Certificate of Merit from the Ministry of Industry, Science and Technologies of the Russian Federation.

Principal place of employment:
TMK Deputy CEO for Oilfield Services.

Relevant experience:
Deputy CEO of TMK and TMK Trade House for Premium Products and Services, CEO of TMK NGS and member of the Board of Directors of Orsky Machine Building Plant. Formerly, TMK Deputy CEO for Marketing.

Holds 0.005% **in the authorised capital of TMK.**

Andrey
KAPLUNOV

See the Board of Directors section for a detailed biography.

Principal place of employment:
First Deputy CEO of TMK.

Alexander
KLACHKOV

Has been with TMK since 2002. Born in 1957. Graduated from the Moscow Institute of Steel and Alloys in 1979. PhD in Technical Sciences. Mr Klachkov is a Russian Government prize winner in Science and Technology also awarded with a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation and conferred a Honorary Metallurgist title.

Principal place of employment:
Deputy CEO and Chief Engineer of TMK.

Relevant experience:
Head of the Technological Development Directorate at TMK, member of the Board of Directors of the Institute for the Tube and Pipe Industries (RosNITI) and Seversky Tube Works; used to hold management positions at Oskol Electrometallurgical Plant

Holds 0.003% **in the authorised capital of TMK.**

Alexander
LYALKOV

Has been with TMK since 2003. Born in 1961. Graduated from the Volgograd Polytechnic Institute in 1989. Mr Lyalkov is a Russian Government prize winner in Science and Technology also awarded with a medal for the construction of the Baikal — Amur Mainline and an Honour and Benefit medal of the International Welfare Fund; he was conferred a Honorary Metallurgist title and a Russian Quality Leader title of the Russian Organisation for Quality.

Principal place of employment:
First Deputy CEO of TMK.

Relevant experience:
member of the Board of Directors of Tagmet and Sinarsky Pipe Plant. Formerly, Deputy CEO for Operations, Deputy CEO for Operations, Technology and Quality at TMK, Managing Director and subsequently member of the Board of Directors at Volzhsky Pipe Plant, where he has held various positions since 1980.

Holds 0.0037% **in the authorised capital of TMK.**

Vladimir
OBORSKY

Has been with TMK since incorporation. Born in 1961. Graduated from the Mikhail Frunze Higher Combined-Arms Command Academy in Kiev in 1982 and the Mikhail Frunze Military Academy in 1994. Obtained an MBA from the International University in Moscow in 2009. PhD in Economics. Was awarded a Medal for Battle Merit, an Order of Military Merit and a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation.

Principal place of employment:
CEO of TMK Trade House. Executive Director — First Deputy CEO at TMK.

Relevant experience:
Member of the Board of Directors at TMK Trade House and TMK-CPW. Formerly, First Deputy CEO and Executive Director at TMK Trade House, Head of the Transneft and Gas Producers Customer Service Department at TMK Trade House, Head of the Strategic Customer Service Directorate and the Gas Producers Customer Service Directorate at Volzhsky Trade House.

Holds 0.0008% **in the authorised capital of TMK.**

Tigran
PETROSYAN

Has been with TMK since 2001. Born in 1968. Graduated from Yerevan State University in 1993. Has been conferred a Certificate of Merit from the Ministry of Industry, Science and Technologies of the Russian Federation.

Principal place of employment:
Chief Financial Officer at TMK.

Relevant experience:
Board member at TMK's Russian pipe plants, Orsky Machine Building Plant, TMK-INOX and TMK Trade House. Formerly, Deputy CEO for Economy at TMK and TMK Trade House, Head of the Economic and Planning Directorate at TMK, Head of the Economic and Planning Department of Volzhsky Pipe Plant, Deputy CEO at Volzhsky Audit, officer at the Armenian Ministry of Economy.

Holds no shares in TMK.

Vladimir
SHMATOVICH

Has been with TMK since 2005. Born in 1964. Graduated from the Moscow Finance Institute in 1989 and the University of Notre Dame USA (MBA) in 1993. Has been conferred a Certificate of Merit from the Ministry of Industry and Trade of the Russian Federation and awarded with a Tsiolkovsky Gold Medal. Has been conferred Udmurtneft's Honorary Oil Worker title and an Honorary TMK Employee title.

Principal place of employment:
Deputy CEO for Strategy and Business Development at TMK.

Relevant experience: Board member of Lhoist — TMK B. V. and OFS Development SARL, Chairman of the Board of Directors of TMK GIPI, Class A Manager at Completions Development S.a r.l., Director at TMK Completions Ltd. Formerly, Board member of SKB-bank, CFO of TMK, Deputy CEO, CFO at various companies (Udmurtneft, Sidanco, RusPromAvto), CEO of Interros.

Holds no shares in TMK.

As at 31 December 2014, the members of the Management Board held no interests in companies under control and did not enter into TMK shares acquisition/disposal transactions.

EXECUTIVE MANAGEMENT REMUNERATION

The remuneration paid to the CEO and the members of the Management Board consists of:

- fixed salaries determined in accordance with their employment contracts and payable on a monthly basis;
- variable part (bonuses), based on individually established KPIs and approved by the Board of Directors each year. This bonus is paid to the CEO and the members of the Management Board if they deliver their KPIs, and subject to the approval of their performance reports by the Board of Directors.

In 2014, the aggregate remuneration of the CEO and the members of the Management Board amounted to USD 6.83 m, including insurance premiums paid.

6.8

INFORMATION POLICY AND DISCLOSURE

As an issuer of securities, the Company is required to disclose information under the Russian law, security market regulations and listing rules of the stock exchanges where the Company's securities are traded. Information is disclosed in Russian and English.

TMK publishes quarterly IFRS consolidated financial statements (http://ir.tmk-group.com/results-center/financial-results/) and press releases describing its financial, operating and market performance on its corporate website. On the top of that, the Company provides market reviews and forward-looking statement. Conference calls for investors, analysts and media organised by TMK are attended by the Company's senior executives.

In line with the international best practices, we conduct Capital Markets Days where the Company's top management present TMK's results and outlook, with webcasts available on the corporate website. The site's section for investors features an IR calendar, presentations, reports, financial news and FAQ.

In January 2015, TMK launched its upgraded corporate web site featuring a new user-friendly interface and a mobile version to facilitate the search for and download of essential information. The new site offers a wide range of information on the Company, its divisions and plants and includes a quick data analyzer.

Disclosure and interaction between the Company's divisions and entities in this process are governed by its Regulations on the Information Policy (http://www.tmk-group.ru/media_ru/files/51/inf_pol0612.pdf) and other internal regulations drafted on its basis. The Company has dedicated units to monitor the development of and pursuance of a uniform information policy and control compliance with insider dealing laws and regulations.

6.9

RISK MANAGEMENT AND INTERNAL CONTROL

TMK's risk management and internal control framework is a set of procedures exercised by the Board of Directors, executive and supervisory bodies, officers and employees to ensure a true and fair view of its state of affairs and prospects, risk exposure, reliability of all types of reporting, and compliance with laws and internal regulations.

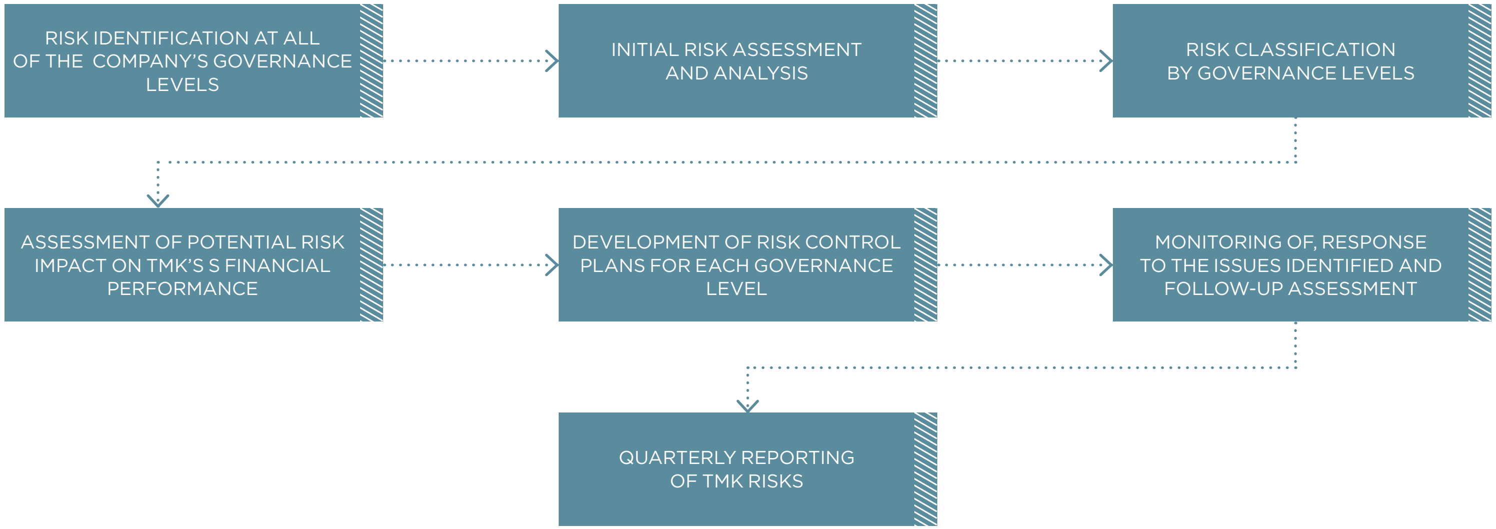
The Board of Directors has approved the Regulations on Internal Control laying out principles and approaches to building a risk management and internal control framework and exercises control over financial and economic activities at the operational and organisational levels.

The Audit Committee assesses the effectiveness of internal control and risk management framework and develops recommendations on its improvement. In the reporting year, the Audit Committee gave a positive assessment of the current risk management and internal control framework.

TMK employs a two-level risk management approach, identifying risks at its corporate center and controlled entities and integrating them to assess their overall impact on the Company.

SCHEME **6.2**

TMK's Integrated Risk Management Framework



To manage risks, the Company has set up a dedicated risk management unit whose responsibilities are fully in line with TMK's Corporate Governance Code. It also has the Risk Management Committee reporting to the CEO and in charge of mitigating risks by drafting and implementing a uniform risk management policy and risk identification, assessment and management methodology. Its Chairman reports to the Board's Audit Committee at least once a quarter.

TMK seeks to mitigate risks through an adequate control over all of its operations. In order to do that:

- the Company implements controls based on its policies, regulations and standards, at all governance levels;
- CEO sets goals for the Company's senior executives and oversees their activities aimed at maintaining proper internal controls across the units they supervise;
- TMK's senior executives delegate responsibilities to implement specific control policies and procedures to the heads of business units whose responsibilities include, inter alia, assessing control processes within the scope of their competence;
- TMK employs the principle of segregating responsibilities: there are no officers combining authorisation, accounting, storage and control functions.

SCHEME **6.3**

Key Elements of TMK's Risk-Focused Internal Control Framework

INTEGRATED CONTROL ENVIRONMENT:
- clear uniform guidelines on the division of responsibilities
- focus of controls on key, real risks
- reduced number of duplicate/other controls

HIGH-QUALITY IMPLEMENTATION OF CONTROLS:
- prompt improvement of controls
- identification of areas for ongoing monitoring
- timely correction of deficiencies and failures of controls

FULL USE OF SAP FUNCTIONS:
- automated controls (minimisation of manual controls)
- access controls
- customised controls
- continuous improvement of controls
- database analysis
- reporting using SAP solutions

INTERNAL AUDIT FOCUS ON KEY CONTROLS:
- focus on key business processes and risk oriented controls
- supervision of remedial measures and initiatives to improve controls

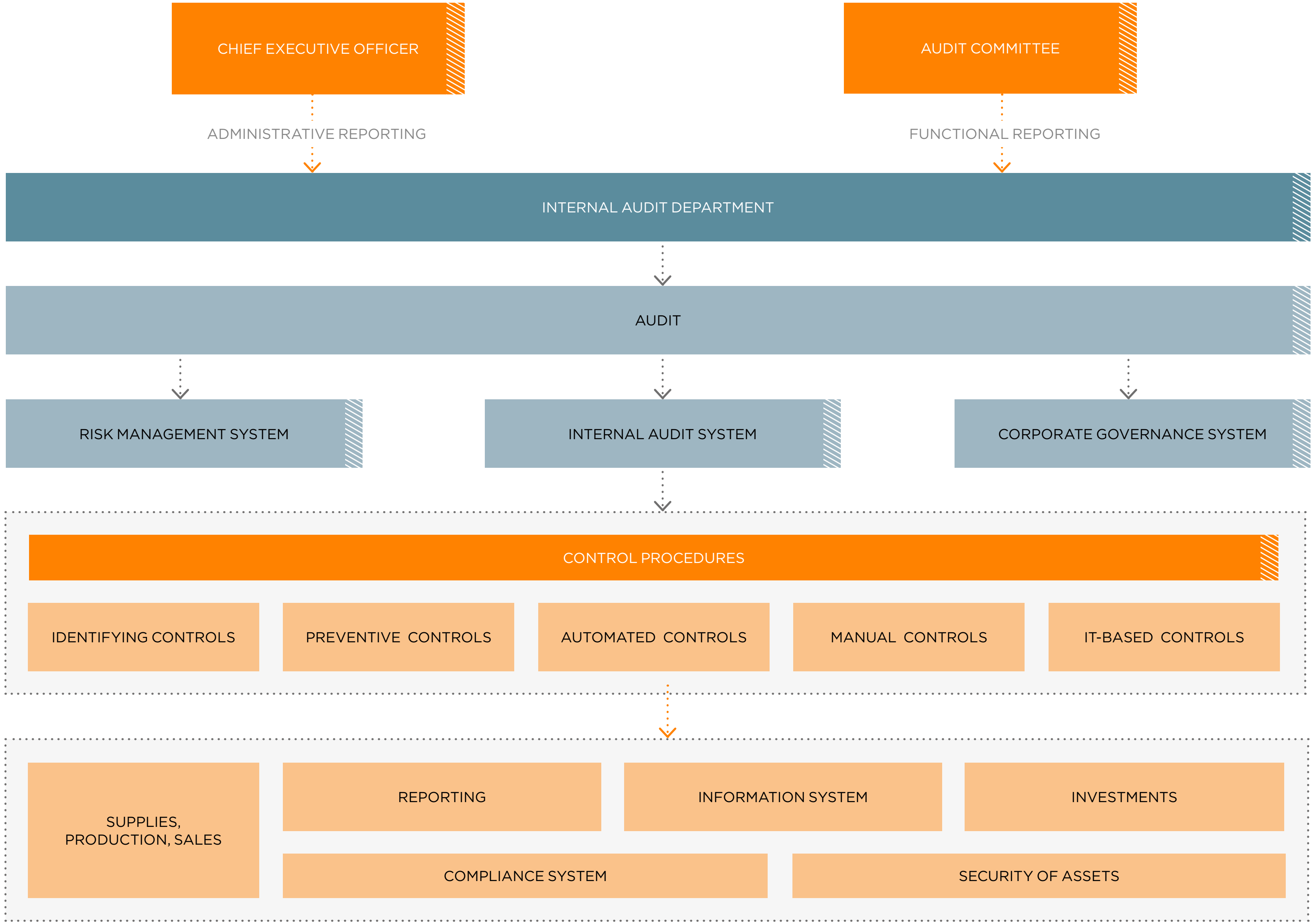
In 2014, the Company fully integrated the compliance function into the overall framework of risk management and internal control as well as of corporate governance and corporate security. This process was coordinated by the CEO's Committee on Regulating Compliance Risks and its regional subcommittees at TMK plants governed by the Company's Key Compliance Risk Principles and Anti-Corruption Policy.

TMK operates a hotline as a public control instrument using a full range of communication channels for the Company's employees, investors, clients and other stakeholders to report any known abuse or violations.

The Company has an internal audit system in place to assess the adequacy and effectiveness of risk controls pertaining to corporate governance, operations at TMK's entities and divisions and their information systems.

SCHEME **6.4**

TMK's internal audit



The Company has established the Internal Audit Department (IAD), a standalone function operating under the IAD Regulations approved by the Board of Directors. The IAD's independence and impartiality are ensured through its reporting directly to the CEO and functionally to the Board of Directors via the Audit Committee. Its head reports to the Board of Directors, which appoints and removes him/her from office and decides on his/her remuneration. The IAD operates in compliance with regulations on and international professional standards of internal audit.

It has regional units across TMK's geographies, which use a single planning and reporting system and functionally report to the head of TMK's (the Holding Company's) IAD. The IAD's regional units ensure a prompt response to any changes in business processes and operations at TMK entities.

The Department develops an annual risk-focused audit plan based on priority business processes subject to audit, and on risk ranking and assessment (by probability and potential impact). The plan is discussed at the Audit Committee's meetings and approved by the Board of Directors and TMK's CEO.

The IAD also oversees compliance by the Company's governance bodies, officers and employees with insider dealing laws and regulations and regularly reports to the Audit Committee as well as to the Board, at the year-end.

TMK's management promptly responds to gaps in controls identified by internal audit, introducing the required changes to the risk management and internal control framework, which help streamline the corporate governance processes and quality.

INTERNAL CONTROL OVER FINANCIAL REPORTING

TMK's management is responsible for implementing and maintaining adequate internal control over financial reporting to provide reasonable assurance as regards the reliability of financial statements and their conformity with the RAS and IFRS.

Throughout 2014 and to date, TMK has been operating an internal control framework, which reasonably assures the effectiveness of all controls, including financial and operational controls, as well as compliance with laws and regulations.

The Revision Committee controls the Company's financial and economic activities on behalf of shareholders and reports to the General Meeting of Shareholders on the reliability of the reporting data and deficiencies or violations identified.

The External Auditor verifies and confirms that the Company's financial statements are in line with the applicable accounting rules and national and international financial reporting standards (RAS and IRFS) and expresses its opinion on the reliability of the financial statements following their audit.

In selecting an external auditor to audit the Group's IFRS consolidated financial statements and assessing its performance, we adhere to the Policy on Selection of TMK Group's External Auditor, as approved by the Board of Directors (http://www.tmk-group.ru/media_ru/files/51/tmk_pol_vyb_aud14.pdf).

The following procedures are in place to ensure the auditor's independence and impartiality:

- Every decade the Company holds a tender to select an auditor under the terms and conditions approved by the Board of Directors based on the Audit Committee's recommendations. The Committee organises the tender and announces its results.
- It is also entitled to request an early tender following the assessment of the auditor's performance quality and its compliance with the independence requirement.
- The auditor is selected from among internationally recognised independent audit firms and approved by the Board of Directors.

To mitigate the risk of long-term relationship compromising the external auditor's independence and impartiality, members of audit teams and the lead partner responsible for the audit are subject to rotation.

TMK appointed Ernst & Young, a member of the Self-regulated Non-Profit Partnership «Audit Chamber of Russia», as the external independent auditor of its FY 2014 and interim consolidated and separate financial statements.

In 2014, the auditor's remuneration for auditing the annual financial statements and reviewing interim financials (including audit of separate financials at some TMK's entities) was USD 2.86 m, for other audit-related services — USD 0.03 m, and for non-audit services — USD 0.26 m.

7. CORPORATE CITIZENSHIP

THE PRINCIPLE OF EFFECTIVENESS

We can increase productivity of our employees by continuously raising their qualification and professional level while eliminating inefficient functions and reducing non-production losses.

TMK'S AVERAGE HEADCOUNT » P. 84

TMK CORPORATE CITIZENSHIP

7.1 HUMAN RESOURCES AND SOCIAL POLICY

Goals of TMK's HR Strategy for 2011-2020 are as follows:

- recruiting and retaining top quality personnel whose productivity matches the best industry and international practices;
- promoting employees' professional competencies;
- implementing social programmes to improve living standards of employees and their families, maintain stable and long-term employment relationships at our enterprises.

Key priorities of TMK's HR Strategy in 2014:

CORPORATE DEVELOPMENT AND HR MANAGEMENT

In 2014, our focus was on streamlining business processes and governance system and standardising the organisational structure at TMK's entities. Thus, we:

- standardised organisational structure of the production, sales, financial and economic and technical units at TMK's Russian pipe plants;
- finalised the structure of the governance, reporting and workflow systems for the four divisions, with TMK being the core management center;
- restructured the Company's sales units;
- introduced the Regulations on TMK Project Management and established the Project Database in order to encourage our employees to participate in initiating and developing new projects;
- launched a pilot project for TMK's Romanian plants to build a pool of young talents holding qualifications rare in the local labour market.

Improved productivity is a key tool to fine-tune headcount at our enterprises. We can increase productivity of our employees by continuously raising their qualification and professional level while eliminating inefficient functions and reducing non-production losses. Despite the growing number of TMK's entities, the average total headcount goes down.

TMK'S AVERAGE HEADCOUNT

	2012	2013	2014
AVERAGE TOTAL HEADCOUNT	**44,266**	**44,025**	**43,373**
including:			
Russian Division	39,569	39,097	38,473
European Division	1,998	2,019	2,049
American Division	2,699	2,909	2,851

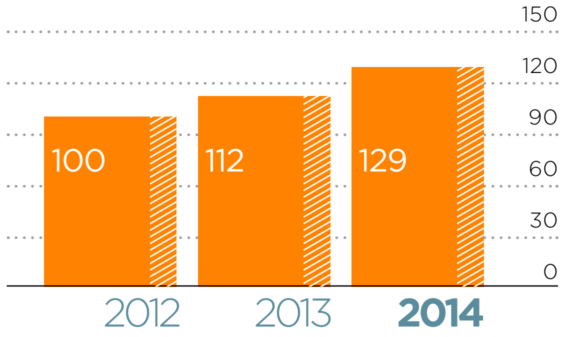
EMPLOYEE COMPENSATION AND INCENTIVES

In 2014, we continued improving our remuneration system to make it even more competitive and motivating. We went on implementing a bonus system based on the Management by Objectives (MBO) method at TMK's plants. This system proved efficient at TMK's enterprises since we began rolling it out in 2013.

In 2014, wages and salaries at TMK grew by an average of 15.1% year-on-year. We compensated for inflation losses in the regions and countries where we operate and enabled the Company to live up to its commitments. Efficient headcount management helped us adjust our employees' salaries for inflation without increasing the Company's payroll.

GRAPH **7.1**

Average wages and salaries at TMK • 2012-2014 / % vs 2012 /



AWARD CEREMONY of winners of the tenth TMK Youth Scientific and Technical Conference

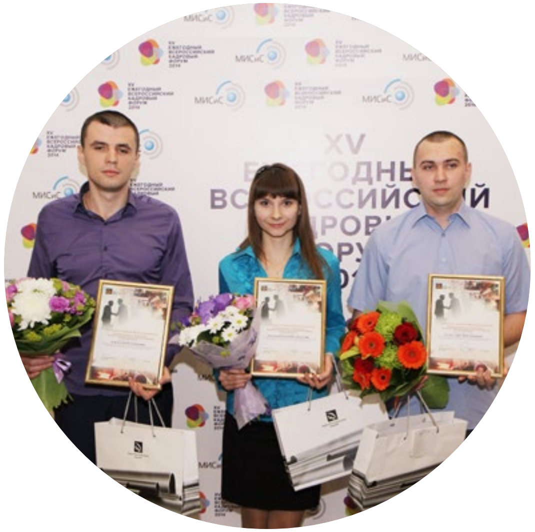
EMPLOYEE DEVELOPMENT AND TRAINING

Modern pipe production sets even higher standards of employee qualifications and skills. To meet these standards, we keep improving our employees' professional competencies systemically and systematically, developing and rolling out corporate training programmes. In 2014, TMK invested about USD 3.5 m in corporate training programmes, which enabled us to:

- achieve the target of 70% for training the Company's top executives under the Efficient Manager Programme in line with TMK's 2014 HR Strategy;
- develop the TMK IPSCO Way remuneration and reward programme for employees of the American division, the programme relies on assessment of the expected results achievment and the analysis if performance quality exactly matches the requirements and parameters;
- introduce a training course for a group of in-house business trainers to master the Six Sigma training programme designed to roll out quality management methods across the Group;
- arrange about 200 internships for our employees to facilitate sharing best manufacturing practices between TMK's facilities; more programmes were introduced and more facilities were invited to take part in the internship initiative.

The Company actively participates in national educational programmes across Russia, developing Russian professional standards and WorldSkills Competitions:

- we invested USD 5.5 m (82% of the total investments in the programme) under the agreement between TMK and the Government of the Sverdlovsk Region for the construction of training grounds and development of vocational training programmes for the colleges in Polevskoy (the Seversky Tube Works) and Kamensk-Uralsky (the Sinarsky Pipe Plant);
- TMK's working group drafted Russian professional standards to the following jobs essential for TMK: hot rolling mill operators, cold rolling mill operators and heat-treaters for rolled steel and pipe;
- teams of the Sinarsky Pipe Plant, the Seversky Tube Works and TAGMET for the first time took part in the national WorldSkills Competition for staff holding qualifications widely required in high-tech industries.
- the tenth TMK Youth Scientific and Technical Conference held by the Company and attended by recent graduates employed by TMK's Russian, European and American divisions.



THE STUDENTS OF THE MISIS UNIVERSITY — participants of TMK's scholarship program

We lay emphasis on developing our new employees' professional skills and encouraging best graduates to start their career with TMK. TMK closely cooperates with universities located in the regions where TMK operates, including:

- the Ural Federal University named after B.N. Yeltsin, the first President of Russia (UrFU) and the National University of Science and Technology (MISiS) in Russia;
- with the University Of Applied Sciences — Sohar (the Faculty of Engineering: Electrical and Information Technology), Shinas College of Technology (Engineering Faculty: Electrical and Mechanical Engineering), Sohar University (Engineering Faculty: Electrical and Mechanical Engineering) in the Middle East (Oman);
- with the Massachusetts Institute of Technology, the Colorado School of Mines, the University of Oklahoma, the University of Pittsburgh, the University of Iowa, Missouri University of Science and Technology, Texas A&M and Texas Tech University in North America.

Since 2013, TMK has been awarding A.D. Deineko scholarship to top students of the Piping Engineering and Equipment Department of the MISiS University. The scholarship was established to encourage students to pursue a career in production and attract them to TMK's facilities.

A TOTAL OF 152 EMPLOYEES and members of their families visited the Sochi Winter Olympics in early 2014

SOCIAL PARTNERSHIP

The Company's sustainable and successful development relies heavily on social partnership, including cooperation with trade unions as well as participation in regional economic development and social programmes.

We take an active part in negotiating on new legislative initiatives and key provisions of the Branch Tariff Agreement as part of cooperation with the Russian Mining and Metallurgical Trade Union (GMPR), Russian Metallurgists Association (RASMET) and Russian Union of Industrialists and Entrepreneurs (RSPP). This cooperation enables us to balance the interests of the social partnership members.

In 2014, TMK IPSCO and the US United Steelworkers Union (USW) signed a collective bargaining agreement for its Ambridge and Koppel plants, while TMK-ARTROM entered into a new collective bargaining agreement for years 2015-2016 adjusted for the region's economic development and based on the social partnership principles.

To promote health of its staff, the Company cofinances their recreation and treatment. In 2014, over 2,200 employees and members of their families spent their holiday at the Burgas Resort in Sochi and 450 employees received health resort treatment at the Westend Resort in the Czech Republic.

A total of 152 employees and members of their families visited the Sochi Winter Olympics in early 2014, and 51 employees were rewarded with a free trip to this spectacular sports event.

TMK attaches a great importance to the various forms of non-financial motivation, such as corporate awards to the best employees as well as government and industry awards.

In 2014, 16 employees were conferred government awards, with 91 employees receiving industry awards, including 27 Honorary Metallurgist titles. A total of 286 employees were recognised with corporate awards, including Honorary TMK Employee title conferred to 54 employees, TMK badge of merit awarded to 29 employees and TMK Certificate of Merit presented to 203 employees.

In the reporting period, TMK conferred Badges and Certificates for Business Cooperation with TMK to 32 employees of its partners, including technological solution providers, transport and media companies in recognition of their active participation in promoting stable, reliable and mutually beneficial relationship with the Company.

7.2 OCCUPATIONAL SAFETY

TMK's occupational safety policy promotes health and safety of the Company's employees, mitigates risks of emergencies which might have an adverse effect on the employees' health and occupational safety.

TMK complies with any applicable laws and international health and safety standards.

Our occupational safety and health management systems are OHSAS 18001 certified, and their efficiency is acknowledged by annuals audits conducted by the world's leading audit firms, such as Bureau Veritas Certification, SAI Global and Lloyd's Register.

Pursuant to the amendments to the occupational safety laws of the Russian Federation effective since 1 January 2014, we have worked out and begun deploying a phased implementation plan for a new occupational safety system providing for a Special Health and Safety Assessment and ensuring guarantees and benefits for employees in accordance with the amended law.

We strive to continuously improve working conditions, with our facilities enjoying a stable low rate of workplace injuries and occupational diseases. In 2014, we invested over USD 28 m in occupational health and safety initiatives. Our key focus is on prevention of accidents and emergencies, including:

- planning measures to ensure occupational health by eliminating adverse factors and preventing occupational diseases;
- reducing the number of hazardous and harmful operational factors;
- training personnel to comply with health and safety rules and meet strict requirements for personal responsibility with further certification.

In 2014, TMK's Russian plants received the following awards for health and safety excellence:

- the Sinarsky Pipe Plant became the winner in the category of the Occupational Health and Safe Working Environment of the Mining and Metallurgical Enterprise of High Social Efficiency, a Russian industry contest;
- the Seversky Tube Works ranked second in the industrial standards and occupational health and safety contest held in the Sverdlovsk Region.

In 2014, TMK IPSCO facilities demonstrated excellent industrial safety performance:

- Blytheville and Koppel logged 2.4 m man hours without an accident leading to disability;
- Ambridge and Brookfield were recognised the best in class in terms of accident rate and operating safety;
- Baytown and Odessa recorded a more than 70% accidents reduction coupled with a 22% increase in output;
- Geneva enjoys eight years without any reportable accidents;
- Houston ULTRA sees a reduction in reportable accidents by more than 70%.

7.3 ENVIRONMENTAL MANAGEMENT

Pursuant to TMK's environmental policy aimed at maintaining environmental safety of the rapidly growing production, our efforts during the year were traditionally focused on improving the environmental efficiency of production processes and reducing water consumption.

In its operations, TMK follows international environmental protection initiatives and treaties and complies with national environmental standards and regulations. We continue focusing on systemic environmental activities. Eleven plants of the Company have been ISO 14001:2004 certified (Environmental Management System standard). International auditors once again confirmed continuous improvement of environmental management in the reporting period.

ENVIRONMENTAL INVESTMENTS: TRANSITION TO THE BEST AVAILABLE TECHNOLOGIES

Environmental issues are an essential component of all strategic documents of the Company, including the Strategic Investment Programme in effect. In 2014, TMK invested USD 20.8 m in a range of initiatives designed to ensure legal compliance and environmental protection, such as reducing pollutant emissions, noise level and waste water disposal as well as improving waste management and soil reclamation.

Key activities and results:

- the Seversky Tube Works completed a modern gas cleaning system and a treatment facility for the continuous rolling mill;
- TAGMET commissioned a highly efficient gas cleaning system for the EAFs;
- the Volzhsky Pipe Plant reconstructed the conditionally clean water discharge pipeline of the storm water pumping drainage system and eliminated leakages;
- the Sinarsky Pipe Plant completed a local water recycling system for its gas processing shop.

EMISSIONS CONTROL

We use advanced technologies ensuring a high-degree treatment of industrial emissions to reduce negative impact on the atmosphere. Measures in this area are annual, including routine maintenance and overhaul of treatment facilities to improve the efficiency of gas cleaning, which helps the Company meet the approved standards. The total atmospheric emissions control expenses were USD 6.4 m. In 2014, the treatment facilities of TMK's Russian Division captured and neutralised 1.7 times more pollutants year-on-year.

Key activities and results:

- the Volzhsky Pipe Plant ensured a continuous operation of the gas cleaning system for EAF-150 and replaced 8,100 bag filters;
- TAGMET eliminated 48 pollution sources as part of an upgrade programme;
- Koppel (TMK's American division) rehabilitated its dust control system.

WATER MANAGEMENT

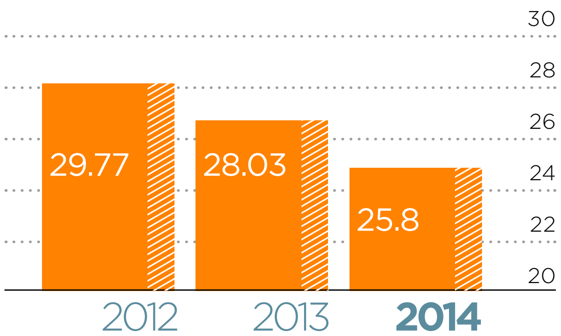
Pursuant to TMK's Environmental Policy, the Company's water management strategy focuses on reducing water consumption and mitigating negative impact on water bodies. TMK's plants are implementing an integrated approach to water resource management, which, over time, results in optimised consumption, distribution and sustainable use of water and reduced sewage. A recycling water supply system is essential for any of TMK's new, upgraded or reconstructed facilities.

In 2014, consistent water management activities enabled TMK to reduce (year-on-year):

- water intake from surface water bodies by 8%
- industrial water consumption by 6.3%
- concentration of pollutants in industrial effluents discharged to open water bodies by 1.6%
- waste water by 3.6%
- the share of recycling water supply amounted to 95.28%

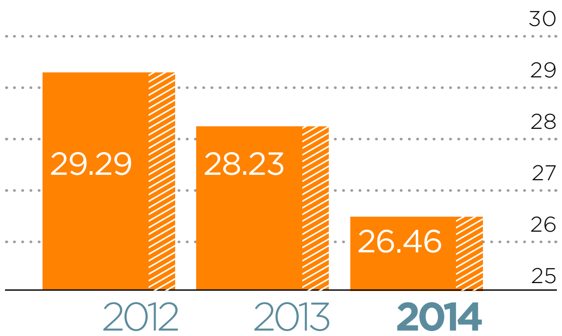
GRAPH **7.2**

Water intake from surface water bodies at TMK
• 2012-2014
/ mcm /



GRAPH **7.3**

Industrial water consumption at TMK
• 2012-2014
/ mcm /

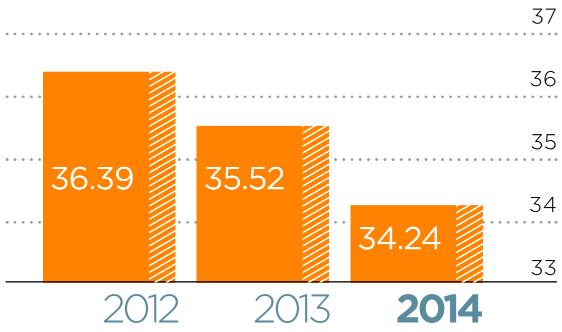


Key activities and results:

- the Sinarsky Pipe Plant took actions to minimise losses of water during transportation, which enabled the plant to reduce water consumption by 339 thousand cu m (3.3%);
- TAGMET installed a recycling water supply system for the EAF. This increased water volume in the recycling water supply systems by 8.5%;
- the Volzhsky Pipe Plant cleaned waste water pits at ENTs-2 (energy shop) and the scale pit of the recycling water supply system of SR-9 TPTs-3 (tube rolling shop), reducing the level of oil sediment in the conditionally clean water discharge;
- the Seversky Tube Works reconstructed its aeration and biological treatment station and repaired the aeration tank;
- the Sinarsky Pipe Plant cleaned the settling pond at the Iset River;
- TAGMET repaired and cleaned the water intake screens of the Beregovaya pumping station and fish protection systems;
- the Orsky Machine Building Plant cleaned waste water wells, pipelines of the plant's waste water discharge system;
- Houston ULTRA (TMK's American division) completed upgrading its household waste water treatment facilities.

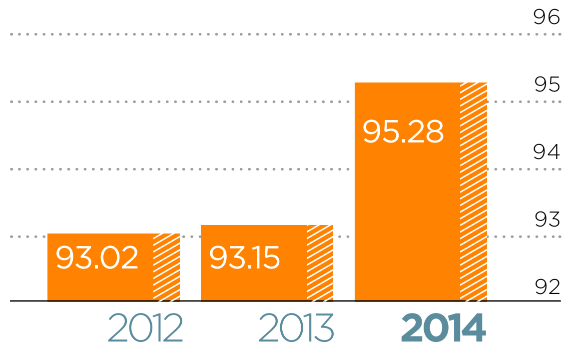
GRAPH **7.4**

Waste water discharged into water bodies and to waste water collectors
• 2012-2014
/ mcm /



GRAPH **7.5**

Share of recycling water supply at TMK
• 2012-2014
/ % /



WASTE MANAGEMENT

In line with its environmental policy, TMK implements initiatives to reduce, recycle, reuse and neutralise waste and reduce its disposal, as well as land reclamation initiatives.

Key results of TMK's consistent environmental activities in 2014:

- total waste decreased by 7.5%;
- only 6.8% of the total waste was positioned in the designated facilities, which clearly demonstrates high efficiency of TMK's waste management strategy;
- 1.8 million tonnes was recycled;
- recycled waste utilisation by TMK's facilities went up by 30%;
- sales of waste as a raw material to other industries increased 4.2 times.

Throughout the reporting period, we continued recycling previously accumulated waste. In 2012-2014, TMK recycled more than 1.4 mt of accumulated waste.

A total of USD 8.4 m was spent to minimise the impact of waste on the environment.

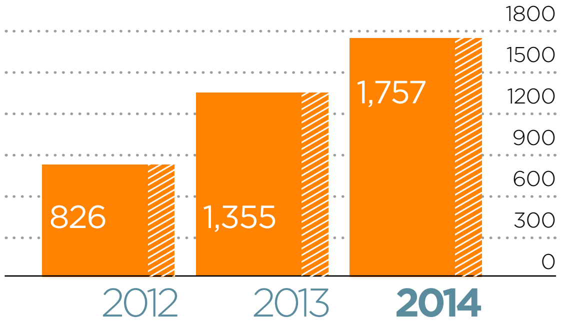
TMK's land protection expenses, including land reclamation, amounted to USD 1.29 m.

Activities and results:

- the Volzhsky Pipe Plant commissioned and registered a new landfill site;
- the Seversky Tube Works constructed a site for processing oily scale for sales;
- the Sinarsky Pipe Plant reclaimed basins 2 and 3 of its sludge collector and industrial waste landfill;
- TMK-ARTROM increased reusing recycled paper by 30%;
- TMK IPSCO implemented an enterprise-wide waste reporting and management information system.

GRAPH **7.6**

Reuse of industrial waste at TMK • 2012-2014 / thousand tonnes /



7.4 SPONSORSHIP AND CHARITY

Through sponsorship and charity, TMK seeks to foster a favourable social climate and to create an environment for sustainable development of the regions hosting our plants.

TMK implements its Russian charity projects via the Sinara Charity Foundation, a professional operator. In 2014, 122 non-profit organisations benefited from the Company's financial support, with 33 of them winning various grant competitions. The Foundation has improved of project methods of career advising to attract students to be employed as engineers and workers: Tochka Opory (Foothold), a series of interactive events, including creative contests, a series of on-site natural science lectures and Bilet v Professiyu (Ticket to Vocation) television reality show were arranged for teenagers; a number of classrooms were equipped to host scientific and technical educational programmes for children and youth.

In 2014, as a trustee of the ISTOKI Endowment Fund, TMK supported Svyatost Materinstva (The Sanctity of Maternity), a nation-wide programme aimed at promoting family values in 21 Russian regions.

We take part in financing charity campaigns to support vulnerable social groups, such as veterans and disabled children. In 2014, TMK rendered financial support to social, medical, educational, cultural and children sports institutions, including the Taganrog orphanage and infant care center and the Volzhsky nursery school for children with special needs and the Volzhsky rehab center for disabled children.

To promote sports values, TMK renders sponsorship to the Russian Ski-Jumping and Nordic Combined Federation, the Russian Olympians Foundation and a number of professional sports clubs in the regions where TMK operates, including:

- the Ural Football Club of the Russian Premier League, based in Yekaterinburg;
- the Sinara Mini-Football Club, based in Yekaterinburg, a two-times Russian champion;
- the Dinamo Women's Handball Club, based in Volgograd, a twelve-times Russian champion;
- the TMK-TAGMET Tennis Club based in Taganrog; and
- the Sinara Rifle Club in Kamensk-Uralsky.

We also sponsor amateur teams representing TMK's entities competing in various sports, including children's and youth sports.

TMK's American Division was a major corporate sponsor for the Age of Impressionism: Great French Paintings from the Sterling and Francine Clark Art Institute, an exhibition hosted by the Houston Museum of Fine Arts from December 2013 to May 2014. The exhibition ran for five months and was visited by over 75 thousand people. On top of that, the Company sponsored an art educational programme for 1,000 primary school students. TMK IPSCO's employees and members of their families take an active part in sponsoring local communities, collecting Christmas presents and food for economically disadvantaged families and supporting disabled children.

In 2014, TMK's European Division became the general sponsor of a series of events to mark 100th anniversary of Nikolas II's last visit to Romania. The National Historic Museum of Romania in Bucharest hosted an exhibition bringing together unique video materials and photographs from St Petersburg's state archives. The exhibits were used to create photo albums telling the reader a story of the Russian-Romanian relations of those times.

TMK GIPI sponsors Al Wafa volunteer center (Oman) holding charity events to support economically disadvantaged people. TMK GIPI also supports educational institutions, including primary schools in Sohar and Liwa, and provides scholarship to university graduates. Employees of TMK GIPI traditionally participate in blood donation campaigns in support of cancer and HIV sufferers.

REPORT ON COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS SET OUT IN THE CORPORATE GOVERNANCE CODE (AS PER MICEX GUIDANCE DATED 13 MARCH 2015)

No.	Corporate governance principle(s) or key criterion (recommendation)	A brief description of non-compliance with the corporate governance principle or key criterion	Explanation of the key reasons, factors and circumstances due to which the principle or key criterion is not complied with or is complied with in part; a description of alternative corporate governance mechanisms and instruments. Planned actions and measures
I. RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS			
1.1.	The company should ensure equitable and fair treatment of each shareholder exercising their right to take part in managing the company. Corporate governance framework and practices should ensure equality for the shareholders owning the same type (class) of shares, including minority and non-resident shareholders, and their equitable treatment by the company.		
1.1.1.	The company should approve an internal regulation setting forth key procedures to prepare for, convene and hold general meetings of shareholders in compliance with recommendations of the Corporate Governance Code, including the company's obligations to: • notify shareholders of general meetings and provide access to the relevant materials, publish the notice and materials on the corporate website, at least 30 days prior to such meeting, unless required to do so earlier by the Russian law; • announce the record date at least 7 days prior to such date; • provide supplementary information and materials on the general meeting agenda as recommended by the Corporate Governance Code.	The Company's practices comply with these recommendations.	The Company announces the record date as required by the Russian law. Supplementary information is included in the notice of the General Meeting of Shareholders published on TMK's website. As part of the preparation for the annual General Meeting of Shareholders, the Company strives to provide shareholders with relevant notices and materials in soft copy.
1.1.2.	The company should undertake to enable its shareholders to put questions on the company's operations to members of the management and control bodies, audit committee, chief accountant, company's auditors, and nominees to the management and control bodies, during the general meeting and in the course of relevant preparations. The said obligations should be set forth in the company's articles of association or internal regulations.	The Company's practices comply with these recommendations.	Shareholders are free to put questions on the Company's operations to members of the management and control bodies during the General Meeting.
1.1.3.	The company should observe the principle of preventing any action that may result in an artificial redistribution of corporate control (for example, voting with quasi-treasury shares, decision to pay dividends on preferred shares regardless of limited financial capacities, decision not to pay dividends on preferred shares as required by the articles of association regardless of sources being sufficient for payment). The said obligations should be set forth in the company's articles of association or internal regulations.	The Company's practices reflect the principle of preventing artificial redistribution of corporate control.	The Company has neither quasi-treasury nor preferred shares.

1.2	Shareholders should be given equal and fair opportunities to receive a share of the company's profit in the form of dividends.		
1.2.1.	The company should approve an internal regulation on its dividend policy compliant with recommendations of the Corporate Governance Code, including, inter alia: • procedures to determine a portion of the company's net profit (for companies issuing consolidated financial statements, a minimum portion (share) of consolidated net profit) to be distributed in the form of dividends, and conditions to declare dividends; • minimum dividends payable on different types (classes) of shares; • mandatory disclosure of the document governing the company's dividend policy on its corporate website.	Complied with.	

II. THE COMPANY'S BOARD OF DIRECTORS

2.1	The board of directors' core responsibilities should include determining the company's long-term strategic targets, key performance indicators (KPIs), key risk governance and internal control principles and approaches, and remuneration paid to directors and executive body members, performing strategic governance, exercising control over the company's executive bodies, etc.		
2.1.1.	The company's board of directors should: • determine the company's long-term strategic targets and KPIs; • control the company's executive bodies; • determine the company's risk governance and internal control principles and approaches; • articulate the company's policy on remunerating its directors, executive body members and other key managers.	Complied with.	

2.2.	The board of directors should manage the company in an efficient and competent manner and make fair and independent judgements and decisions in line with the best interests of the company and its shareholders. The chairman of the board of directors should ensure that the board of directors discharges its duties efficiently and effectively by conducting meetings attended by its members and making relevant preparations.		
2.2.1.	The board should be chaired by an independent director, or a senior independent director supervising the activities of other independent directors and interacting with the board's chairman should be appointed from among the elected independent directors.	In accordance with the Company's Articles of Association, independent directors are free to interact with the Chairman of the Board of Directors on any matters related to the Company's business. All Committees of the Board of Directors are chaired by independent directors.	The Board of Directors is going to consider whether it may be reasonable to follow this recommendation.
2.2.2.	The company's internal regulations should stipulate the procedure to prepare for and hold the board's meetings, enabling the directors to make proper preparations, including, inter alia: • meeting notice period; • deadlines for circulating voting ballots and submitting the completed ones in case of meetings held in absentia; • a possibility of submitting and taking into account a director's written opinion on the agenda items in case they are not present at an in-person meeting; • a possibility of participating in the meeting and voting via audio or video conferencing.	Complied with.	
2.2.3.	Resolutions on the most important matters should be passed at the board's in-person meetings. The list of such matters should be compliant with recommendations of the Corporate Governance Code.	Complied with.	

2.3.	The board of directors should include a sufficient number of independent directors.		
2.3.1.	Independent directors should make up al least one third of the elected board members.	Complied with.	
2.3.2.	Independent directors should fully meet the independence criteria set forth in the Corporate Governance Code.		
2.3.3.	The board of directors (nomination/HR committee) should verify a board nominee's compliance with the independence criteria.		
2.4.	The board of directors should set up committees for preliminary consideration of key matters related to the company's operations.		
2.4.1.	The board of directors should establish an audit committee made up of independent directors. Its responsibilities should be set forth in the company's procedures and be compliant with recommendations of the Corporate Governance Code.	The Audit Committee includes two independent directors, one of them chairing the Committee.	The Committee is responsible for combating misconduct of the Company's employees and third parties, including as regards insider information, by means of reviewing reports from the heads of the Internal Audit Department and Committee on Regulating Compliance Risks.
2.4.2.	The board of directors should establish a remuneration committee made up of independent directors, which may be combined with the nomination/HR committee. Its responsibilities should be compliant with recommendations of the Corporate Governance Code.	The Committee for Appointment and Remuneration includes two independent directors, one of them chairing the Committee.	
2.4.3.	The board of directors should establish a nomination/HR committee predominantly made up of independent directors, which may be combined with the remuneration committee. Its responsibilities should be compliant with recommendations of the Corporate Governance Code.		
2.5.	The board of directors should provide for assessing its own, along with its members' and committees', performance.		
2.5.1.	The board's performance should be assessed regularly at least once a year, and at least once in three years the company should engage an external advisor to conduct such assessment.	Complied with.	The Company plans to keep engaging external advisors to assess the Board's performance.

III. THE COMPANY'S CORPORATE SECRETARY			
3.1	The company's corporate secretary (or a dedicated business unit headed by such) should ensure efficient ongoing interaction with shareholders, coordinate the company's efforts to protect shareholder rights and interests and support the board's activities.		
3.1.1.	The corporate secretary should report to the board of directors and should be appointed or removed from office by the board's resolution or approval.	Complied with.	
3.1.2.	The company should approve an internal regulation setting forth the corporate secretary's rights and obligations (Regulation on the Corporate Secretary) as recommended by the Corporate Governance Code.	The rights and obligations of the Secretary of the Board of Directors (Corporate Secretary) are set forth in the Regulations on the Board of Directors.	The Board of Directors plans to approve the Regulations on the Corporate Secretary.
3.1.3.	The corporate secretary should hold no concurrent positions in the company. Their responsibilities should be compliant with recommendations of the Corporate Governance Code. The corporate secretary should have sufficient resources to discharge their duties.	Complied with.	
IV. REMUNERATION OF DIRECTORS, EXECUTIVE BODY MEMBERS AND OTHER KEY MANAGERS			
4.1.	Remuneration paid by the company should be sufficient to attract, motivate and retain persons that have competencies and qualifications required by the company. Directors, executive body members and other key managers should be remunerated as per the company's remuneration policy.		
4.1.1.	Payments, benefits and privileges available to directors, executive body members and other key managers should be specified in the company's internal regulations.	Complied with.	
4.2.	Directors' remuneration should ensure that their financial interests are aligned with long-term financial interests of shareholders.		
4.2.1.	A fixed annual compensation should be the preferred form of cash remuneration for directors.	Complied with.	
4.2.2.	Directors should not be entitled to participate in the company's stock option plans, and their right to dispose of the company's shares owned by them should not be linked to their performance targets.	Independent directors do not participate in the Company's stock option plan.	

4.3.	Remuneration of executive body members and other key managers should be linked to the company's results and their personal contribution to those.		
4.3.1.	The company should implement a long-term incentive programme for executive body members and other key managers.	The Company is running an annual incentive programme based on the Company's long-term strategy.	The Company is running an incentive programme for executive body members and other key managers using KPIs, which are set and reviewed by the Board of Directors on an annual basis. Proposals for a new incentive programme based on strategic objectives are being developed.

V. RISK GOVERNANCE AND INTERNAL CONTROL

5.1.	The company should implement effective risk governance and internal control to guarantee, to a reasonable extent, fulfilment of the company's goals.		
5.1.1.	The board of directors should determine the company's risk governance and internal control principles and approaches.	Complied with.	
5.1.2.	The company should establish a standalone risk management and internal control unit.	Complied with.	
5.1.3.	The company should draft and implement an anti-corruption policy specifying measures to bring its culture, organisational structure, relevant rules and regulations to prevent corruption.	Complied with.	
5.2.	The company should arrange for internal audits, to assess reliability and performance of the risk governance, internal control and corporate governance framework, on a regular and independent basis.		
5.2.1.	The company should set up a standalone internal audit unit functionally reporting to the board of directors. The said unit's functions should be compliant with recommendations of the Corporate Governance Code and include: • assessing internal control performance; • assessing risk governance performance; • assessing corporate governance framework (in case there is no corporate governance committee).	Complied with.	
5.2.2.	Head of internal audit should report to the board of directors and should be appointed or removed from office by the board's resolution.	Complied with.	
5.2.3.	The company should approve an internal audit policy (Regulation on Internal Audit) specifying internal audit goals, objectives and functions.	Internal audit goals, objectives and functions are specified in the Regulations on Internal Control and Regulations on the Internal Audit Department.	The Company plans to approve its Internal Audit Policy in 2015.

VI. INFORMATION POLICY AND DISCLOSURE

6.1.	The company and its operations should be transparent for its shareholders, investors and other stakeholders.		
6.1.1.	The company should approve an internal regulation on its information policy as recommended by the Corporate Governance Code. The company's information policy should provide for the following ways of communication with investors and other stakeholders: • a dedicated page on the corporate website featuring FAQs from investors and shareholders with respective answers, a regularly updated corporate calendar, and other useful information; • regular meetings of executive body members and other key managers with analysts; • regular presentations, including via teleconferences and webcasts, and meetings attended by governance body members and other key managers, including those related to releases of financial statements or the company's key investment projects and strategic plans.	Complied with.	
6.1.2.	The company's executive bodies should be in charge of implementing its information policy, while the board of directors should oversee proper compliance therewith and information disclosure.	Complied with.	
6.1.3.	The company should implement procedures to align all its functions and structural units whose activities are related to or may require information disclosure.	Complied with.	

6.2.	The company should ensure timely disclosure of up-to-date, complete and reliable information on its operations to enable its shareholders and investors to make informed decisions.		
6.2.1.	If foreign investors hold a substantial share of the company's capital, the company should, along with disclosure of information in Russian, disclose key information (including notices of general meetings and annual reports) in a foreign language generally accepted in the financial market.	Complied with.	
6.2.2.	The company should disclose information about both itself and legal entities controlled by and material to the company.	Complied with.	
6.2.3.	The company should disclose annual and interim (semi-annual) consolidated or individual financial statements prepared in accordance with the International Financial Reporting Standards (IFRS). The company's annual consolidated or individual financial statements should be disclosed together with the auditor's report, while its interim (semi-annual) consolidated or individual financial statements should be disclosed together with the auditor's review report or the auditor's opinion.	Complied with.	
6.2.4.	The company should disclose a special memorandum setting out the controlling person's plans for the company. The said memorandum should comply with recommendations of the Corporate Governance Code.	Complied with as required by the applicable law.	The Company discloses information on its governance bodies, capital structure, and persons controlling or having significant influence on the Company.
6.2.5.	The company should ensure disclosure of detailed biographies of its directors, including information as to whether they are independent directors, and timely disclosure of information as to whether a director has lost their independent status.	Complied with.	
6.2.6.	The company should disclose information on its capital structure in compliance with recommendations of the Corporate Governance Code.	Complied with.	

6.2.7.	The company's annual report should include the following additional information recommended by the Corporate Governance Code: • a brief review of the most significant transactions entered into by the company and by legal entities controlled by it, including associated transactions, during the past year; • a report by the board of directors and its committees for the year, containing, inter alia, information on the number of meetings held in person (in absentia), attendance of each director, the most important and complicated matters discussed by the board and its committees, and principal recommendations by the committees to the board; • information on shares in the company directly or indirectly owned by its directors and/or executive body members; • information on whether the company's directors and/or executive body members have conflicts of interest (including those linked to their membership in competitors' governance bodies); • a description of remuneration of directors, including the amount of individual remuneration payable to each director based on annual performance (broken down into the base fee, additional remuneration for the chairing of the board of directors and chairing of / membership in its committees, the extent of participation in a long-term incentive programme, the amount of each director's participation in an option plan, if any), reimbursement of related expenses, and costs incurred by the company in connection with liability insurance for its directors in their capacity of governance body members; • information on the total remuneration for the year: a) in respect of a group of at least five top paid executive body members and other key managers of the company, broken down by type of remuneration; b) in respect of all executive body members and other key managers covered by the company's remuneration policy, broken down by type of remuneration; • information on the sole executive body's remuneration for the year, which they have received or are to receive from the company (legal entity from a group that includes the company), broken down by type of remuneration, both for performing their duties of the sole executive body and on other grounds.	Complied with subject to the applicable law, including the Federal Law on Personal Data.	Information on transactions entered into by legal entities controlled by the Company is published on both TMK's website and Interfax information disclosure website as corporate action notices, and summarised in annual reports of legal entities controlled by the Company, also published on TMK's website. Information on remuneration of governance bodies is disclosed in annual reports in full compliance with the Russian law.

6.3.	The company should provide information and documents requested by its shareholders in accordance with the principle of equal and unhindered accessibility.		
6.3.1.	In accordance with the company's information policy, shareholders with an equal number of the company's voting shares should be given equal access to the company's information and documents.	Complied with.	

VII. MATERIAL CORPORATE ACTIONS

7.1.	Actions which will or may materially affect the company's share capital structure and its financial position and, accordingly, the position of its shareholders ("material corporate actions") should be taken on fair terms, ensuring that the rights and interests of the shareholders and other stakeholders are observed.		
7.1.1.	The company's articles of association should include a list (criteria) of transactions or other actions deemed to be material corporate actions, the consideration of which should be referred to the jurisdiction of the board of directors, including: • reorganisation of the company, acquisition of at least 30% of its voting shares (takeover), increase or reduction of the company's authorised capital, listing and delisting of its shares; • sale of shares (interests) in legal entities controlled by and material to the company, as a result of which the company loses control over such legal entities; • transactions, including associated transactions, with the property of the company or legal entities controlled by the company, where the value of such assets exceeds the amount specified in the company's articles of association or is material to the business of the company; • creation of a legal entity controlled by and material to the business of the company; • disposal by the company of its treasury or quasi-treasury shares.	Complied with.	

7.2.	The company should establish a procedure for taking material corporate actions that would enable its shareholders to receive full information about such actions in due time and influence them, and also would guarantee that shareholder rights are observed and duly protected when such actions are taken.		
7.2.1.	The company's internal regulations should provide for equitable treatment of all the shareholders of the company when taking material corporate actions affecting their rights and legitimate interests, and establish additional measures to protect rights and legitimate interests of the company's shareholders stipulated by the Corporate Governance Code, including: • engagement of an independent appraiser with an impeccable reputation and relevant experience, or justification of otherwise, to estimate the value of the property disposed of or acquired pursuant to a major transaction or a related-party transaction; • valuation of the company's shares at their repurchase or redemption by an independent appraiser with an impeccable reputation and relevant experience, taking into account the weighted average share price over a reasonable period of time, ignoring potential effect of the transaction (including potential changes in the share price resulting from the relevant information disclosure), and ignoring minority discount; • introduction of additional related party criteria for the company's directors and other persons as per the applicable law, to assess their actual relationships.	Complied with as required by the applicable law.	

8.

MD&A

MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL POSITION AND RESULTS OF OPERATIONS

COMPLEX SUPPLIER

Our plants produce almost the entire range of existing pipes used in the oil-and-gas sector, the chemical and petrochemical industries, energy and machine-building, construction and municipal housing, shipbuilding, aviation and aerospace, and agriculture.

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TMK BUSINESS

8. MD&A
MANAGEMENT DISCUSSION AND ANALYSIS OF THE FINANCIAL POSITION AND RESULTS OF OPERATIONS

The following review of our financial position and results of operations is based on, and should be read in conjunction with, our consolidated financial statements and related notes for the year ended 31 December 2014.

Certain information, including our forecasts and strategy, contains forward-looking statements and is subject to risks and uncertainties, domestically and internationally. In assessing these forward-looking statements, readers should consider various risk factors as the company's actual results may differ materially from the expected results discussed in this report.

ROUNDING
Certain monetary amounts, percentages and other figures included in this report are subject to rounding adjustments. On occasion, therefore, amounts shown in tables may not be the arithmetic accumulation of the figures that precede them, and figures expressed as percentages in the text and in tables may not total 100 percent. Changes for periods between monetary amounts are calculated based on the amounts in thousands of U.S. dollars stated in our consolidated financial statements, and then rounded to the nearest million or percent.

8.1 EXECUTIVE OVERVIEW

We are 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.

In 2014 sales of seamless and welded OCTG increased **by 7% YoY**

The principal activities of our company are the production and distribution of seamless and welded pipes, including pipes with the entire range of premium connections backed by extensive technical support.

Our plants produce almost the entire range of existing pipes used in the oil-and-gas sector, the chemical and petrochemical industries, energy and machine-building, construction and municipal housing, shipbuilding, aviation and aerospace, and agriculture.

We created an up-to date technological complex based on advanced scientific research, manufacturing high-quality competitive products.

Our operations are geographically diversified with manufacturing facilities in Russia, the United States, Canada, Romania, Kazakhstan and the Sultanate of Oman. We operate R&D centers in Russia and the U.S. Our global market presence is supported by a wide distribution network. In 2014, we delivered 59% of our tubular products to our customers located in Russia and 28% in North America. We estimate our share on global market of seamless OCTG at 10%.

We are the largest exporter of pipes in Russia. Exports of pipes produced by our Russian plants accounted for 14% of our total sales in 2014.

In 2014, we sold 4,402 thousand tonnes of steel pipes. Seamless pipes comprised 58% of our sales volumes. Sales of seamless and welded OCTG reached 1,948 thousand tonnes, a 7% year-on-year increase, sales of LD pipe grew by 6% year-on-year to 468 thousand tonnes.

Our total consolidated revenue decreased by 7% to $6,009 million as compared to 2013. Adjusted EBITDA declined to $804 million as compared to $952 million in the previous year. Adjusted EBITDA* margin decreased to 13% from 15% in 2013.

* Adjusted EBITDA — See «Selected financial data»

8.2 BUSINESS STRUCTURE

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

- **RUSSIAN DIVISION:** manufacturing facilities located in the Russian Federation, Kazakhstan and the Sultanate of Oman, and oilfield service companies and trading companies in Russia, Kazakhstan, Switzerland, the United Arab Emirates and South Africa. The Russian division is engaged in the production and supply of seamless and welded pipe, premium products and the provision of related services to oil and gas companies;
- **AMERICAN DIVISION:** manufacturing facilities and trading companies located in the United States and Canada. The American division is engaged in the production and supply of seamless and welded pipe and premium products, including ULTRA™ connections and the provision of related services to oil and gas companies;
- **EUROPEAN DIVISION:** manufacturing facilities located in Romania and trading companies located in Italy and Germany. The European division is engaged in the production and supply of seamless pipe and steel billets.

8.3

YEAR ENDED 31 DECEMBER 2014 RESULTS

RESULTS OF OPERATIONS

In 2014, our sales volumes slightly increased, however our main financial indicators decreased year-on-year.

	2014	2013	Change
	in million dollars	in million dollars	
Sales volume (in thousand tonnes)	4,402	4,287	115
Revenue	6,009	6,432	(423)
Cost of sales	(4,839)	(5,074)	235
GROSS PROFIT	**1,169**	**1,358**	**(188)**
Gross profit MARGIN	19%	21%	
Net operating expenses*	(693)	(754)	61
(Impairment) / Reversal of impairment of assets	(153)	(5)	(147)
Foreign exchange gain/(loss), net	(301)	(49)	(252)
(Loss)/gain on changes in fair value of derivative financial instrument	2	8	(6)
FINANCE COSTS, NET	**(226)**	**(245)**	**19**
Income before tax	(201)	312	(514)
Income tax expense	(15)	(98)	83
NET INCOME	**(217)**	**215**	**(431)**
NET INCOME MARGIN	(4)%	3%	
ADJUSTED EBITDA	804	952	(148)
ADJUSTED EBITDA MARGIN	13%	15%	

* Net operating expenses include selling and distribution, general and administrative, advertising and promotion, research and development, share of profit in associate, gain on disposal of subsidiary and net other operating income/(expense).

SALES

In 2014, our consolidated revenue decreased by $423 million or 7% as a result of a negative currency translation effect* in the amount of $790 million. Excluding this effect our revenue increased by $367 million year-on-year.

SALES BY REPORTING SEGMENTS ARE AS FOLLOWS:

	2014	2013	Change	Change
	in million dollars	in millions dollars	in %	
Russia	3,973	4,483	(510)	(11)%
America	1,766	1,665	102	6%
Europe	270	284	(15)	(5)%
TOTAL REVENUE	**6,009**	**6,432**	**(423)**	**(7)%**

	2014	2013	Change	Change
	in thousand tonnes	in thousand tonnes	in %	
Russia	3,198	3,085	113	4%
America	1,019	1,027	(8)	(1)%
Europe	185	175	9	5%
TOTAL PIPE	**4,402**	**4,287**	**115**	**3%**

* The currency translation effect on income/expense items illustrates the influence of different exchange rates we use to convert these items from functional currencies into the presentation currency, the U.S. dollar, in different reporting periods for financial reporting purposes.

SALES BY GROUP OF PRODUCTS ARE AS FOLLOWS:

	2014	2013	Change	Change
	in million dollars	in millions dollars	in %	
Seamless pipe	3,748	3,960	(211)	(5)%
Welded pipe	1,998	2,201	(202)	(9)%
TOTAL PIPE	**5,747**	**6,160**	**(413)**	**(7)%**
Other operations	262	272	(10)	(4)%
TOTAL REVENUE	**6,009**	**6,432**	**(423)**	**(7)%**

	2014	2013	Change	Change
	in thousand tonnes	in thousand tonnes	in %	
Seamless pipe	2,560	2,422	138	6%
Welded pipe	1,842	1,866	(23)	(1)%
TOTAL PIPE	**4,402**	**4,287**	**115**	**3%**

Revenue from sales of seamless pipe increased **by $141 million**

RUSSIA.
The division's revenue decreased by $510 million or 11% year-on-year as a result of a negative currency translation effect in the amount of $788 million. Excluding this effect revenue increased by $278 million.

Revenue from sales of seamless pipe increased by $141 million mainly due to higher sales volumes of line pipe and OCTG.

Revenue from sales of welded pipe grew by $83 million due to higher sales volumes of large diameter pipe also resulted in a better product mix.

Revenue from other operations increased by $53 million reflecting a significant growth in billets sales.

AMERICA.
In the American division, revenue increased by $102 million or 6% year-on-year.

Revenue from sales of seamless pipe increased by $141 million as a result of higher OCTG sales volumes, including a significant growth in sales of pipes, produced by our Russian plants, and better pricing environment.

Revenue from sales of welded pipe fell by $38 million mainly due to lower sales volumes, which was not fully compensated by better sales mix.

Revenue from other operations decreased by $2 million.

EUROPE.
In the European division revenue decreased by $15 million or 5% year-on-year, primarily on a significant decline in billets sales. Unfavourable currency translation effect amounted to $3 million.

Revenue from sales of seamless pipe increased by $17 million as compared to the last year mostly as a result of higher sales volumes.

Revenue from other operations, mostly from billets sales, declined by $29 million as compared to previous year following lower sales volumes.

GROSS PROFIT

In 2014, our consolidated gross profit decreased by $188 million or 14% year-on-year and amounted to $1,169 million. The unfavourable currency translation effect was $178 million. Gross profit margin decreased to 19% from 21% in the previous year.

GROSS PROFIT RESULTS BY REPORTING SEGMENTS ARE AS FOLLOWS:

	2014	2014	2013	2013	Change
	in million dollars	in % to revenue	in million dollars	in % to revenue	in million dollars
Russia	891	22%	1,092	24%	(201)
America	223	13%	212	13%	12
Europe	55	21%	54	19%	1
TOTAL GROSS PROFIT	**1,169**	**19%**	**1,358**	**21%**	**(188)**

GROSS PROFIT RESULTS BY GROUP OF PRODUCTS ARE AS FOLLOWS:

	2014	2014	2013	2013	Change
	in million dollars	in % to revenue	in million dollars	in % to revenue	in million dollars
Seamless pipe	907	24%	1,077	27%	(170)
Welded pipe	239	12%	246	11%	(7)
TOTAL PIPE	**1,146**	**20%**	**1,323**	**21%**	**(176)**
Other operations	23	9%	35	13%	(12)
TOTAL GROSS PROFIT	**1,169**	**19%**	**1,358**	**21%**	**(188)**

RUSSIA.
The division's gross profit decreased by $201 million mostly as a result of a negative currency translation effect in the amount of $178 million. Gross profit margin decreased from 24% to 22%.

A negative effect of higher raw material prices was not compensated by the favourable effect of higher sales volumes and resulted in a $81 million decrease in gross profit of seamless pipe.

Gross profit of welded pipe increased by $60 million due to favourable sales mix following higher LD share in sales volumes.

Gross profit from other operations decreased by $2 million.

AMERICA.
The American division's gross profit increased by $12 million as compared to 2013. Gross profit margin remained almost flat at 13%.

Gross profit from seamless pipe sales grew by $41 million as a result of higher OCTG sales volumes.

Higher raw material prices and lower sales volumes resulted in a $20 million decrease in gross profit of welded pipe.

Gross profit from other operations decreased by $9 million.

EUROPE.
Gross profit in the European division increased by $1 million. Gross profit margin grew from 19% to 21% as a result of higher seamless pipe share in total sales volume.

NET OPERATING EXPENSES

Net operating expenses were lower by $61 million or 8% due to a negative currency translation effect. The share of net operating expenses, expressed as a percentage of revenue, stayed almost flat at 12%.

ADJUSTED EBITDA

In 2014, adjusted EBITDA margin decreased to 13% from 15% in the previous year.

	2014	2014	2013	2013	Change
	in million dollars	in % to revenue	in million dollars	in % to revenue	in million dollars
Russia	614	15%	776	17%	(162)
America	159	9%	145	9%	14
Europe	32	12%	31	11%	1
TOTAL ADJUSTED EBITDA	**804**	**13%**	**952**	**15%**	**(148)**

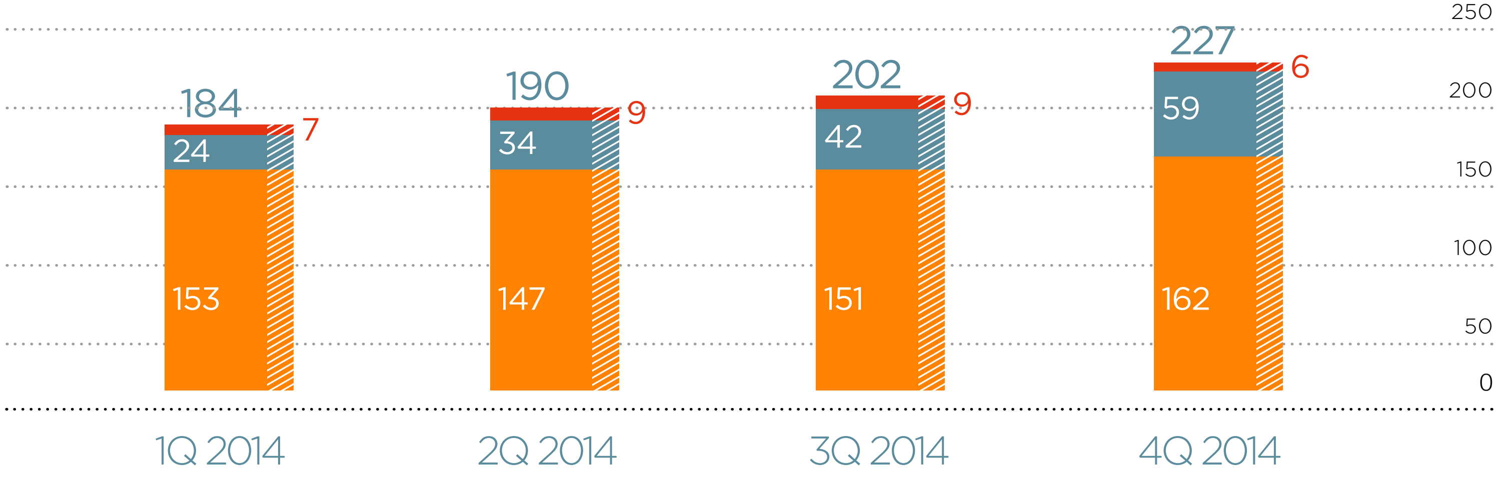
RUSSIA.
Adjusted EBITDA was lower by $162 million or 21%. Gross profit decrease was partly compensated by decrease in selling, general and administrative expenses. Adjusted EBITDA margin decreased from 17% to 15%.

AMERICA.
Adjusted EBITDA increased by $14 million or 10% as a result of higher gross profit and lower selling, general and administrative expenses and other operating expenses. Adjusted EBITDA margin stayed almost flat at 9%.

EUROPE.
Adjusted EBITDA stayed almost flat as compared to 2013. Adjusted EBITDA margin improved from 11% to 12%.

GRAPH **8.1**

Our quarterly Adjusted EBITDA in 2014 by operating segment was as follows:
/ USD m /



IMPAIRMENT OF ASSETS

We tested our assets for impairment during the year. As at December 31, 2014, we recognised the impairment loss of $153 million, which mostly related to impairment of American division goodwill. In 2013, the impairment loss was $5 million.

FOREIGN EXCHANGE MOVEMENTS

In 2014, we recorded a foreign exchange loss in the amount of $301 million as compared to a $49 million loss in 2013. In addition, we recognised a foreign exchange loss from exchange rate fluctuations in the amount of $482 million (net of income tax) in 2014 as compared to a $65 million loss (net of income tax) in 2013 in the statement of other comprehensive income. The amount in the statement of comprehensive income represents the effective portion of foreign exchange gains or losses on our hedging instruments.

NET FINANCE COSTS

Net finance costs decreased $19 million or 8% mainly following lower interest expense influenced by the depreciation of the Rouble against the U.S. dollar. The weighted average nominal interest rate was 7.26% as of 31 December 2014 as compared to 6.72% as of 31 December 2013.

INCOME TAX

TMK, as a global company with production facilities and trading companies located in Russia, the CIS, the United States, and Europe, is exposed to local taxes charged to businesses. In 2013 and 2014, the following corporate income tax rates were in force in the countries where our production facilities are located: 20% in Russia, 35% (federal rate) in the United States and 16% in Romania.

In 2014, a pre-tax loss of $201 million was reported as compared to $312 million pre-tax income in 2013. Income tax expense of $15 million was recognised as compared to $98 million in 2013.

CASH FLOWS
THE FOLLOWING TABLE ILLUSTRATES OUR CASH FLOWS:

	2014	2013	Change
	in million dollars	in million dollars	
NET CASH PROVIDED BY OPERATING ACTIVITIES	**595**	**703**	**(109)**
Payments for property and equipment	(293)	(397)	104
Acquisition of subsidiaries	(60)	(38)	(21)
Dividends received	0	3	(3)
Other investments	10	9	1
FREE CASH FLOW	**252**	**280**	**(28)**
Change in loans	154	(93)	247
Interest paid	(251)	(254)	3
Other financial activities	95	(3)	98
FREE CASH FLOW TO EQUITY	**251**	**(70)**	**320**
Dividends paid	(51)	(57)	6
Effect of exchange rate changes	(40)	(5)	(35)
Cash and cash equivalents at the beginning of period	93	225	(132)
Cash and cash equivalents at period end	253	93	160

Net cash flows provided by operating activities decreased by 15% to $595 million from $703 million in 2013, mainly due to a decline in operating profit. In 2014, working capital increase stayed almost flat at $159 million.

Net proceeds of borrowings totalled $154 million as compared to $93 million of net repayment of borrowings in 2013.

Significant growth in other financial activities was caused by proceeds from issue of share capital in December, 2014.

Cash spent for acquisition of subsidiaries in 2014 relates to the advance payment for ChermetServis-Snabzhenie, one of the leaders in the Russian steel scrap market. Cash spent for acquisition of subsidiaries in 2013 relates primarily to the acquisition of Pipe Services and Precision Manufacturing Business in the U.S. and final payment for 55% of the voting shares of Gulf International Pipe Industry LLC, a company based in the Sultanate of Oman and specialising in the manufacturing of welded steel pipes.

In 2014, we paid a full year dividend in respect of 2013 in the total amount of $47 million to the shareholders of OAO TMK. In 2013, we paid a full year dividend in respect of 2012 in the total amount of $53 million to the shareholders of OAO TMK. We paid dividends in the amount of $4 million to our non-controlling interest owners in 2014 and 2013.

Cash and cash equivalents at the end of the period showed a significant growth and amounted to $253 million as compared to $93 million at the end of 2013.

INDEBTEDNESS

THE FOLLOWING TABLE ILLUSTRATES THE MATURITY PROFILE OF OUR TOTAL FINANCIAL DEBT:

	1 year or less	1 to 3 years	Over 3 years	Unamortised debt issue costs	Total debt
	in millions of U.S. dollars				
As of 31 December 2014	765	1,173	1,294	(9)	3,223
As of 31 December 2013	399	1,471	1,837	(12)	3,694

Our overall financial debt decreased from $3,694 million as of 31 December 2013 to $3,223 million as of 31 December 2014 influenced by the depreciation of the Rouble against the U.S. dollar. Net proceed of borrowings in 2014 was $154 million. Our net debt decreased to $2,969 million as compared to $3,600 million as of 31 December 2013.

As of 31 December 2014, our debt portfolio comprised diversified debt instruments, including bank loans, bonds, convertible bonds and other credit facilities. As of 31 December 2014, the U.S. dollar-denominated portion of our debt represented 67%, Rouble-denominated portion of debt represented 30%, euro-denominated portion of debt represented 3% of our total debt.

The share of our short-term debt increased to 24% as of 31 December 2014 compared to 11% as of 31 December 2013 as our convertible bonds matured in February 2015.

As of 31 December 2014, our debt portfolio comprised fixed and floating interest rate debt facilities. Borrowings with a floating interest rate represented $461 million or 15% of total debt, and borrowings with a fixed interest rate represented $2,709 million or 85% of our total debt.

As of 31 December of 2014, our weighted average nominal interest rate was 7.26%, which was a 54 basis point increase compared to 31 December 2013.

OUR MOST SIGNIFICANT CREDIT FACILITIES AS OF 31 DECEMBER 2014 WERE AS FOLLOWS:

Type of borrowing	Bank	Original currency	Outstanding principal amount	Maturity period
			in millions of U.S. dollars	
7.75% bonds		USD	500	January 2018
6.75% bonds		USD	500	April 2020
Loan	Gazprombank	USD	400	June 2017
5.25% convertible bonds	USD	311	February 2015	
Loan	Sberbank of Russia	RUR	231	December 2016
Loan	Nordea Bank	USD	160	January 2017
Loan	Gazprombank	RUR	160	March 2019
Loan	Wells Fargo	USD	128	August 2016
Loan	Sberbank of Russia	RUR	107	July 2015
Loan	VTB	RUR	89	November 2015
			2,585	
Other credit facilities	563			
TOTAL LOANS AND BORROWINGS		**3,148**		

8.4 CAPITAL EXPENDITURE

Throughout 2014, we continued our capital expenditure projects, which are focused on increasing our share of high value-added products, enhancing our production capacity for premium products, and reducing unit costs.

	2014	2013	Change	Change
	in million dollars	in millions dollars		in %
Russia	293	450	(157)	(35)%
America	41	44	(3)	(7)%
Europe	17	22	(5)	(21)%
CAPITAL EXPENDITURE	**351**	**516**	**(165)**	**(32)%**

Our key projects are the following:

- construction of a new Fine Quality Mill ("FQM") at STZ: main equipment of the mill was commissioned in the 4th quarter of 2014, currently the construction and commissioning of auxiliary facilities are continued;
- implementation of complex Pipe Rolling Shop-3 development program at VTZ which aims to meet increasing customers' requirements for product quality control and to increase the share of OCTG pipes with premium connections;
- installation of the threading equipment and modern hydraulic press installation as a part of the program to improve the quality of OCTG at SinTZ;
- completion of the main phase of the modernization of the production of seamless and welded pipes of stainless steels at TMK-INOX;
- organization of the site for the production of pipes for hydraulic cylinders on TMK-ARTROM as framework of development of production for mechanical engineering;
- expanding finishing capacities at Koppel plant of TMK-IPSCO, PA, including heat treatment capacity increase and installation of additional non-destructive testing equipment.

8.5 DEVELOPMENT TRENDS

In the first quarter of 2015, we observe a high utilization rate of our production facilities in Russia as a result of a seasonally stronger demand from the oil and gas majors and a higher pipeline construction activity. For the full year 2015, we expect the Russian pipe market to remain stable, largely due to a further growth of LD pipe market as a result of the commencement of Power of Siberia project, continued construction of Bovanenkovo-Ukhta, South Corridor and a number of other projects along with a substantial demand for maintenance needs of Gazprom and Transneft.

For the full year 2014, pipe imports in Russia fell by more than 20% year-on-year and we believe the market share of imported pipe will continue to decrease throughout 2015. This will enable us to substitute the majority of the imported products in the short-term and increase our pipe sales on the Russian market.

In the U.S., a drop of around 500 rigs since the beginning of 2015 led to a sharp decline in demand for OCTG, as companies adjust inventories to lower drilling activity. Assuming oil and gas prices recover from the current level, we expect to see a slight OCTG demand improvement during the second half of 2015, as companies begin to restock in anticipation of a recovery in oil and natural gas drilling activity. However, given excess of a domestic capacity and a stronger U.S. dollar, which favors imports, we expect pipe prices to remain under pressure throughout 2015. Outside of the energy industry, as the U.S. economy continues to expand, we expect to see an increase in demand for industrial products.

For the full year 2015, we expect the situation on the European pipe market to remain challenging due to lower end-users consumption and market overcapacity.

8.6

SELECTED FINANCIAL DATA

ADJUSTED EBITDA

Reconciliation of income before tax to Adjusted EBITDA for the twelve months ended:

	31 December 2014	30 September 2014	30 June 2014	31 March 2014	31 December 2013
					in million dollars
Income before tax	(201)	150	201	186	312
Depreciation and amortisation	304	317	319	319	326
Finance costs, net	226	231	225	230	245
Impairment of assets/(Reversal of impairment of assets)	153	3	5	5	5
Loss/(gain) on changes in fair value of derivative financial instrument	(2)	(7)	(5)	(5)	(8)
Foreign exchange (gain)/loss, net	301	113	36	107	49
Loss/(gain) on disposal of property, plant and equipment	4	1	3	4	6
Movement in allowances and provisions (except for provisions for bonuses)	20	17	18	18	19
Other non-cash items	0	0	0	0	(2)
ADJUSTED EBITDA	**804**	**824**	**804**	**864**	**952**

Adjusted EBITDA is not a measure of our operating performance under IFRS and should not be considered as an alternative to gross profit, net profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, Adjusted EBITDA should not be considered to be a measure of discretionary cash available to invest in our growth. Adjusted EBITDA has limitations as an analytical tool, and potential investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS.

The following limitations of Adjusted EBITDA as an analytical tool should be considered:

- Adjusted EBITDA does not reflect the impact of financing or finance costs on our operating performance, which can be significant and could further increase if we were to incur more debt;
- Adjusted EBITDA does not reflect the impact of income taxes on our operating performance;
- Adjusted EBITDA does not reflect the impact of depreciation and amortisation on our operating performance. The assets that are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA, it does not reflect our future cash requirements for these replacements; and
- Adjusted EBITDA does not reflect the impact of other non-cash items on our operating performance, such as foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions, (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associate and other non-cash items. Other companies in the pipe industry may calculate Adjusted EBITDA differently or may use it for other purposes, limiting its usefulness as comparative measure. We compensate for these limitations by relying primarily on our IFRS operating results and using Adjusted EBITDA only supplementally.

NET DEBT

NET DEBT HAS BEEN CALCULATED AS OF THE DATES INDICATED:

	31 December 2014	30 September 2014	30 June 2014	31 March 2014	31 December 2013
					in million dollars
Loans and borrowings	3,170	3,491	3,696	3,535	3,642
Liability under finance lease	53	55	58	59	52
TOTAL DEBT	**3,223**	**3,546**	**3,753**	**3,594**	**3,694**
Net of:					
Cash and short-term financial investments	(253)	(37)	(122)	(68)	(93)
NET DEBT	**2,969**	**3,508**	**3,631**	**3,526**	**3,600**
NET DEBT TO EBITDA (LTM*)	**3.69**	**4.26**	**4.52**	**4.08**	**3.78**

Net Debt is not a measure under IFRS, and it should not be considered to be an alternative to other measures of financial position. Other companies in the pipe industry may calculate Net Debt differently and therefore comparability may be limited. Net Debt is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Although Net Debt is a non IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. Management believes Net Debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from available cash. Net Debt demonstrates investors the trend in our net financial position over the periods presented. However, the use of Net Debt assumes that gross debt can be reduced by cash. In fact, it is unlikely that all available cash will be used to reduce gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Debt and the ratio of net debt to equity, or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost.

These measures also make it possible to evaluate if our financial structure is adequate to achieve our business and financial targets. Management monitors the net debt and the leverage ratio or similar measures as reported by other companies in Russia or abroad in order to assess our liquidity and financial structure relative to such companies. Management also monitors the trends in our Net Debt and leverage in order to optimise the use of internally generated funds versus borrowed funds.

* Net Debt-to-EBITDA ratio is defined as the quotient of Net Debt at the end of the given reporting date divided by the Adjusted EBITDA for the 12 months immediately preceding the given reporting date. Adjusted EBITDA — see «Selected financial data».

8.7

PRINCIPAL RISKS AND UNCERTAINTIES

78%
sales volumes of our tubular products used in oil and gas industry in 2014

INDUSTRY RISKS

DEPENDENCE ON THE OIL AND GAS INDUSTRY

The oil and gas industry is the principal consumer of steel pipe products worldwide and accounts for most of our sales, in particular sales of OCTG, line pipe and large-diameter pipe. In 2014, sales volumes of pipes used in oil and gas industry accounted for approximately 78% of our tubular products.

The oil and gas industry has historically been volatile and downturns in the oil and gas markets can adversely affect demand for our products, which largely depends on the number of oil and gas wells being drilled, completed and reworked, the depth and drilling conditions of wells and the construction of oil and gas pipelines. The level of such industry specific activities in turn depends on the level of capital spending by major oil and gas companies. The level of investment activities of oil and gas companies, which is largely driven by prevailing prices for oil and natural gas and their stability, significantly affects the level of consumption of our products.

In case of significant and/or sustained decline in oil and natural gas prices energy companies could reduce their levels of expenditures. As a result, the demand for oil and gas pipes can substantially decrease, leading to the tightening of competition and a possible decrease of market prices for tubular products.

Thus, the decline in oil and gas exploration, drilling and production activities and prices for energy commodities could have a negative impact on our results of operations and financial position.

INCREASES IN THE COST OF RAW MATERIALS

We require substantial quantities of raw materials to produce steel pipes. The principal raw materials used in production processes include scrap and ferroalloys for use in steelmaking operations, steel billets used for the production of seamless pipes and steel coils and plates for the production of welded pipes. The demand for the principal raw materials we utilize is generally correlated with macroeconomic fluctuations, which are in turn affected by global economic conditions.

Prices for raw materials and supplies have a key influence on our production costs and are one of the main factors affecting our results of operations. They are influenced by many factors, including oil and gas prices, worldwide production capacity, capacity utilization rates, inflation, exchange rates, trade barriers and improvements in steelmaking processes. Costs of the principal types of raw materials that we require increased in 2014 as compared to 2013 in all TMK's divisions. The share of raw materials' and consumables' costs in the total cost of production in 2014 was 64%.. The increase in prices for scrap, coils and other raw materials, if not passed on to customers in a timely fashion, can adversely affect our profit margins and results of operations.

our large-diameter pipe sales to Gazprom amounted **to 55%**

Our plants also consume significant quantities of energy, particularly electricity and gas. In 2014, the prices (in Roubles) for electricity and natural gas for the plants of the Russian division increased on average by 4% and 7%, respectively, compared to 2013. In 2014, the share of energy costs and utilities remained almost flat and amounted to 8% of the total cost of production. Nevertheless, price increases for energy resources will increase our costs of production and could have an adverse effect on results of operations and financial results.

DEPENDENCE ON A SMALL GROUP OF CUSTOMERS

As we focus on supplying primarily the oil and gas industry, our largest customers are oil and gas companies. In 2014, our five largest customers were Rosneft, Gazprom (excluding Gazprom Neft), Surgutneftegas, Lukoil and Bourland and Leverich which together accounted for 32% of our total sales volumes. The increased dependence of pipe sales on a single large customer bears the risk of an adverse effect on results of operations in the event that our relationship with any of these major customers deteriorated.

Our large-diameter pipe business is largely dependent on one of our largest customers, Gazprom, and is subject to increasing competitive pressure. In 2014, 55% of our large-diameter pipes were sold for Gazprom projects. Gazprom is one of our largest customers for 1,420 mm diameter welded pipes used for construction of gas trunk pipelines. Increased competition in the supply of large-diameter pipes or a change in relationships with Gazprom could negatively affect our competitive position in the 1,420 mm diameter pipe market, resulting in decreased revenues from sales of these products and adversely affecting our business, financial position and results of operations. Additionally, large-diameter pipe business depends significantly upon the level of construction of new oil and gas pipelines in Russia and the CIS. The delay, cancellation or other changes in the scale or scope of significant pipeline projects, or the selection by the sponsors of such projects of other suppliers could have an adverse effect on our sales of large-diameter pipes, and thus on the results of operations and financial position. We mitigate this risk by developing cooperation with new customers from CIS countries.

COMPETITION

The global market for steel pipe products, particularly in the oil and gas sector, is highly competitive and primarily based on compliance with technical requirements, price, quality and related services. In the Russian and CIS markets, we face competition primarily from ChTPZ, which produces both welded and seamless pipes, OMK, which produces welded pipes, and the Ukrainian and Chinese pipe producers.

Accession of Russia to the WTO and subsequent reduction of import duties on steel pipes to the level of 5%–13.8%, as well as usage of unfair methods of competition by some importers, in the first place, contribute to the growth of steel pipes import to Russia and to the Customs Union from China and Ukraine. Nevertheless, implemented in 2013, antidumping duties in the amount of 18.9%–19.9% on imports of Interpipe's (Ukraine) pipe production, antidumping duties equal to 19.15% on imports of cold-drawn stainless pipes originated from China, the safeguard measure in the form of import quota in respect of certain corrosion-resistant steel pipelines, which ceased to have effect in November 2014, ensured the alignment of conditions of competition in the market of pipe products in Russia in 2014. Antidumping duties, the reduction of deliveries of certain types of pipes by Ukrainian producers caused by, among other things, the critical state of the Ukrainian economy, and decline in imports from China by 31% due to the antidumping investigation initiated in respect of OCTG, led to a reduction in imports of pipes in 2014 by 24%. Also, devaluation of the Rouble and sanctions imposed by USA and EU in respect of supply of products for exploration and extraction of tight oil are exerting negative influence on the dynamic of import of goods from other counties. At the same time it should be noted that the Eurasian Economic Union (EAEC), the former Customs Union, began to operate from January 1, 2015. Member States of the EAEC are the Republic of Armenia, Belarus, Kazakhstan and the Russian Federation, as well as the expected accession of the Kyrgyz Republic.

In February 2015 the Eurasian Economic Commission upon the application of Russian manufacturers, including TMK, initiated the anti-dumping investigation against imports into the territory of the EAEC seamless stainless steel pipes originating from Ukraine. Calculated by the applicants preliminary dumping margin for the deliveries from Ukraine into the customs territory of the EAEC amounted to an average of 11.3%. In the first half of 2015 the decision of Eurasian Economic Commission upon the results of the antidumping investigation against the imports of seamless OCTG from China is expected to be made which will also help to reduce the volume of dumped imports. Nevertheless, if the measures taken by the EAEC have appeared to be insufficient for the protection from the unfair import in the future, this could have an adverse impact on TMK market position.

Outside Russia and the CIS, we compete against a limited number of premium-quality pipe products producers, including Tenaris, Vallourec, Sumitomo, Voestalpine and a limited number of Chinese producers, including Baosteel and TPCO.

In the United States, TMK IPSCO faces competition primarily from Boomerang, Tenaris, U.S. Steel and VallourecStar, a subsidiary of Vallourec, as well as from imported OCTG and line pipe products, principally from Asia.

In 2013, the majority of the U. S. steel pipe producers, including TMK IPSCO, submitted a request to the U.S. Department of Commerce to initiate anti-dumping and countervailing duty investigations of certain oil country tubular goods from India, South Korea, the Philippines, Saudi Arabia, Taiwan, Thailand, Turkey, Ukraine and Vietnam.

In August 2014, the following duties were imposed as the result of antidumping investigations: India — 2.05% — 9.91%; Turkey — 35.86%; South Korea — 9.89% — 15.75%, Taiwan — 2.34%, Vietnam — 25.18% — 111.47%.

According to the results of the countervailing duty investigation the countervailing duties 5.67% — 19.57% for India and 2.53% — 15.89% for Turkey were imposed.

Decisions and determinations subsequent to results of the investigations mentioned above are expected to contribute to the improvement of competitive conditions on the market, price increase and improvement of market positions of American plants.

In October 2014, TMK IPSCO and other seven producers requested United States International Trade Commission to conduct an investigation regarding the imposition of countervailing and antidumping duties on welded API line pipe from South Korea and Turkey. Preliminary determination should be announced in March, 2015. We are expecting that preliminary determination in the investigation will be affirmative in relation to imports of welded line pipe. However, any unfavorable decision could have negative effect on the price environment in the segment.

FINANCIAL RISKS

LIQUIDITY RISK

As of December 31, 2014, our total debt amounted to $ 3,223 million as compared to $ 3,694 million at the end of 2013 influenced by the depreciation of the Rouble against the U. S. dollar. As of December 31, 2014, our Net-Debt-to-EBITDA ratio was 3.7.

In 2014, we duly satisfied and discharged obligations under loan agreements and refinanced a certain part of our loan portfolio.

In February, 2015 we redeemed our 5.25% Convertible Bonds due 2015 convertible into GDRs each representing four ordinary shares of TMK. To redeem the bonds TMK used cash accumulated from operating and financial activities, including four-year USD denominated credit facility from one of the leading Russian commercial banks.

Improving liquidity profile remains one of our priorities, and we continue to carry out measures to maintain sufficient liquidity and improve loan portfolio structure. During 2014, to assure effective access to financial resources, we concluded short-term and medium-term credit line agreements with Sberbank, Gazprombank, VTB, AlfaBank, RaifizenBank and Absolut Bank for the total amount of $ 500 million and 27.5 billion Roubles. As of 31 December 2014 we committed credit lines in Russian, European and American banks with the available limit of $ 879.7 million.

Nevertheless, there can be no assurance that our efforts to improve liquidity profile and reduce leverage will prove successful. The negative market reaction on deteriorating global financial situation, US and EU sanctions, increase of Bank of Russia key rate may have an adverse impact on our ability to borrow in banks or capital markets, and may put pressure on our liquidity, significantly increase borrowing costs, temporary reduce the availability of credit lines or lead to and possibility to incur financing on acceptable terms.

COMPLIANCE WITH COVENANTS

Certain of our loan agreements and public debt securities currently include financial covenants. Some covenants impose financial ratios that must be maintained, other impose restrictions in respect of certain transactions, including restrictions in respect of indebtedness. A breach of financial or other covenants in existing debt facilities, if not resolved by means such as obtaining a waiver from the relevant lender and/or making amendments to debt facilities, could trigger a default under our obligations.

We comply with the covenants under our public debt securities and covenants under loan agreements. As of 31 December 2014, we were in compliance with lenders' requirements under covenants.

Nevertheless, in case financial markets or economic environment on the markets, where we operate, deteriorate in the future, we may not comply with relevant covenants. In case of possible breach we will obtain all necessary waivers or standstill letters. We do not expect the occurrence of such events in the near future.

INTEREST RATE RISK

Interest expenses are the prevailing part of our finance costs. In 2014, our finance costs decreased as compared to the level of 2013 influenced by the depreciation of the Rouble against U. S. dollar. Our weighted average nominal interest rate as of December 31, 2014 increased by 54 basis points as compared to December 31, 2013.

Substantial part of our loan portfolio is represented by loans with fixed interest rate. However, some loan agreements contain a right of creditors to change interest rates in case of change of credit indicators by the Central Bank of Russia and in other cases. After significant growth of the key rate in the end of 2014, interest rates for some of our borrowings were increased. At the time being, negative impact is inconsiderable; nevertheless, if current policy of the Central Bank of Russia continues, interest rates could be changed for the most of our borrowings.

Additionally, certain part of our loan portfolio is represented by loans taken out at floating interest rates. As of December 31, 2014, loans with floating interest rates represented $461 million. The underlying rates in current loans with floating interest rates are LIBOR and EURIBOR. In 2012, taking into account low levels of interest rates which were close to its historical levels, we hedged a part of interest rate risks. Considering hedging, at the end of 2014 the share of variable-rate debt amounted to 8% of our total credit portfolio.

Nevertheless, several loans with floating interest rates in our credit portfolio are not hedged, and, should floating interest rates increase in the future, interest expenses on relevant loans will increase.

CURRENCY RISK

Our products' prices as well as our costs are nominated both in Roubles and in other currencies (generally, in U. S. dollars and EUR). We hedge our net investment in operations located in the United States and Oman against foreign currency risks using U. S. dollar denominated liabilities. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. In 2014, we incurred foreign exchange losses from spot rate changes in the total amount of $903 million, including $301 million recognised in the income statement and $602 million (before income tax) recognised in the statement of comprehensive income.

As of December 31, 2014, 67% of our loans were denominated in U. S. dollar. In this regards, as well as taking into consideration continuing volatility of the Rouble against U. S. dollar, the risk of losses owing to the Rouble devaluation remains sufficiently high. Since revenue of the Group is nominated in Euros, the U. S. dollar and Roubles due to the geographic diversification of sales, this provides a natural hedge for our foreign exchange position. Nevertheless, depreciation of the Rouble against the U. S. dollar could adversely affect our net profit as coherent losses will be reflected in our consolidated income statements.

INFLATION RISK

A significant amount of our production activities are located in Russia, and a majority of direct costs are incurred in Roubles. We tend to experience inflation-driven increases in certain costs, such as raw material costs, transportation costs, energy costs and salaries that are linked to the general price level in Russia. In 2014, inflation in Russia reached 11.4% as compared to 6.5% in 2013. In spite of the measures of the Russian government to contain inflation, growth of inflation rates may be significant in the short-term outlook. We may not be able to increase the prices sufficiently at an opportune time in order to preserve existing operating margins.

Inflation rates in the United States, with respect to TMK IPSCO operations, are historically much lower than in Russia. In 2014, inflation in the United States decreased to 0.76% in comparison to 1.5% in 2013.

High rates of inflation, especially in Russia, could increase our costs, decrease our operating margins and adversely affect our business and financial position.

LEGAL RISKS

CHANGES IN TAX LEGISLATION AND TAX SYSTEM

Our subsidiaries make significant tax and non-budgetary funds payments, in particular, profit tax, VAT, property tax and payments to social security funds. Changes in tax legislation could lead to an increase in tax payments and, consequently, to a lowering of financial results. As significant part of the operations is located in Russia, the main risks relate to changes in the legislation of the Russian tax system. The Russian Government continually reviews the Russian tax legislation. The new laws generally reduce the number of taxes and the overall tax burden on business while simplifying tax legislation. Nevertheless, should the Russian taxation system suffer any changes related to increasing of tax rates, this could adversely affect our business.

Moreover, the Russian oil industry is subject to substantial taxes, including significant resources production taxes and significant export customs duties. Changes to the tax regime and customs duties rates may adversely affect the level of oil and gas exploration and development in Russia, which can adversely affect the demand for our products in Russia.

CHANGES IN ENVIRONMENTAL LAW

We meet the requirements of national environmental laws at our industrial capacities location areas: the directives and regulations of Russian, the United States, the European Union, Romanian, Kazakhstan and Omani legislation.

The main ecological-and-economical risks of our Russian plants are related to changes and tightening of Russian environmental protection laws. Environmental legislation in Russia is currently undergoing serious reformation. The imposition of a new law and regulation system may require further expenditures to install new technological and waste disposal equipment, pollution and wastewater control equipment, as well as will lead to growth of the rate of payments for negative impact on the environment. It is expected that compliance with the regulations will be accompanied by stricter control by state monitoring authorities. If existing legislation is changed, that may lead to additional costs or unforeseen expenses, which, however, could not have a material adverse effect on our financial position and results of operations.

We estimate that the environmental legislation of the European Union and the United States, Romania, Kazakhstan and Oman will not undergo any material changes in the near future. Nevertheless, if such changes arise, the cost of compliance with new requirements could have a material adverse effect on our business.

OTHER RISKS

EQUIPMENT FAILURES OR PRODUCTION CURTAILMENTS OR SHUTDOWNS

Our production capacities are subject to the risk of equipment failures due to unanticipated events, such as fires, explosions and adverse weather conditions. Manufacturing processes depend on critical pieces of steelmaking and pipe-making equipment. Such equipment may, on occasion, be out of service as a result of unanticipated failures could require us to close part of the relevant production facility or cause to reduce production on one or more of production lines. Any interruption in production capability may require us to make significant and unanticipated capital expenditures to affect relevant repairs, which could have a negative effect on our profitability and cash flows. We currently maintain insurance against losses that may arise in case of property damage, accidents and transportation of goods. We also maintain corporate product liability and directors' and officers' liability insurance policies. Nevertheless, any recoveries under insurance coverage that may be obtained in the future may not offset lost revenues or increased costs resulting from a disruption of operations.

INSURANCE AGAINST ALL POTENTIAL RISKS AND LOSSES

We do not carry insurance against all potential risks and losses that may arise in connection with the quality of our products, property damage, work-related accidents and occupational illnesses, natural disasters and environmental contamination. We currently maintain no business interruption insurance. Losses or liabilities arising from these or other events could increase our costs and could adversely affect our business, financial position and operating results.

ABILITY TO EFFECT STAFF ALTERATIONS AND SHORTAGES OF SKILLED LABOR

Our Russian subsidiaries are in many regions the largest employers in the cities in which they operate, such as Volzhsky, Taganrog, Kamensk-Uralsky and Polevskoy. While we do not have any specific legal social obligations or responsibilities with respect to these regions, the ability to effect alterations in the number our employees may nevertheless be subject to political and social considerations. Any inability to make planned reductions in the number of employees or other changes to operations in such regions could have an adverse effect on the results of operations and prospects.

Competition for skilled labor in the steel pipe industry remains relatively intense, and labor costs continue to increase moderately, particularly in the CIS, Eastern Europe and the United States. We expect the demand and, hence, costs for skilled engineers and operators will continue to increase, reflecting the significant demand from other metallurgical companies and other industries. Continual high demand for skilled labor and continued increases in labor costs could have a material adverse effect on our business, financial position and results of operations.

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

EY
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.

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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.

Ernst & 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

OAO TMK

Consolidated Income Statement

for the year ended December 31, 2014

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

	NOTES	Year ended December 31, 2014	Year ended December 31, 2013
Revenue:	1	6,008,946	6,431,903
Sales of goods		*5,921,889*	*6,328,930*
Rendering of services		*87,057*	*102,973*
Cost of sales	2	(4,839,470)	(5,074,311)
Gross profit		**1,169,476**	**1,357,592**
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
Profit/(loss) before tax		**(201,373)**	**312,383**
Income tax expense	8	(15,276)	(97,843)
Profit/(loss) for the period		**(216,649)**	**214,540**
Attributable to:			
Equity holders of the parent entity		(215,559)	213,929
Non-controlling interests		(1,090)	611
		(216,649)	**214,540**
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	9	**(0.25)**	**0.25**

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

CONTENT

OAO TMK

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2014

(All amounts in thousands of US dollars)

	NOTES	2014	2013
Profit/(loss) for the period		**(216,649)**	**214,540**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency[(a)]		(246,350)	(50,160)
Foreign currency loss on hedged net investment in foreign operations[(b)]	29 (viii)	(602,032)	(81,742)
Income tax[(b)]	29 (viii)	120,406	16,348
		(481,626)	**(65,394)**
Movement on cash flow hedges[(a)]	29 (ix)	1,758	546
Income tax[(a)]	29 (ix)	(406)	(163)
		1,352	**383**
Items that may not be reclassified subsequently to profit or loss:			
Net actuarial gains[(a)]	24	**6,484**	**3,268**
Other comprehensive income/(loss) for the period, net of tax		**(720,140)**	**(111,903)**
Total comprehensive income/(loss) for the period, net of tax		**(936,789)**	**102,637**
Attributable to:			
Equity holders of the parent entity		(907,689)	106,866
Non-controlling interests		(29,100)	(4,229)
		(936,789)	**102,637**

(a) Other comprehensive income/(loss) for the period, net of tax, was attributable to equity holders of the parent entity and to non-controlling interests as presented in the table below:

	2014	2013
Exchange differences on translation to presentation currency attributable to:		
Equity holders of the parent entity	(218,161)	(45,277)
Non-controlling interests	(28,189)	(4,883)
	(246,350)	**(50,160)**
Movement on cash flow hedges attributable to:		
Equity holders of the parent entity	1,352	381
Non-controlling interests	–	2
	1,352	**383**
Net actuarial gains attributable to:		
Equity holders of the parent entity	6,305	3,227
Non-controlling interests	179	41
	6,484	**3,268**

(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	
ASSETS					
Current assets					
Cash and cash equivalents	12	252,898		93,298	
Trade and other receivables	13	728,340		995,371	
Inventories	14	1,046,907		1,324,475	
Prepayments and input VAT	15	105,143		136,630	
Prepaid income taxes		7,939		11,276	
Other financial assets		596	**2,141,823**	155	**2,561,205**
Non-current assets					
Investments in associates	11	1,247		1,900	
Property, plant and equipment	16	2,610,170		3,845,355	
Goodwill	17	403,861		584,904	
Intangible assets	17	273,242		311,428	
Deferred tax asset	8	144,843		63,624	
Other non-current assets	18	74,202	**3,507,565**	50,252	**4,857,463**
TOTAL ASSETS			**5,649,388**		**7,418,668**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	19	722,696		944,165	
Advances from customers		63,162		59,936	
Accounts payable to related parties	27	43,484		101,151	
Provisions and accruals	20	41,397		51,184	
Interest-bearing loans and borrowings	21	758,805		393,941	
Finance lease liability	23	5,545		3,796	
Derivative financial instruments	30	–		2,080	
Dividends payable		1,889		5,863	
Income tax payable		6,483	**1,643,461**	8,504	**1,570,620**
Non-current liabilities					
Interest-bearing loans and borrowings	21	2,410,900		3,248,077	
Finance lease liability	23	47,641		47,969	
Deferred tax liability	8	205,667		297,874	
Provisions and accruals	20	22,916		33,327	
Employee benefits liability	24	21,044		45,067	
Other liabilities	25	26,899	**2,735,067**	46,115	**3,718,429**
Total liabilities			**4,378,528**		**5,289,049**
Equity	29				
Parent shareholders' equity					
Issued capital		336,448		326,417	
Treasury shares		(319,149)		(319,149)	
Additional paid-in capital		485,756		391,192	
Reserve capital		16,390		16,390	
Retained earnings		1,495,465		1,737,098	
Foreign currency translation reserve		(820,254)		(120,467)	
Other reserves		9,968	1,204,624	2,311	2,033,792
Non-controlling interests	26		66,236		95,827
Total equity			**1,270,860**		**2,129,619**
TOTAL LIABILITIES AND EQUITY			**5,649,388**		**7,418,668**

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

9.
CONSOLIDATED FINANCIAL STATEMENTS

CONTENT

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									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Other reserves**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2014	**326,417**	**(319,149)**	**391,192**	**16,390**	**1,737,098**	**(120,467)**	**2,311**	**2,033,792**	**95,827**	**2,129,619**
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)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**(215,559)**	**(699,787)**	**7,657**	**(907,689)**	**(29,100)**	**(936,789)**
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**
At December 31, 2014	**336,448**	**(319,149)**	**485,756**	**16,390**	**1,495,465**	**(820,254)**	**9,968**	**1,204,624**	**66,236**	**1,270,860**

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

CONTENT

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									
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves	Total	Non-controlling interests	TOTAL
At January 1, 2013	**326,417**	**(319,149)**	**391,192**	**16,390**	**1,581,001**	**(9,796)**	**(1,297)**	**1,984,758**	**98,868**	**2,083,626**
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)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**213,929**	**(110,671)**	**3,608**	**106,866**	**(4,229)**	**102,637**
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)**
At December 31, 2013	**326,417**	**(319,149)**	**391,192**	**16,390**	**1,737,098**	**(120,467)**	**2,311**	**2,033,792**	**95,827**	**2,129,619**

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

9. CONSOLIDATED FINANCIAL STATEMENTS

CONTENT

OAO TMK

Consolidated Statement of Cash Flows

for the year ended December 31, 2014

(All amounts in thousands of US dollars)

	NOTES	2014	2013
Operating activities			
Profit/(loss) before tax		(201,373)	312,383
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
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)
Operating cash flows before working capital changes		**807,393**	**944,198**
Working capital changes:			
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)
Cash generated from operations		**648,066**	**785,637**
Income taxes paid		(53,316)	(82,204)
Net cash flows from operating activities		**594,750**	**703,433**
Investing activities			
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)
Issuance 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
Net cash flows used in investing activities		**(342,704)**	**(423,389)**
Financing activities			
Proceeds from share capital increase	29 (i)	101,536	–
Proceeds from borrowings		1,576,886	1,562,500
Repayment 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)
Net cash flows used in financing activities		**(52,546)**	**(406,811)**
Net increase/(decrease) in cash and cash equivalents		**199,500**	**(126,767)**
Net foreign exchange difference		(39,900)	(4,996)
Cash and cash equivalents at January 1		93,298	225,061
Cash and cash equivalents at December 31		**252,898**	**93,298**

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

CONTENT

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.

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.

CONTENT

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*.

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 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.

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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 specify 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.

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

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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

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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).

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CONTENT

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.

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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.

CONTENT

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.

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 it's 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

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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 economic 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.

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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

CONTENT

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.

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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

CONTENT

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.

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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.

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Notes to the Consolidated Financial Statements (continued)

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

1) Segment Information

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

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

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

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

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

CONTENT

1) Segment Information (continued)

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

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

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

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Notes to the Consolidated Financial Statements (continued)

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

1) Segment Information (continued)

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

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

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

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

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

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

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

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

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Notes to the Consolidated Financial Statements (continued)

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

2) Cost of Sales

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

	2014	2013
Raw materials and consumables	3,080,247	3,384,212
Staff costs including social security	687,066	721,647
Energy and utilities	386,677	409,374
Depreciation and amortisation	252,048	266,218
Repairs and maintenance	118,165	136,403
Contracted manufacture	102,385	76,318
Freight	70,683	66,710
Taxes	40,081	44,769
Professional fees and services	39,358	39,736
Rent	15,101	13,338
Travel	3,159	3,415
Insurance	737	834
Communications	623	905
Other	3,744	5,593
Total production cost	**4,800,074**	**5,169,472**
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
Cost of sales	**4,839,470**	**5,074,311**

3) Selling and Distribution Expenses

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

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

4) Advertising and Promotion Expenses

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

	2014	2013
Exhibits and catalogues	7,479	5,384
Outdoor advertising	5,739	5,512
Media	529	887
Other	721	698
	14,468	**12,481**

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Notes to the Consolidated Financial Statements (continued)

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

5) General and Administrative Expenses

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

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

6) Research and Development Expenses

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

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

7) Other Operating Income and Expenses

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

	2014	2013
Gain from penalties and fines	2,477	2,618
Gain on disposal of property, plant and equipment	122	–
Gain on sales of current assets	34	67
Other	4,971	15,094
	7,604	**17,779**

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

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

CONTENT

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:

	2014	2013
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
Total income tax expense	**15,276**	**97,843**

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

	2014	2013
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
Total income tax expense	**15,276**	**97,843**

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

	2014	Change recognised in income statement	Change recognised in other comprehensive income/ (loss)	Currency translation adjustments	2013
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
	(60,824)	**41,087**	**120,000**	**12,339**	**(234,250)**
Reflected in the statement of financial position as follows:					
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:

	2013	Change recognised in income statement	Change recognised in other comprehensive income/ (loss)	Acquisition and disposal of subsidiaries	Currency translation adjustments	2012
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
	(234,250)	**(17,478)**	**16,185**	**(168)**	**9,426**	**(242,215)**
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:

	2014	2013
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.

CONTENT

10) Acquisition and Disposal of Subsidiaries

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

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

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

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

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

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

Disposal of 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:

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

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:

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

12) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

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

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

13) Trade and Other Receivables

Trade and other receivables consisted of the following:

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

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

14) Inventories

Inventories consisted of the following:

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

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

CONTENT

14) Inventories (continued)

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

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

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

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

15) Prepayments and Input VAT

Prepayments and input VAT consisted of the following:

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

16) Property, Plant and Equipment

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

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

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

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

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

Capitalised Borrowing Costs

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

9. CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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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	–
	403,861	**210,306**	**584,904**	**208,700**

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%

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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:

	2014	2013
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 guaranties	1,143	351
Long-term trade receivables	287	13,356
Other	6,180	15,184
	74,240	**69,071**
Allowance for doubtful debts	(38)	(18,819)
	74,202	**50,252**

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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:

	2014	2013
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
	722,696	**944,165**

20) Provisions and Accruals

Provisions and accruals consisted of the following:

	2014	2013
Current		
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
	41,397	**51,184**
Non-current		
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
	22,916	**33,327**

21) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	2014	2013
Current		
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)
Total short-term loans and borrowings	**758,805**	**393,941**
Non-current		
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)	–
Total long-term loans and borrowings	**2,410,900**	**3,248,077**

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21) Interest-Bearing Loans and Borrowings (continued)

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

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

Unutilised Borrowing Facilities

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

22) Convertible Bonds

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

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

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

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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:

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

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

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

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

CONTENT

23) Finance Lease Liability (continued)

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

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

24) Employee Benefits Liability

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

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

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

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

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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%
Turnover	Age-related curve depending on experience data for a year	Age-related curve depending on experience data for a year	Standard Crocker Sarason Termination Table T-11	Standard Crocker Sarason Termination Table T-11	1.88%-5.44%	1.0%

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

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

25) Other Non-Current Liabilities

Other non-current liabilities consisted of the following:

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

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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
Manufacturing facilities			
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%
Services for oilfield and gas industries			
OOO "Predpriyatiye "Truboplast"	Russia	100.00%	100.00%
TMK NGS-Nizhnevartovsk	Russia	100.00%	100.00%
LLC TMK NGS-Buzuluk	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%
Trading companies			
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%
Research and development			
OAO "Russian Research Institute of the Tube and Pipe Industries"	Russia	97.36%	97.36%
TMK R&D	Russia	100.00%	100.00%

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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
		66,236		**95,827**

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.

CONTENT

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:

	2014	2013
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:

	2014	2013
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

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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.

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

9. CONSOLIDATED FINANCIAL STATEMENTS

CONTENT

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

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

29) Equity (continued)

ii) Treasury Shares

	2014	2013
Number of shares	72,559,628	72,559,628
Cost	319,149	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.

CONTENT

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
Movement on cash flow hedges	**–**	**54**	**1,758**	**492**	**1,758**	**546**
Income tax	–	(8)	(406)	(155)	(406)	(163)
Movement on cash flow hedges, net of tax	**–**	**46**	**1,352**	**337**	**1,352**	**383**

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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

CONTENT

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:

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

	2014	2013
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.

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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.

	As at December 31, 2014					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
	Low	High	Low	High	Low	High
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	–	–

	As at December 31, 2013					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
	Low	High	Low	High	Low	High
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.

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

CONTENT

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:

As at December 31, 2014	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	>4 years	TOTAL
Trade and other payables	629,789	–	–	–	–	**629,789**
Accounts payable to related parties	43,484	–	–	–	–	**43,484**
Interest-bearing loans and borrowings:						
Principal	728,574	626,217	534,385	514,716	743,783	**3,147,675**
Interest	201,592	168,784	116,442	79,121	59,044	**624,983**
Finance lease liability	7,664	10,434	5,188	4,809	37,844	**65,939**
Dividends payable	1,889	–	–	–	–	**1,889**
Liabilities under put options of non-controlling interest shareholders in subsidiaries	6,639	–	–	15,326	–	**21,965**
Other non-current liabilities	–	3	33	–	8,263	**8,299**
	1,619,631	**805,438**	**656,048**	**613,972**	**848,934**	**4,544,023**

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

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.

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:

	2014		2013	
	Gross amount	Impairment	Gross amount	Impairment
Current trade and other receivables – not past due	646,515	(18,345)	781,817	(4,459)
Current trade and other receivables – past due				
less than 30 days	61,489	(1,188)	85,771	(546)
between 30 and 90 days	17,608	(282)	85,486	(702)
over 90 days	38,197	(20,385)	73,861	(30,433)
Accounts receivable from related parties – not past due	4,749	(18)	4,608	(32)
Non-current trade and other receivables – not past due	5,215	(38)	27,072	(18,819)
Other – not past due	4,253	–	5,712	–
	778,026	**(40,256)**	**1,064,327**	**(54,991)**

Movement in allowance for doubtful debts was as follows:

	2014	2013
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)
Balance at the end of the year	**40,256**	**54,991**

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.

CONTENT

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:

	2014	2013
Embedded Conversion Option	–	(2,080)
Total current derivative financial instruments	**–**	**(2,080)**
Interest rate swaps	(2,076)	(3,501)
Total non-current derivative financial instruments	**(2,076)**	**(3,501)**

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.

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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:

	2014		2013	
	Par value	Fair value	Par value	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,161,283	1,089,008	1,489,452	1,489,888
Variable rate long-term bank loans	408,379	405,099	497,756	480,429
5.25 per cent convertible bonds	311,000	289,043	412,500	415,993
6.75 per cent loan participation notes due 2020	500,000	291,665	500,000	506,755
7.75 per cent loan participation notes due 2018	500,000	320,000	500,000	523,315

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.

OAO TMK'S MAJOR TRANSACTIONS AND RELATED-PARTY TRANSACTIONS IN 2014

MAJOR TRANSACTIONS

No major transactions were made.

RELATED-PARTY TRANSACTIONS

All transactions with related parties were made at arm's length.

TRANSACTIONS APPROVED BY THE GENERAL MEETING OF SHAREHOLDERS OF OAO TMK

No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
1.	Lender — OAO TMK, Borrower — OAO Volzhsky Pipe Plant	Loan issue Amount: RUB 3,000,000,000 Maturity period: up to 60 months	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov
2.	Lender — OAO TMK, Borrower — OAO Sinarsky Pipe Plant	Loan issue Amount: RUB 2,000,000,000 Maturity period: up to 60 months	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov
3.	Lender — OAO Sberbank of Russia, Surety — OAO TMK, Beneficiary — OAO Sinarsky Pipe Plant	Providing suretyship Amount: RUB 2,000,000.000 Expiry date: 09 December 2022	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan and A. Lyalkov
4.	Bank — OAO Sberbank of Russia, Surety — OAO TMK Beneficiary — OAO TAGMET	Providing suretyship Amount: RUB 7,000,000.000 Expiry date: 23 December 2022	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov

5.	Bank — OAO Sberbank of Russia, Surety — OAO TMK Beneficiary — OAO Volzhsky Pipe Plant	Providing suretyship Amount: RUB 6,000,000.000 Expiry date: 23 December 2022	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov
6.	Lender — OAO TMK, Borrower — PAO Seversky Tube Works	Loan issue Amount: RUB 5,200,000,000 Maturity period: up to 60 months	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Klachkov
7.	Bank — OAO Nordea Bank Surety — OAO TMK Surety — OAO Volzhsky Pipe Plant	Addendum to the Suretyship Contract due to amendments to the Credit Facility Agreement between OAO Volzhsky Pipe Plant and OAO Nordea Bank Amount: USD 200,000,000 Expiry date: 30 January 2017	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov

TRANSACTIONS APPROVED BY OAO TMK'S BOARD OF DIRECTORS:

No.	Parties to and beneficiaries of the transaction	Scope and material terms of the transaction	Related parties
Q4			
1.	Lender — OAO Sberbank of Russia, Surety — OAO TMK Beneficiaries — OAO Volzhsky Pipe Plant, OAO Sinarsky Pipe Plant, OAO TAGMET, PAO Seversky Tube Works and ZAO TMK Trade House	Providing suretyship Transaction amount: EUR 30,500,000 Expiry date: 17 December 2025	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov, A. Klachkov and V. Oborsky
2.	Surety — OAO TMK, Debtor — OAO Volzhsky Pipe Plant	Surety fee contract for a surety issued by OAO TMK in favour of OAO Nordea Bank Amount: RUB 2,331,046.19 Expiry date: 17 December 2022	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov
3.	Surety — OAO TMK Debtor — ZAO TMK Trade House	Surety fee contract for a surety issued by OAO TMK in favour of OAO Nordea Bank Amount: RUB 2,331,046.19 Expiry date: 17 December 2022	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky
4.	Surety — OAO TMK Debtor — PAO Seversky Tube Works	Surety fee contract for a surety issued by OAO TMK in favour of OAO Nordea Bank Amount: RUB 2,217,877.45 Expiry date: 17 December 2022	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Klachkov
5.	Surety — OAO TMK, Debtor — OAO Sinarsky Pipe Plant	Surety fee contract for a surety issued by OAO TMK in favour of OAO Nordea Bank Amount: RUB 2,217,877.45 Expiry date: 17 December 2022	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov

6.	Surety — OAO TMK, Debtor — OAO TAGMET	Surety fee contract for a surety issued by OAO TMK in favour of OAO Nordea Bank Amount: RUB 2,217,877.45 Expiry date: 17 December 2022	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov
7.	OAO TMK, OAO Volzhsky Pipe Plant	Addendum to the Agreement on the Assignment of Powers of the sole executive body of OAO Volzhsky Pipe Plant to OAO TMK which provides for a higher price of services Amount: RUB 356,053,200 Expiry date: 01 January 2016	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov
8.	OAO TMK, OAO Seversky Tube Works	Addendum to the Agreement on the Assignment of Powers of the sole executive body of PAO Seversky Tube Works to OAO TMK which provides for prolongation of powers of the sole executive body and a higher price of services Amount: RUB 712,106,400 Expiry date: 01 January 2017	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Klachkov
9.	OAO TMK, OAO Sinarsky Pipe Plant	Addendum to the Agreement on the Assignment of Powers of the sole executive body of OAO Sinarsky Pipe Plant to OAO TMK which provides for prolongation of powers of the sole executive body and a higher price of services Amount: RUB 712,106,400 Expiry date: 01 January 2017	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov

10,	OAO TMK, OAO TAGMET	Addendum to the Agreement on the Assignment of Powers of the sole executive body of OAO TAGMET to OAO TMK which provides for prolongation of powers of the sole executive body and a higher price of services. Amount: RUB 712,106,400 Expiry date: 01 January 2017	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov
11,	Bank — OAO Sberbank of Russia, Surety — OAO TMK, Beneficiary — ZAO TMK Trade House	Providing suretyship Amount: RUB 2,000,000,000 Expiry date: 23 January 2021	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky
12,	Surety — OAO TMK Debtor — ZAO TMK Trade House	Surety fee contract for a surety issued by OAO TMK in favour of OAO Sberbank of Russia Transaction amount: RUB 6,000,000 Expiry date: 03 July 2015	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky
13,	Bank — OAO Sberbank of Russia Surety — OAO TMK, Beneficiary — ZAO TMK Trade House	Providing suretyship Amount: RUB 4,000,000,000 Expiry date: 03 July 2021	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky
14,	Surety — OAO TMK Debtor — ZAO TMK Trade House	Surety fee contract for a surety issued to ZAO TMK Trade House Amount: RUB 8,310,000 Expiry date: 03 July 2015	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky
15,	Debtor — OAO TMK Surety — OAO TAGMET	Surety fee contract for a surety issued to OAO TMK Amount: RUB 10,000,000 Expiry date: 31 May 2019	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov

16,	Debtor — OAO TMK Surety — OAO Sinarsky Pipe Plant	Surety fee contract for a surety issued to OAO TMK Amount: RUB 10,000,000 Expiry date: 31 May 2019	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov
Q3			
1.	Lender — Banca Comerciala Romana SA, Surety — OAO TMK, Beneficiary — TMK ARTROM SA	Securing performance of obligations of TMK ARTROM SA Amount: EUR 40,000,000 Expiry date: 03 October 2017	OAO TMK
2.	Lender — OAO TMK, Borrower — PAO Seversky Tube Works	Loan issue Amount: RUB 2,000,000.000 Maturity date: 01 July 2017	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Klachkov
3.	Lender — OAO TMK, Borrower — PAO Seversky Tube Works	Loan issue Amount: RUB 1,000,000,000 Maturity period: up to 60 months	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Klachkov
4.	Lender — OAO TMK, Borrower — OAO Volzhsky Pipe Plant	Loan issue Amount: 2,000,000,000 Maturity period: up to 60 months	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov
5.	Lender — OAO TMK, Borrower — PAO Seversky Tube Works	Loan issue Amount: 1,000,000,000 Maturity period: up to 60 months	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Klachkov
6.	Surety — OAO TMK, Debtor — OAO Sinarsky Pipe Plant	Surety fee contract for a surety issued by OAO TMK in favour of OAO Sberbank of Russia Amount: RUB 6,000,000 Expiry date: 09 December 2016	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov

7.	Surety — OAO TMK, Debtor — OAO TAGMET	Surety fee contract for a surety issued to OAO TAGMET Amount: RUB 21,000.000 Expiry date: 23 December 2016	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov
8.	Surety — OAO TMK, Debtor — OAO Volzhsky Pipe Plant	Surety fee contract for a surety issued by OAO TMK Amount: RUB 18,000.000 Expiry date: 23 December 2016	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov
9.	Debtor — OAO TMK Surety — OAO Volzhsky Pipe Plant	Surety fee contract for a surety issued by OAO Volzhsky Pipe Plant Amount: RUB 10,000,000 Expiry date: 31 May 2019	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, A. Lyalkov

Q2

1.	Lender — VTB Bank (Deutschland) AG, Surety — OAO TMK Beneficiary — TMK Europe	Securing performance of obligations of TMK Europe Amount: EUR 10,000,000 Expiry date: 12 June 2015	OAO TMK
2.	Lender — OAO Sberbank of Russia Surety — OAO TMK Beneficiary — ZAO TMK Trade House	Providing suretyship Amount: RUB 830,000,000 Expiry date: 03 July 2021	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky
3.	Surety — OAO TMK, Debtor — ZAO TMK Trade House	Surety fee contract for a surety issued by OAO TMK Amount: RUB 2,490,000 Expiry date: 03 July 2015	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky
4.	Lender — OAO Sberbank of Russia Surety — OAO TMK Beneficiary — ZAO TMK Trade House	Providing suretyship Amount: RUB 400,000,000 Expiry date: 28 August 2021	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky

5.	Surety — OAO TMK, Debtor — ZAO TMK Trade House	Surety fee contract for a surety issued by OAO TMK Amount: RUB 1,200,000 Expiry date: 03 July 2015	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky
Q1			
1.	Surety — OAO TMK, Debtor — ZAO TMK Trade House	Surety fee contract for a surety issued by OAO TMK Amount: RUB 9,000,000 Expiry date: 31 March 2015	BoD/Management Board members: A. Kaplunov, A. Shiryaev, T. Petrosyan, V. Oborsky

GLOSSARY AND CONTACTS

GLOSSARY

Casing pipe	Steel pipe used to reinforce the walls of a well
Drill pipe	Threaded seamless steel butted pipe used for well drilling
EAF	Electric arc furnace
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortization
FQM	Fine Quality Mill
IFRS	International Financial Reporting Standards
ISO 13679:2002	Oil and gas industry. Standardised procedures to test casing pipe and tubing connections
ISO 14001:2004	Environmental Management System. Requirements and guidelines
ktpa	Thousand tonnes per annum
LDP	Large diameter pipe
Line pipe	Pipe used in the construction and workover of upstream, transmission and process pipelines
mcm	Million cubic metres
OCTG	Oil country tubular goods
PQF	Premium Quality Finishing
RAS	Russian Accounting Standards
SAGD technology	Steam Assisted Gravity Drainage
Seamless pipe	Pipe manufactured through the insertion of a solid billet in a press or a piercing mill (with subsequent hot or cold working)
TAGMET	Taganrog Metallurgical Works OJSC
Tubing	Plain-end steel pipe or steel pipe with externally upset ends for oil and gas well operation
VIT	Vacuum insulated tubing
Welded pipe	Pipe made from metal coil, plate, strip or sheet, rolled and welded, and manufactured on a tube welding mill

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