OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Nine-month period ended September 30, 2014

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Nine-month period ended September 30, 2014

Contents

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Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors OAO TMK

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of OAO TMK and its subsidiaries ("Group") as of September 30, 2014 and the related interim consolidated statements of income and comprehensive income for the three-month and nine-month periods then ended, interim consolidated statements of changes in equity and cash flows for the nine-month period then ended and condensed explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young LLC

November 20, 2014

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Unaudited Interim Consolidated Income Statement

Nine-month period ended September 30, 2014

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

	NOTES	Nine-month period ended September 30, 2014	Nine-month period ended September 30, 2013	Three-month period ended September 30, 2014	Three-month period ended September 30, 2013
Revenue:	1	4,508,814	4,860,569	1,526,461	1,486,819
Sales of goods		*4,444,997*	*4,783,030*	*1,506,585*	*1,461,769*
Rendering of services		*63,817*	*77,539*	*19,876*	*25,050*
Cost of sales	2	(3,648,684)	(3,853,709)	(1,232,296)	(1,204,026)
Gross profit		**860,130**	**1,006,860**	**294,165**	**282,793**
Selling and distribution expenses	3	(258,924)	(269,777)	(78,713)	(83,146)
Advertising and promotion expenses		(11,963)	(9,660)	(2,708)	(3,331)
General and administrative expenses	4	(217,455)	(239,595)	(67,835)	(75,512)
Research and development expenses	5	(11,652)	(9,328)	(3,865)	(3,250)
Other operating income	6	6,131	7,807	1,542	4,611
Other operating expenses	6	(33,145)	(40,662)	(11,996)	(17,968)
Impairment of property, plant and equipment		–	(2,386)	–	(2,386)
Foreign exchange (loss)/gain, net		(103,657)	(40,050)	(72,854)	4,106
Finance costs		(171,269)	(188,994)	(57,515)	(52,343)
Finance income		3,262	6,530	907	1,383
Gain/(loss) on changes in fair value of derivative financial instruments		2,077	3,639	464	(1,462)
Share of profit of associates	9	163	285	263	263
Gain on disposal of subsidiary	8	–	1,862	–	–
Profit before tax		**63,698**	**226,531**	**1,855**	**53,758**
Income tax expense	7	(26,494)	(66,807)	(9,253)	(19,193)
Profit/(loss) for the period		**37,204**	**159,724**	**(7,398)**	**34,565**
Attributable to:					
Equity holders of the parent entity		38,012	160,081	(7,725)	35,783
Non-controlling interests		(808)	(357)	327	(1,218)
		37,204	**159,724**	**(7,398)**	**34,565**
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)		**0.04**	**0.19**	**(0.01)**	**0.04**

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

OAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income

Nine-month period ended September 30, 2014

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30, 2014	Nine-month period ended September 30, 2013	Three-month period ended September 30, 2014	Three-month period ended September 30, 2013
Profit/(loss) for the period		**37,204**	**159,724**	**(7,398)**	**34,565**
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation to presentation currency [a]		(140,325)	(45,367)	(127,196)	21,148
Foreign currency (loss)/gain on hedged net investment in foreign operations [b]	21 (iv)	(203,842)	(66,315)	(175,480)	11,629
Income tax [b]	21 (iv)	40,768	13,263	35,096	(2,326)
		(163,074)	**(53,052)**	**(140,384)**	**9,303**
Movement on cash flow hedges [a]	21 (v)	1,301	736	882	(854)
Income tax [a]	21 (v)	(305)	(194)	(203)	176
		996	**542**	**679**	**(678)**
Other comprehensive income/(loss) for the period, net of tax		**(302,403)**	**(97,877)**	**(266,901)**	**29,773**
Total comprehensive income/(loss) for the period, net of tax		**(265,199)**	**61,847**	**(274,299)**	**64,338**
Attributable to:					
Equity holders of the parent entity		(252,554)	66,430	(264,743)	64,499
Non-controlling interests		(12,645)	(4,583)	(9,556)	(161)
		(265,199)	**61,847**	**(274,299)**	**64,338**

(a) The amounts of exchange differences on translation to presentation currency and gain/(loss) on movement on cash flow hedges, net of income tax, were attributable to equity holders of the parent entity and to non-controlling interests as presented in the table below:

	Nine-month period ended September 30, 2014	Nine-month period ended September 30, 2013	Three-month period ended September 30, 2014	Three-month period ended September 30, 2013
Exchange differences on translation to presentation currency attributable to:				
Equity holders of the parent entity	(128,490)	(41,139)	(117,315)	20,091
Non-controlling interests	(11,835)	(4,228)	(9,881)	1,057
	(140,325)	**(45,367)**	**(127,196)**	**21,148**
Movement on cash flow hedges attributable to:				
Equity holders of the parent entity	998	540	681	(678)
Non-controlling interests	(2)	2	(2)	–
	996	**542**	**679**	**(678)**

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

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

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Unaudited Interim Consolidated Statement of Financial Position

At September 30, 2014

(All amounts in thousands of US dollars)

	NOTES	September 30, 2014		December 31, 2013	
ASSETS					
Current assets					
Cash and cash equivalents	10	36,890		93,298	
Trade and other receivables		915,567		995,371	
Inventories	11	1,274,793		1,324,475	
Prepayments and input VAT		117,902		136,630	
Prepaid income taxes		6,722		11,276	
Other financial assets		307	**2,352,181**	155	**2,561,205**
Non-current assets					
Investments in associates	9	1,649		1,900	
Property, plant and equipment	12	3,383,443		3,845,355	
Goodwill	13	572,714		584,904	
Intangible assets	13	283,777		311,428	
Deferred tax asset		69,451		63,624	
Other non-current assets		30,157	**4,341,191**	50,252	**4,857,463**
TOTAL ASSETS			**6,693,372**		**7,418,668**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	14	815,260		944,165	
Advances from customers		26,480		59,936	
Accounts payable to related parties	19	61,931		101,151	
Provisions and accruals	15	43,792		51,184	
Interest-bearing loans and borrowings	16	711,731		393,941	
Finance lease liability		5,425		3,796	
Derivative financial instruments	18	30		2,080	
Dividends payable		224		5,863	
Income tax payable		10,255	**1,675,128**	8,504	**1,570,620**
Non-current liabilities					
Interest-bearing loans and borrowings	16	2,778,826		3,248,077	
Finance lease liability		49,560		47,969	
Deferred tax liability		234,577		297,874	
Provisions and accruals	15	31,517		33,327	
Employee benefits liability		40,146		45,067	
Other liabilities		39,028	**3,173,654**	46,115	**3,718,429**
Total liabilities			**4,848,782**		**5,289,049**
Equity	21				
Parent shareholders' equity					
Issued capital		326,417		326,417	
Treasury shares		(319,149)		(319,149)	
Additional paid-in capital		391,418		391,192	
Reserve capital		16,390		16,390	
Retained earnings		1,755,154		1,737,098	
Foreign currency translation reserve		(412,031)		(120,467)	
Other reserves		3,309	1,761,508	2,311	2,033,792
Non-controlling interests			83,082		95,827
Total equity			**1,844,590**		**2,129,619**
TOTAL LIABILITIES AND EQUITY			**6,693,372**		**7,418,668**

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

OAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity

Nine-month period ended September 30, 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**
Profit/(loss) for the period	–	–	–	–	38,012	–	–	**38,012**	(808)	**37,204**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(291,564)	998	**(290,566)**	(11,837)	**(302,403)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**38,012**	**(291,564)**	**998**	**(252,554)**	**(12,645)**	**(265,199)**
Dividends declared by the parent entity to its shareholders (Note 21 ii)	–	–	–	–	(19,376)	–	–	**(19,376)**	–	**(19,376)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 21 iii)	–	–	–	–	–	–	–	**–**	(1,367)	**(1,367)**
Acquisition of non-controlling interests in subsidiaries (Note 21 vi)	–	–	226	–	–	–	–	**226**	(326)	**(100)**
Contribution from non-controlling interest owners (Note 19)	–	–	–	–	–	–	–	**–**	1,013	**1,013**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 21 vii)	–	–	–	–	(580)	–	–	**(580)**	580	**–**
At September 30, 2014	**326,417**	**(319,149)**	**391,418**	**16,390**	**1,755,154**	**(412,031)**	**3,309**	**1,761,508**	**83,082**	**1,844,590**

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

(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 (as restated)	**326,417**	**(319,149)**	**391,192**	**16,390**	**1,581,001**	**(9,796)**	**(1,297)**	**1,984,758**	**98,868**	**2,083,626**
Profit/(loss) for the period	–	–	–	–	160,081	–	–	**160,081**	(357)	**159,724**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(94,191)	540	**(93,651)**	(4,226)	**(97,877)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**160,081**	**(94,191)**	**540**	**66,430**	**(4,583)**	**61,847**
Dividends declared by the parent entity to its shareholders	–	–	–	–	(22,079)	–	–	**(22,079)**	–	**(22,079)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	–	–	–	–	–	–	–	**–**	(1,554)	**(1,554)**
Contribution from non-controlling interest owners	–	–	–	–	–	–	–	**–**	2,525	**2,525**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	101	–	–	–	–	**101**	(101)	**–**
At September 30, 2013	**326,417**	**(319,149)**	**391,293**	**16,390**	**1,719,003**	**(103,987)**	**(757)**	**2,029,210**	**95,155**	**2,124,365**

OAO TMK

Unaudited Interim Consolidated Cash Flow Statement

Nine-month period ended September 30, 2014

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30, 2014	Nine-month period ended September 30, 2013
Operating activities			
Profit before tax		63,698	226,531
Adjustments to reconcile profit before tax to operating cash flows:			
Depreciation of property, plant and equipment		204,022	204,192
Amortisation of intangible assets	13	27,994	36,715
Loss on disposal of property, plant and equipment	6	1,909	6,466
Impairment of property, plant and equipment		–	2,386
Foreign exchange loss, net		103,657	40,050
Finance costs		171,269	188,994
Finance income		(3,262)	(6,530)
Gain on disposal of subsidiary	8	–	(1,862)
Gain on changes in fair value of derivative financial instruments		(2,077)	(3,639)
Share of profit of associates	9	(163)	(285)
Allowance for net realisable value of inventory		2,473	291
Allowance for doubtful debts		312	8,403
Movement in provisions		3,628	(13,050)
Operating cash flows before working capital changes		**573,460**	**688,662**
Working capital changes:			
Increase in inventories		(109,278)	(19,728)
Increase in trade and other receivables		(56,914)	(151,671)
Decrease in prepayments		3,362	29,715
Increase/(decrease) in trade and other payables		(27,944)	101,483
Decrease in advances from customers		(26,175)	(153,503)
Cash generated from operations		**356,511**	**494,958**
Income taxes paid		(32,502)	(71,702)
Net cash flows from operating activities		**324,009**	**423,256**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(225,215)	(270,667)
Proceeds from sale of property, plant and equipment		4,570	2,891
Acquisition of subsidiaries		–	(38,300)
Disposal of subsidiary		–	(1,906)
Issuance of loans		(546)	(337)
Proceeds from repayment of loans issued		1,734	1,337
Interest received		1,986	3,212
Dividends received		80	2,674
Net cash flows used in investing activities		**(217,391)**	**(301,096)**
Financing activities			
Proceeds from borrowings		1,254,207	1,091,596
Repayment of borrowings		(1,171,689)	(1,119,772)
Interest paid		(190,095)	(186,118)
Payment of finance lease liabilities		(5,594)	(3,950)
Acquisition of non-controlling interests	21 vi	(100)	–
Contributions from non-controlling interest owners	19	1,013	2,525
Dividends paid to equity holders of the parent		(46,950)	(52,100)
Dividends paid to non-controlling interest shareholders		(4,068)	(4,180)
Net cash flows used in financing activities		**(163,276)**	**(271,999)**
Net decrease in cash and cash equivalents		(56,658)	(149,839)
Net foreign exchange difference		250	(1,330)
Cash and cash equivalents at January 1		93,298	225,061
Cash and cash equivalents at September 30		**36,890**	**73,892**

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

Corporate Information

These interim condensed consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the nine-month period ended September 30, 2014 were authorised for issue in accordance with a resolution of the General Director on November 20, 2014.

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 September 30, 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

Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2013. Operating results for the nine-month period ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

Changes in Accounting Policies

In the preparation of these interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2013.

The nature and the impact of the adoption of new and revised standards, which became effective on January 1, 2014, on the Group's accounting policy is described below.

Basis of Preparation (continued)

Changes in Accounting Policies (continued)

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 did not have any impact on the financial position or performance of the Group.

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

The amendment clarifies financial assets and financial liabilities offsetting rules. These amendments have no impact on the Group's financial position or performance.

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

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

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 counterparty meets specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

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 IFRIC 21 did not have any impact on the financial position or performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

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

1) Segment Information

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

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

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

The following tables present revenue and profit information regarding the Group's reportable segments:

Nine-month period ended September 30, 2014	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	3,024,797	1,274,215	209,802	**4,508,814**
Cost of sales	(2,357,600)	(1,125,703)	(165,381)	**(3,648,684)**
GROSS PROFIT	**667,197**	**148,512**	**44,421**	**860,130**
Selling, general and administrative expenses	(363,104)	(108,299)	(28,591)	**(499,994)**
Other operating expenses, net	(22,405)	(2,060)	(2,549)	**(27,014)**
OPERATING PROFIT	**281,688**	**38,153**	**13,281**	**333,122**
ADD BACK				
Depreciation and amortisation	159,787	61,553	10,676	**232,016**
(Gain)/loss on disposal of property, plant and equipment	(122)	1,624	407	**1,909**
Allowance for net realisable value of inventory	1,376	674	423	**2,473**
Allowance for doubtful debts	2,162	(1,934)	84	**312**
Movement in other provisions	6,481	(379)	692	**6,794**
	169,684	**61,538**	**12,282**	**243,504**
ADJUSTED EBITDA	**451,372**	**99,691**	**25,563**	**576,626**

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

1) Segment Information (continued)

Nine-month period ended September 30, 2014	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX				
Adjusted EBITDA	451,372	99,691	25,563	**576,626**
Reversal of adjustments from operating profit to EBITDA	(169,684)	(61,538)	(12,282)	**(243,504)**
OPERATING PROFIT	**281,688**	**38,153**	**13,281**	**333,122**
Foreign exchange gain/(loss), net	(104,435)	(890)	1,668	**(103,657)**
OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**177,253**	**37,263**	**14,949**	**229,465**
Finance costs				**(171,269)**
Finance income				**3,262**
Gain on changes in fair value of derivative financial instrument				**2,077**
Share of profit of associates				**163**
PROFIT BEFORE TAX				**63,698**

Nine-month period ended September 30, 2013	Russia	Americas	Europe	TOTAL
Revenue	3,438,678	1,207,883	214,008	**4,860,569**
Cost of sales	(2,614,719)	(1,063,361)	(175,629)	**(3,853,709)**
GROSS PROFIT	**823,959**	**144,522**	**38,379**	**1,006,860**
Selling, general and administrative expenses	(392,248)	(108,877)	(27,235)	**(528,360)**
Other operating expenses, net	(27,793)	(3,416)	(1,646)	**(32,855)**
OPERATING PROFIT	**403,918**	**32,229**	**9,498**	**445,645**
ADD BACK				
Depreciation and amortisation	167,435	63,818	9,654	**240,907**
Loss on disposal of property, plant and equipment	4,149	822	1,495	**6,466**
Allowance for net realisable value of inventory	1,413	(736)	(386)	**291**
Allowance for doubtful debts	7,259	397	747	**8,403**
Movement in other provisions	4,294	(1,625)	199	**2,868**
	184,550	**62,676**	**11,709**	**258,935**
ADJUSTED EBITDA	**588,468**	**94,905**	**21,207**	**704,580**

Nine-month period ended September 30, 2013	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX				
Adjusted EBITDA	588,468	94,905	21,207	**704,580**
Reversal of adjustments from operating profit to EBITDA	(184,550)	(62,676)	(11,709)	**(258,935)**
OPERATING PROFIT	**403,918**	**32,229**	**9,498**	**445,645**
Impairment of property, plant and equipment	(2,386)	–	–	**(2,386)**
Foreign exchange loss, net	(38,072)	(705)	(1,273)	**(40,050)**
OPERATING PROFIT AFTER IMPAIRMENT AND FOREIGN EXCHANGE LOSS	**363,460**	**31,524**	**8,225**	**403,209**
Finance costs				**(188,994)**
Finance income				**6,530**
Gain on changes in fair value of derivative financial instruments				**3,639**
Share of profit of associates				**285**
Gain on disposal of subsidiary				**1,862**
PROFIT BEFORE TAX				**226,531**

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

1) Segment Information (continued)

The following table presents additional information of the Group's reportable segments:

Segment assets	**Russia**	**Americas**	**Europe**	**TOTAL**
At September 30, 2014	4,380,995	1,889,192	423,185	**6,693,372**
At December 31, 2013	5,047,725	1,927,441	443,502	**7,418,668**

The following table presents the revenues from external customers for each group of products and services:

Sales to external customers	**Seamless pipes**	**Welded pipes**	**Other operations**	**TOTAL**
Nine-month period ended September 30, 2014	2,865,903	1,432,364	210,547	**4,508,814**
Nine-month period ended September 30, 2013	2,981,963	1,673,863	204,743	**4,860,569**

2) Cost of Sales

Cost of sales was as follows:

	Nine-month period ended September 30,		**Three-month period ended September 30,**	
	2014	**2013**	**2014**	**2013**
Raw materials and consumables	2,313,965	2,567,717	801,669	861,111
Staff costs including social security	533,232	544,446	172,842	176,001
Energy and utilities	301,520	302,505	92,467	98,229
Depreciation and amortisation	195,485	197,854	64,289	64,699
Repairs and maintenance	92,610	105,743	31,182	39,481
Contracted manufacture	83,713	60,343	19,160	19,148
Freight	54,467	53,209	16,731	19,526
Taxes	30,937	34,795	10,116	10,484
Professional fees and services	30,006	25,958	10,629	9,011
Rent	10,941	9,462	3,511	3,421
Travel	2,289	2,365	846	744
Insurance	592	752	187	238
Communications	505	672	157	235
Other	2,783	6,761	942	1,434
Total production cost	**3,653,045**	**3,912,582**	**1,224,728**	**1,303,762**
Change in own finished goods and work in progress	(25,809)	(79,087)	(1,867)	(106,713)
Cost of sales of externally purchased goods	15,303	14,739	6,579	3,724
Obsolete stock, write-offs	6,145	5,475	2,856	3,253
Cost of sales	**3,648,684**	**3,853,709**	**1,232,296**	**1,204,026**

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

3) Selling and Distribution Expenses

Selling and distribution expenses were as follows:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2014	**2013**	**2014**	**2013**
Freight	135,698	136,793	42,872	42,640
Staff costs including social security	47,640	48,245	14,616	15,249
Depreciation and amortisation	26,494	32,523	8,801	10,821
Professional fees and services	18,079	12,339	5,419	3,683
Consumables	15,321	16,216	4,622	4,777
Rent	4,938	5,493	1,601	1,786
Travel	2,901	3,306	805	1,045
Bad debt expense	2,675	9,703	(1,699)	1,522
Utilities and maintenance	2,298	1,638	723	530
Insurance	1,003	937	348	345
Communications	944	976	301	315
Other	933	1,608	304	433
	258,924	**269,777**	**78,713**	**83,146**

4) General and Administrative Expenses

General and administrative expenses were as follows:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2014	**2013**	**2014**	**2013**
Staff costs including social security	127,055	136,190	39,108	42,499
Professional fees and services	36,417	47,239	12,187	14,045
Utilities and maintenance	9,710	8,393	2,886	3,026
Depreciation and amortisation	9,347	11,947	3,090	3,856
Insurance	5,691	5,843	1,760	2,341
Travel	5,637	8,570	1,797	2,853
Transportation	5,367	5,118	1,513	1,713
Communications	4,876	5,091	1,518	1,480
Rent	3,326	3,769	1,020	1,162
Consumables	3,191	3,730	1,176	1,365
Taxes	2,753	1,879	895	613
Other	4,085	1,826	885	559
	217,455	**239,595**	**67,835**	**75,512**

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

5) Research and Development Expenses

Research and development expenses were as follows:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2014	2013	2014	2013
Staff costs including social security	5,203	4,594	1,621	1,525
Depreciation and amortisation	3,217	169	1,102	44
Professional fees and services	1,563	2,228	545	825
Travel	789	1,019	241	398
Consumables	409	424	222	155
Utilities and maintenance	245	366	52	113
Other	226	528	82	190
	11,652	**9,328**	**3,865**	**3,250**

6) Other Operating Income and Expenses

Other operating income was as follows:

	Nine-month period ended September 30,	
	2014	2013
Gain from penalties and fines	1,998	1,654
Gain on disposal of property, plant and equipment	122	–
Other	4,011	6,153
	6,131	**7,807**

Other operating expenses were as follows:

	Nine-month period ended September 30,	
	2014	2013
Social and social infrastructure maintenance expenses	12,675	15,179
Penalties, fines and claims	6,539	6,949
Sponsorship and charitable donations	7,160	10,841
Loss on disposal of property, plant and equipment	2,031	6,466
Other	4,740	1,227
	33,145	**40,662**

7) Income Tax

Income tax expense was as follows:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2014	2013	2014	2013
Current income tax expense	38,106	46,893	20,060	14,502
Current income tax benefit	(670)	–	(670)	–
Adjustments in respect of income tax of previous periods	218	192	(157)	(22)
Deferred tax expense/(benefit) related to origination and reversal of temporary differences	(11,160)	19,722	(9,980)	4,713
Total income tax expense	**26,494**	**66,807**	**9,253**	**19,193**

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

8) Disposal of Subsidiaries

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 liabilities	(39)
Total liabilities	**(25,121)**
Net liabilities	**(1,830)**
Cash consideration	(26)
19% ownership interest retained	(6)
Gain on disposal of subsidiary	**1,862**

9) Investments in Associates

The movement in investments in associates was as follows in the nine-month period ended September 30, 2014:

	2014
Balance at January 1	1,900
Share of profit of associates	163
Dividend income	(87)
Currency translation adjustment	(327)
Balance at September 30	**1,649**

10) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	September 30, 2014	**December 31, 2013**
Russian rouble	19,605	62,838
US dollar	10,684	22,490
Euro	4,082	6,609
Romanian lei	1,121	165
Other currencies	1,398	1,196
	36,890	**93,298**

The above cash and cash equivalents consisted primarily of cash at banks.

As at September 30, 2014, the restricted cash amounted to 2,697 (December 31, 2013: 7,452).

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

11) Inventories

Inventories consisted of the following:

	September 30, 2014	December 31, 2013
Finished goods and work in process	779,516	843,443
Raw materials and supplies	517,658	503,928
Gross inventories	**1,297,174**	**1,347,371**
Allowance for net realisable value of inventory	(22,381)	(22,896)
Net inventories	**1,274,793**	**1,324,475**

12) Property, Plant and Equipment

Movement in property, plant and equipment in the nine-month period ended September 30, 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	–	–	–	–	–	281,782	**281,782**
Assets put into operation	32,615	177,923	16,985	3,365	1,982	(232,870)	**–**
Disposals	(3,310)	(57,614)	(1,161)	(1,129)	–	(1,891)	**(65,105)**
Reclassification	(497)	450	(1)	(826)	874	–	**–**
Currency translation adjustments	(208,991)	(426,709)	(10,747)	(9,326)	(717)	(112,177)	**(768,667)**
BALANCE AT SEPTEMBER 30, 2014	**1,262,494**	**2,914,669**	**72,465**	**68,259**	**27,401**	**612,598**	**4,957,886**
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	(29,206)	(166,769)	(3,744)	(6,937)	(991)	–	**(207,647)**
Disposals	967	54,402	963	1,055	–	–	**57,387**
Reclassification	9	(482)	–	494	(21)	–	**–**
Currency translation adjustments	43,328	185,340	4,890	6,731	49	–	**240,338**
BALANCE AT SEPTEMBER 30, 2014	**(271,907)**	**(1,217,636)**	**(31,575)**	**(46,795)**	**(6,530)**	**–**	**(1,574,443)**
NET BOOK VALUE AT SEPTEMBER 30, 2014	**990,587**	**1,697,033**	**40,890**	**21,464**	**20,871**	**612,598**	**3,383,443**
NET BOOK VALUE AT JANUARY 1, 2014	**1,155,672**	**1,930,492**	**33,705**	**28,037**	**19,695**	**677,754**	**3,845,355**

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 nine-month period ended September 30, 2014 was 24,128. The annualised rate of the specific borrowings used to determine the amount of capitalized borrowing costs was 9.57%, the annualised capitalisation rate relating to general borrowings was 9.63%.

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

13) Goodwill and Other Intangible Assets

Movement in intangible assets in the nine-month period ended September 30, 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	506	–	5	–	–	1,298	**1,809**
Disposals	(3)	–	–	–	–	(618)	**(621)**
Currency translation adjustments	(301)	(14,969)	(3,657)	–	–	(1,511)	**(20,438)**
BALANCE AT SEPTEMBER 30, 2014	**212,083**	**586,372**	**18,206**	**472,300**	**14,100**	**7,768**	**1,310,829**
ACCUMULATED AMORTISATION AND IMPAIRMENT							
Balance at January 1, 2014	**(456)**	**(16,437)**	**(20,773)**	**(382,718)**	**(9,786)**	**(3,577)**	**(433,747)**
Amortisation charge	(116)	–	(373)	(25,049)	(1,322)	(1,134)	**(27,994)**
Disposals	3	–	–	–	–	352	**355**
Currency translation adjustments	76	2,779	3,520	–	–	673	**7,048**
BALANCE AT SEPTEMBER 30, 2014	**(493)**	**(13,658)**	**(17,626)**	**(407,767)**	**(11,108)**	**(3,686)**	**(454,338)**
NET BOOK VALUE AT SEPTEMBER 30, 2014	**211,590**	**572,714**	**580**	**64,533**	**2,992**	**4,082**	**856,491**
NET BOOK VALUE AT JANUARY 1, 2014	**211,425**	**584,904**	**1,085**	**89,582**	**4,314**	**5,022**	**896,332**

The carrying amounts of goodwill and intangible assets with indefinite useful lives were allocated among cash generating units as follows:

	September 30, 2014		December 31, 2013	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
American division	472,968	210,306	472,968	208,700
Middle East division	36,241	–	36,241	–
Oilfield division	24,488	–	29,468	–
European division	6,061	–	6,566	–
Other cash-generating units	32,956	–	39,661	–
	572,714	**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 that the carrying value may be impaired. At September 30, 2014, there were indicators of impairment of certain cash generating units, therefore, the Group performed impairment tests in respect of these units. As a result of the tests, the Group determined that the carrying values of these cash-generating units do not exceed their recoverable amounts. Consequently, no impairment losses were recognised in the nine-month period ended September 30, 2014. Should the Group performance and market conditions deviate (other than temporary) from management plans assumed in the impairment estimates, the carrying values of certain cash-generating units may become higher than their recoverable amounts. For details on sensitivity of the assumptions used in the impairment tests refer to the annual financial statements.

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

14) Trade and Other Payables

Trade and other payables consisted of the following:

	September 30, 2014	December 31, 2013
Trade payables	600,348	708,350
Accounts payable for property, plant and equipment	61,669	64,763
Liabilities for VAT	34,029	32,880
Payroll liabilities	25,824	31,685
Accrued and withheld taxes on payroll	14,309	16,123
Liabilities for property tax	13,291	16,898
Sales rebate payable	7,805	8,601
Liabilities under put options of non-controlling interest shareholders in subsidiaries	6,575	9,323
Notes issued to third parties	5,137	5,353
Liabilities for other taxes	1,100	1,840
Other payables	45,173	48,349
	815,260	**944,165**

15) Provisions and Accruals

Provisions and accruals consisted of the following:

	September 30, 2014	December 31, 2013
Current		
Provision for bonuses	14,948	16,816
Accrual for long-service bonuses	10,105	15,286
Accrual for unused annual leaves, current portion	5,500	4,213
Current portion of employee benefits liability	4,291	6,215
Environmental provision, current portion	681	1,510
Other provisions	8,267	7,144
	43,792	**51,184**
Non-current		
Accrual for unused annual leaves	19,509	22,515
Environmental provision	5,381	3,887
Provision for bonuses	2,347	2,532
Other provisions	4,280	4,393
	31,517	**33,327**

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

16) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	September 30, 2014	December 31, 2013
Current		
Bank loans	167,590	69,647
Interest payable	29,664	32,735
Current portion of non-current borrowings	186,870	292,522
Current portion of bearer coupon debt securities	328,400	–
Unamortised debt issue costs	(793)	(963)
Total short-term loans and borrowings	**711,731**	**393,941**
Non-current		
Bank loans	1,974,951	2,139,397
Bearer coupon debt securities	1,328,400	1,412,500
Unamortised debt issue costs	(9,255)	(11,298)
Less: current portion of non-current borrowings	(186,870)	(292,522)
Less: current portion of bearer coupon debt securities	(328,400)	–
Total long-term loans and borrowings	**2,778,826**	**3,248,077**

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

	Interest rates	September 30, 2014	Interest rates	December 31, 2013
Russian rouble	Fixed 7.99%-11.5%	1,220,260	Fixed 7.35%-9.6%	1,183,323
US dollar	Fixed 5.25%	330,789	Fixed 5.25%	415,508
	Fixed 6.75%	513,557	Fixed 6.75%	504,693
	Fixed 7.75%	504,688	Fixed 7.75%	513,951
	Fixed 4.99%-5.8%	406,451	Fixed 4.99%-5.8%	407,578
	Variable:	433,785	Variable:	484,711
	Libor (1m) + 2.25%-3.5%		Libor (1m) + 2.25%-3%	
	Libor (3m) + 2.75%-4.5%		Libor (3m-12m) + 1.4%-4.5%	
	Cost of funds + 2%			
Euro	Fixed 5.19%	11,857	Fixed 5.19%	38,157
	Variable:	69,170	Variable:	93,989
	Euribor (1m) + 1.9%-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
		3,490,557		**3,642,018**

Unutilised Borrowing Facilities

As at September 30, 2014, the Group had unutilised borrowing facilities in the amount of 875,767 (December 31, 2013: 1,619,478).

17) 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 September 30, 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").

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 641 bps and 410 bps as at September 30, 2014 and December 31, 2013, respectively. As at September 30, 2014, the fair value of the Embedded Conversion Option was 3 (December 31, 2013: 2,080). The change in the fair value of the embedded derivative has been recorded as gain/(loss) 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 September 30, 2014, the carrying value of the host component was 330,789 (December 31, 2013: 415,508).

There were no conversions of the bonds during the nine-month period ended September 30, 2014.

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

18) Fair Value of Financial Instruments

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:

	September 30, 2014	December 31, 2013
Embedded Conversion Option (Note 17)	(3)	(2,080)
Foreign exchange forward contracts	(27)	–
Total current derivative financial instruments	**(30)**	**(2,080)**
Interest rate swaps	(2,521)	(3,501)
Total non-current derivative financial instruments	**(2,521)**	**(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 provided the disclosure of the valuation technique used for the fair value measurement of the Embedded Conversion Option in Note 17.

The Group's derivative financial instruments comprised of interest rate swaps and foreign exchange 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 swap and forward pricing models, using present value calculations. The models incorporated various inputs including the credit quality of counterparties, interest rate curves and foreign exchange forward rates.

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 to their fair value.

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

18) Fair Value of Financial Instruments (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:

	September 30, 2014		December 31, 2013	
	Par value	**Fair value**	**Par value**	**Fair value**
Financial liabilities				
Fixed rate long-term bank loans	1,508,341	1,514,762	1,489,452	1,489,888
Variable rate long-term bank loans	446,211	418,732	497,756	480,429
5.25 per cent convertible bonds	328,400	325,806	412,500	415,993
6.75 per cent loan participation notes due 2020	500,000	453,755	500,000	506,755
7.75 per cent loan participation notes due 2018	500,000	502,275	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.

19) 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 12,399 (nine-month period ended September 30, 2013: 15,011).
- Provision for performance bonuses in the amount of 3,503 (nine-month period ended September 30, 2013: 4,049).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the nine-month periods ended September 30, 2014 and 2013.

The balance of loans issued to key management personnel amounted to 734 as at September 30, 2014 (December 31, 2013: 1,055). The Group guaranteed debts of key management personnel outstanding as at September 30, 2014 in the amount of 243 with maturity in 2016 (December 31, 2013: 2,323).

Transactions with the Parent of the Company

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 the nine-month period ended September 30, 2014, these dividends were fully paid.

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

19) Related Parties Disclosures (continued)

Transactions with the Parent of the Company (continued)

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.

On June 11, 2014, 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.

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:

	September 30, 2014	December 31, 2013
Cash and cash equivalents	5,208	3,730
Accounts receivable	4,386	4,576
Prepayments	60	30
Accounts payable for raw materials	(61,241)	(79,154)
Advances received	(2,633)	(6)
Other accounts payable	(690)	(643)

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

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2014	2013	2014	2013
Purchases of raw materials	450,705	451,324	168,514	151,056
Purchase of property, plant and equipment	3,850	–	–	–
Purchases of other goods and services	5,305	6,795	1,717	2,138
Sales revenue	10,297	8,021	5,320	2,856
Other income	109	84	16	1

20) Contingencies and Commitments

Operating Environment of the Group

Significant part of the Group's principal assets is 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. The Russian economy is vulnerable to market downturns and global economic slowdowns. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

The US economic activity continues to expand at a moderate pace: activity in the industrial sector has risen modestly; businesses keep hiring at a modest pace. The specialists forecast the pace of economic recovery will gradually pick up over the next few years, with a gradual decline in unemployment and gradual improvement in consumption growth. An uncertainty over the US economic growth 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 127,719 thousand Russian roubles (3,243 at the exchange rate as at September 30, 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 tax claims being contested by the Group were not accrued in the consolidated financial statements for the nine-month period ended September 30, 2014.

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

20) Contingencies and Commitments (continued)

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amounts of 169,218 and 199,567 as at September 30, 2014 and December 31, 2013, respectively (contractual commitments were expressed net of VAT). As at September 30, 2014, the Group had advances of 18,954 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2013: 34,987). These advances were included in other non-current assets.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 15,724 (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 results of operations or financial position of the Group.

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding at September 30, 2014 in the amount of 606 (December 31, 2013: 2,805).

21) Equity

i) Share Capital

	September 30, 2014	**December 31, 2013**
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	937,586,094	937,586,094
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	937,586,094	937,586,094

On June 27, 2014, the Board of Directors decided to increase a share capital by the issuance of additional shares in the amount of 56,000,000 shares under open subscription.

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

21) Equity (continued)

ii) Dividends Declared by the Parent Entity to its Shareholders

On June 19, 2014, the annual shareholder 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.

iii) Dividends Declared by Subsidiaries of the Group to the Non-controlling Interest Owners

During the nine-month periods ended September 30, 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.

iv) Hedges of Net Investment in Foreign Operations

As at September 30, 2014, a proportion of the Group's US dollar-denominated borrowings 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 nine-month period ended September 30, 2014, the effective portion of net losses from spot rate changes in the amount of 7,339,629 thousand Russian roubles (203,842 at historical exchange rates), net of income tax of 1,467,926 thousand Russian roubles (40,768 at historical exchange rates), was recognised in other comprehensive income.

v) Movement on Cash Flow Hedges

The Group hedges its exposure to variability in cash flows attributable to interest rate risk using interest rate swaps and its exposure to foreign currency risk using currency forwards. The details of movement on cash flow hedges during the nine-month period ended September 30, 2014 are presented in the following table:

	Currency forward contracts	**Interest rate swap contracts**	**TOTAL**
Loss arising during the period	(28)	(544)	**(572)**
Recognition of realised results in the income statement	–	1,873	**1,873**
Movement on cash flow hedges	**(28)**	**1,329**	**1,301**
Income tax	4	(309)	**(305)**
Movement on cash flow hedges, net of tax	**(24)**	**1,020**	**996**

21) Equity (continued)

vi) Acquisition of Non-controlling Interests in Subsidiaries

In the nine-month period ended September 30, 2014, the Group purchased additional 0.1% of OAO "Seversky Tube Works" shares for cash consideration of 100. The excess in the amount of 226 of the carrying values of net assets attributable to the acquired interests over the consideration paid was recorded in additional paid-in capital.

vii) Recognition of the Change in Non-controlling Interests in the Subsidiary as an Equity Transaction

In the nine-month period ended September 30, 2014, the non-controlling interest's share of loss in OOO "TMK-INOX" amounted to 580. This amount was charged to retained earnings.

22) Subsequent events

Dividends Proposed by the Parent Entity to its Shareholders

On October 31, 2014, the Board of Directors proposed interim dividends in respect of six months 2014 in the amount of 393,786 thousand Russian roubles. Dividends are to be approved by the extraordinary shareholders' meeting on December 25, 2014.