PAO TMK

Consolidated Financial Statements

for the year ended December 31, 2015

Совершенствуя бизнес,
улучшаем мир

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com/ru

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел.: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Independent auditors' report

To the shareholders and Board of Directors
PAO TMK

We have audited the accompanying consolidated financial statements of PAO TMK and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2015, 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.

Совершенствуя бизнес, улучшаем мир

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

March 3, 2016

Moscow, Russia

PAO TMK

Consolidated Financial Statements

for the year ended December 31, 2015

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Consolidated Income Statement

for the year ended December 31, 2015

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

	NOTES	Year ended December 31, 2015	2014
Revenue	3	4,126,660	6,008,946
Sales of goods		*4,058,547*	*5,921,889*
Rendering of services		*68,113*	*87,057*
Cost of sales	4	(3,282,113)	(4,839,470)
Gross profit		**844,547**	**1,169,476**
Selling and distribution expenses	5	(260,288)	(349,949)
Advertising and promotion expenses		(7,945)	(14,468)
General and administrative expenses	6	(206,960)	(278,423)
Research and development expenses	7	(13,261)	(15,214)
Other operating income/(expenses)	8	(35,264)	(35,354)
Operating profit		**320,829**	**476,068**
Impairment of goodwill	17	(328,082)	(151,369)
Impairment of property, plant and equipment	16	(23,834)	(1,135)
Foreign exchange gain/(loss), net		(140,778)	(301,246)
Finance costs		(278,592)	(232,685)
Finance income		9,803	6,641
Gain/(loss) on changes in fair value of derivative financial instruments		(2,397)	2,080
Share of profit/(loss) of associates		85	273
Profit/(loss) before tax		**(442,966)**	**(201,373)**
Income tax benefit/(expense)	9	74,957	(15,276)
Profit/(loss) for the period		**(368,009)**	**(216,649)**
Attributable to:			
Equity holders of the parent entity		(363,193)	(215,559)
Non-controlling interests		(4,816)	(1,090)
		(368,009)	**(216,649)**
Earnings/(loss) per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	10	**(0.40)**	**(0.25)**

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

PAO TMK

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2015

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2015	Year ended December 31, 2014
Profit/(loss) for the period		**(368,009)**	**(216,649)**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency [a]		(66,645)	(246,350)
Foreign currency gain/(loss) on hedged net investment in foreign operations [b]	28 (viii)	(230,292)	(602,032)
Income tax [b]	28 (viii)	46,058	120,406
		(184,234)	**(481,626)**
Movement on cash flow hedges [a]	28 (ix)	1,605	1,758
Income tax [a]	28 (ix)	(351)	(406)
		1,254	**1,352**
Items that may not be reclassified subsequently to profit or loss:			
Net actuarial gains/(losses) [a]	23	**(398)**	**6,484**
Other comprehensive income/(loss) for the period, net of tax		**(250,023)**	**(720,140)**
Total comprehensive income/(loss) for the period, net of tax		**(618,032)**	**(936,789)**
Attributable to:			
Equity holders of the parent entity		(604,157)	(907,689)
Non-controlling interests		(13,875)	(29,100)
		(618,032)	**(936,789)**

(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:

	Year ended December 31, 2015	Year ended December 31, 2014
Exchange differences on translation to presentation currency attributable to:		
Equity holders of the parent entity	(57,604)	(218,161)
Non-controlling interests	(9,041)	(28,189)
	(66,645)	**(246,350)**
Movement on cash flow hedges attributable to:		
Equity holders of the parent entity	1,254	1,352
	1,254	**1,352**
Net actuarial gains/(losses) attributable to:		
Equity holders of the parent entity	(380)	6,305
Non-controlling interests	(18)	179
	(398)	**6,484**

(b) The amount of foreign currency gain/(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.

PAO TMK

Consolidated Statement of Financial Position

as at December 31, 2015

(All amounts in thousands of US dollars)

	NOTES	December 31, 2015		December 31, 2014	
ASSETS					
Current assets					
Cash and cash equivalents	12	305,205		252,898	
Trade and other receivables	13	511,720		728,340	
Inventories	14	784,552		1,046,907	
Prepayments and input VAT	15	97,090		105,143	
Prepaid income taxes		15,915		7,939	
Other financial assets		172	**1,714,654**	596	**2,141,823**
Non-current assets					
Investments in associates		1,033		1,247	
Property, plant and equipment	16	2,121,542		2,610,170	
Goodwill	17	83,189		403,861	
Intangible assets	17	277,821		273,242	
Deferred tax asset	9	185,497		144,843	
Other non-current assets	18	27,907	**2,696,989**	74,202	**3,507,565**
TOTAL ASSETS			**4,411,643**		**5,649,388**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	19	541,949		768,069	
Advances from customers		139,720		63,162	
Provisions and accruals	20	32,314		41,397	
Interest-bearing loans and borrowings	21	591,262		758,805	
Finance lease liability	22	8,558		5,545	
Derivative financial instruments		122		–	
Income tax payable		8,580	**1,322,505**	6,483	**1,643,461**
Non-current liabilities					
Interest-bearing loans and borrowings	21	2,163,454		2,410,900	
Finance lease liability	22	37,914		47,641	
Deferred tax liability	9	109,564		205,667	
Provisions and accruals	20	20,694		22,916	
Employee benefits liability	23	17,665		21,044	
Other liabilities	24	25,205	**2,374,496**	26,899	**2,735,067**
Total liabilities			**3,697,001**		**4,378,528**
Equity	28				
Parent shareholders' equity					
Issued capital		336,448		336,448	
Treasury shares		(592)		(319,149)	
Additional paid-in capital		257,222		485,756	
Reserve capital		16,390		16,390	
Retained earnings		1,103,479		1,495,465	
Foreign currency translation reserve		(1,062,092)		(820,254)	
Other reserves		10,842	661,697	9,968	1,204,624
Non-controlling interests	25		52,945		66,236
Total equity			**714,642**		**1,270,860**
TOTAL LIABILITIES AND EQUITY			**4,411,643**		**5,649,388**

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

PAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2015

(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, 2015	**336,448**	**(319,149)**	**485,756**	**16,390**	**1,495,465**	**(820,254)**	**9,968**	**1,204,624**	**66,236**	**1,270,860**
Profit/(loss) for the period	–	–	–	–	(363,193)	–	–	**(363,193)**	(4,816)	**(368,009)**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(241,838)	874	**(240,964)**	(9,059)	**(250,023)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**(363,193)**	**(241,838)**	**874**	**(604,157)**	**(13,875)**	**(618,032)**
Purchase of treasury shares (Note 28 ii)	–	(7,460)	–	–	–	–	–	**(7,460)**	–	**(7,460)**
Sales of treasury shares (Note 24)	–	326,017	(204,760)	–	–	–	–	**121,257**	–	**121,257**
Dividends declared by the parent entity to its shareholders (Note 28 iv)	–	–	–	–	(36,107)	–	–	**(36,107)**	–	**(36,107)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 28 v)	–	–	–	–	–	–	–	**–**	(66)	**(66)**
Acquisition of non-controlling interests in subsidiaries (Note 28 vi)	–	–	146	–	–	–	–	**146**	(373)	**(227)**
Contributions from non-controlling interest owners (Note 26)	–	–	–	–	–	–	–	**–**	1,250	**1,250**
Acquisition of non-controlling interests in subsidiaries previously recognised as an equity transaction (Note 28 vii)	–	–	(23,920)	–	7,314	–	–	**(16,606)**	(227)	**(16,833)**
At December 31, 2015	**336,448**	**(592)**	**257,222**	**16,390**	**1,103,479**	**(1,062,092)**	**10,842**	**661,697**	**52,945**	**714,642**

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

PAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2015 (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, 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	–	–	–	–	(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 28 i)	10,031	–	91,505	–	–	–	–	**101,536**	–	**101,536**
Dividends declared by the parent entity to its shareholders (Note 28 iv)	–	–	–	–	(26,074)	–	–	**(26,074)**	–	**(26,074)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 28 v)	–	–	–	–	–	–	–	**–**	(1,367)	**(1,367)**
Acquisition of non-controlling interests in subsidiaries (Note 28 vi)	–	–	383	–	–	–	–	**383**	(576)	**(193)**
Contributions from non-controlling interest owners (Note 26)	–	–	–	–	–	–	–	**–**	1,013	**1,013**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	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.

PAO TMK

Consolidated Statement of Cash Flows

for the year ended December 31, 2015

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2015	Year ended December 31, 2014
Operating activities			
Profit/(loss) before tax		(442,966)	(201,373)
Adjustments to reconcile profit/(loss) before tax to operating cash flows:			
Depreciation of property, plant and equipment		216,253	266,574
Amortisation of intangible assets	17	34,710	37,081
Loss on disposal of property, plant and equipment	8	10,526	4,395
Impairment of goodwill	17	328,082	151,369
Impairment of property, plant and equipment	16	23,834	1,135
Foreign exchange (gain)/loss, net		140,778	301,246
Finance costs		278,592	232,685
Finance income		(9,803)	(6,641)
(Gain)/loss on changes in fair value of derivative financial instruments		2,397	(2,080)
Share of (profit)/loss of associates		(85)	(273)
Allowance for net realisable value of inventory		45,775	8,782
Allowance for doubtful debts		4,325	7,943
Movement in provisions		(3,698)	6,550
Operating cash flows before working capital changes		**628,720**	**807,393**
Working capital changes:			
Decrease/(increase) in inventories		40,242	(129,879)
Decrease/(increase) in trade and other receivables		118,740	(75,990)
Decrease/(increase) in prepayments		(11,822)	(20,801)
Increase/(decrease) in trade and other payables		(147,921)	41,362
Increase/(decrease) in advances from customers		106,196	25,981
Cash generated from operations		**734,155**	**648,066**
Income taxes paid		(50,655)	(53,316)
Net cash flows from operating activities		**683,500**	**594,750**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(208,280)	(293,061)
Proceeds from sale of property, plant and equipment		2,969	5,623
Acquisition of subsidiaries		(2,184)	(59,750)
Issuance of loans		(97)	(557)
Proceeds from repayment of loans issued		15,982	1,765
Interest received		6,185	3,196
Dividends received		–	80
Net cash flows used in investing activities		**(185,425)**	**(342,704)**
Financing activities			
Proceeds from share capital increase	28 (i)	–	101,536
Purchase of treasury shares	28 (ii)	(7,460)	–
Proceeds from sales of treasury shares	24	141,270	–
Proceeds from borrowings		1,186,353	1,576,886
Repayment of borrowings		(1,379,703)	(1,422,984)
Interest paid		(274,479)	(250,654)
Payment of finance lease liabilities		(6,668)	(7,117)
Acquisition of non-controlling interests	28 (vi)	(227)	(193)
Contributions from non-controlling interest owners	26	1,250	1,013
Dividends paid to equity holders of the parent		(39,968)	(46,950)
Dividends paid to non-controlling interest shareholders		(905)	(4,083)
Net cash flows used in financing activities		**(380,537)**	**(52,546)**
Net increase/(decrease) in cash and cash equivalents		**117,538**	**199,500**
Net foreign exchange difference		(65,231)	(39,900)
Cash and cash equivalents at January 1		252,898	93,298
Cash and cash equivalents at December 31		**305,205**	**252,898**

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

1) Corporate Information

These consolidated financial statements of PAO TMK and its subsidiaries (the “Group”) for the year ended December 31, 2015 were authorised for issue in accordance with a resolution of the General Director on March 3, 2016.

PAO TMK (the “Company”), the parent company of the Group, is a Public Joint-Stock Company (former – OAO TMK). The legal entity form was changed from Open Joint-Stock Company (“OAO”) to Public Joint-Stock Company (“PAO”) on July 9, 2015 according to the Russian Federation new regulations. Both registered and principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

As at December 31, 2015, 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.

2) Significant Accounting Policies

2.1) 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.

2.2) 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.

2) Significant Accounting Policies (continued)

2.2) Significant Estimates and Assumptions (continued)

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:

i) 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.

ii) 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*.

iii) Fair Value of Assets and Liabilities Acquired in Business Combinations

The Group recognises 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.

iv) 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 the 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.

2) Significant Accounting Policies (continued)

2.2) Significant Estimates and Assumptions (continued)

v) 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.

vi) 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.

vii) 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.

viii) 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.

2) Significant Accounting Policies (continued)

2.2) Significant Estimates and Assumptions (continued)

viii) Taxes(continued)

Tax 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. Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained.

2.3) Application of New and Amended IFRSs

The Group has applied the following new and amended IFRSs in the consolidated financial statements for the annual period beginning on January 1, 2015:

- IAS 19 *Employee Benefits (amendments) – Defined Benefit Plans: Employee Contributions*;
- *Improvements to IFRSs 2010-2012 cycle, 2011-2013 cycle*.

The nature and the impact of the adoption of new and amended IFRSs are described below:

IAS 19 Employee Benefits (amendments) – Defined Benefit Plans: Employee Contributions

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

Improvements to IFRSs 2010-2012 cycle, 2011-2013 cycle

In December 2013, 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 the current practice. The adoption of these improvements did not have any impact on the financial position or performance of the Group.

2) Significant Accounting Policies (continued)

2.4) New Accounting Pronouncements

The following new or amended (revised) IFRSs have been issued but are not yet effective and not applied by the Group. These standards and amendments are those that potentially may 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 Investments in Associates and Joint Ventures (amendments) – Sale or Contribution of Assets (effective for financial years beginning on or after January 1, 2016)

These amendments address an inconsistency between the requirements of IFRS 10 and those of IAS 28 dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments 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 amendments are 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)

These amendments provide new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The amendments are 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, 2018)

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.

2) Significant Accounting Policies (continued)

2.4) New Accounting Pronouncements (continued)

IFRS 16 Leases (effective for financial years beginning on or after January 1, 2019)

IFRS 16 *Leases* replaces existing IFRS leases requirements and requires lessees to recognise assets and liabilities for most leases. For lessees, the new leases standard marks a significant change from current requirements under IFRS. Lessees will have a single accounting model for all leases, with certain exemptions. The Group is currently assessing the impact which this standard will have on the financial position and performance.

IAS 1 Presentation of Financial Statements (amendments) – Disclosure Initiative (effective for financial years beginning on or after January 1, 2016)

These amendments clarify existing requirements of IAS 1 *Presentation of Financial Statements*. These amendments are not expected to have any impact on Group's financial position and performance.

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.

Improvements to IFRSs 2012-2014 cycle (effective for financial years beginning on or after January 1, 2016)

In September 2014, the IASB issued "Annual Improvements to IFRSs". The document sets 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.

2) Significant Accounting Policies (continued)

2.5) Basis of Consolidation

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of the investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have a practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of the voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of the investee's activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date on which 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 interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and the carrying amount of non-controlling interest sold as a capital transaction in the statement of changes in equity.

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.

2) Significant Accounting Policies (continued)

2.5) Basis of Consolidation (continued)

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.

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.

2.6) Foreign Currency Translation

i) 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.

ii) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at period end exchange rates are generally recognised in profit or loss. They are deferred in other comprehensive income/loss if they relate to qualifying cash flow hedges and qualifying net investment hedges.

2) Significant Accounting Policies (continued)

2.6) Foreign Currency Translation (continued)

ii) Transactions and Balances (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Foreign exchange differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

iii) Group Companies

The results and financial position of Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the period-end exchange rates;
- Income and expenses are translated at weighted average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- All resulting exchange differences are recognised in other comprehensive income/loss.

2.7) Business Combination and Goodwill

i) Acquisition of Subsidiaries

Business combinations are accounted for using the acquisition method. The consideration for the acquisition is measured at the aggregate of the fair values of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred. Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS. Where a business combination is achieved in stages, the Group’s previously held interests in the acquired entity are remeasured to fair value at the acquisition date and the resulting gain or loss, if any, is recognised in profit or loss.

Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.

2) Significant Accounting Policies (continued)

2.7) Business Combination and Goodwill (continued)

i) Acquisition of Subsidiaries (continued)

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

ii) Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree (if any) over the net of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group’s interest in the fair value of the acquiree’s identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group’s cash-generating units expected to benefit from the synergies of the combination. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2.8) Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and at banks, demand deposits and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at fair value.

2.9) Financial Assets

i) 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, 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.

2) Significant Accounting Policies (continued)

2.9) Financial Assets (continued)

i) Initial Recognition and Measurement (continued)

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.

ii) 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.

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.

2) Significant Accounting Policies (continued)

2.9) Financial Assets (continued)

ii) Subsequent Measurement (continued)

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.

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.

iii) 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.

2) Significant Accounting Policies (continued)

2.9) Financial Assets (continued)

iii) Impairment of Financial Assets (continued)

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.

2.10) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is determined on the weighted average basis and includes all costs in bringing the inventory to its present location and condition. The cost includes direct material, labour and allocable material and manufacturing overheads. The cost of work in progress and finished goods includes the purchase costs of raw materials and conversion costs such as direct labour and an allocation of fixed and variable production overheads.

Net realisable value represents the estimated selling price for inventories less estimated costs to completion and selling costs. Where appropriate, an allowance for obsolete and slow-moving inventory is recognised. An allowance for impairment of inventory to their net realisable value and an allowance for obsolete and slow-moving inventory are included in the consolidated income statement as cost of sales.

2.11) Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

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.

2) Significant Accounting Policies (continued)

2.12) 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 accumulated impairment losses, if any. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life using the straight-line method over the period of 2-20 years. 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.

2.13) Impairment of Goodwill and Other Non-Current Assets

Goodwill, intangible assets with indefinite useful life and intangible assets not yet available for use are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that their carrying amount may be impaired. Other non-current assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

2) Significant Accounting Policies (continued)

2.13) Impairment of Goodwill and Other Non-Current Assets (continued)

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.

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 recognised for non-current assets (other than goodwill) is reversed if there is an indication that an impairment loss recognised in prior periods 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. Impairment loss recongnised for goodwill is not reversed in subsequent period.

2.14) 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.

2) Significant Accounting Policies (continued)

2.15) 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.

2.16) 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.

2.17) Employee Benefits Liability

i) 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.

2) Significant Accounting Policies (continued)

2.17) Employee Benefits Liability (continued)

ii) 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.

iii) 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.

2.18) 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.

2) Significant Accounting Policies (continued)

2.19) 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/loss.

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 a 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 the 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.

2.20) Equity

i) 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.

ii) 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.

iii) Dividends

Dividends are recognised as a liability and deducted from equity in the period in which they are approved by the shareholders. Retained earnings legally distributable are based on the amounts available for distribution in accordance with the applicable legislation and as reflected in the statutory financial statements of the individual entities of the Group. These amounts may differ significantly from the amounts calculated on the basis of IFRS.

2) Significant Accounting Policies (continued)

2.21) 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.

2.22) Earnings per Share

i) Basic Earnings per Share

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the reporting period, excluding treasury shares.

ii) Diluted Earnings per Share

Diluted earnings/(loss) per share adjust the figures used in the determination of basic earnings/(loss) per share to take into account:

- The after income tax effect of interest and other costs associated with dilutive potential ordinary shares, and
- The weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

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

3) 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 the 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:

Year ended December 31, 2015	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	3,188,776	742,315	195,569	**4,126,660**
Cost of sales	(2,371,917)	(760,586)	(149,610)	**(3,282,113)**
GROSS PROFIT/(LOSS)	**816,859**	**(18,271)**	**45,959**	**844,547**
Selling, general and administrative expenses	(339,555)	(118,676)	(30,223)	**(488,454)**
Other operating income/(expenses)	(26,783)	(7,056)	(1,425)	**(35,264)**
OPERATING PROFIT/(LOSS)	**450,521**	**(144,003)**	**14,311**	**320,829**
ADD BACK:				
Depreciation and amortisation	156,142	80,862	13,959	**250,963**
Loss on disposal of property, plant and equipment	4,967	4,943	616	**10,526**
Allowance for net realisable value of inventory	9,075	36,542	158	**45,775**
Allowance for doubtful debts	2,648	1,215	462	**4,325**
Movement in other provisions	5,813	(2,105)	198	**3,906**
	178,645	**121,457**	**15,393**	**315,495**
ADJUSTED EBITDA	**629,166**	**(22,546)**	**29,704**	**636,324**

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

3) Segment Information (continued)

Year ended December 31, 2015	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
Adjusted EBITDA	**629,166**	**(22,546)**	**29,704**	**636,324**
Reversal of adjustments from operating profit/(loss) to EBITDA	(178,645)	(121,457)	(15,393)	**(315,495)**
OPERATING PROFIT/(LOSS)	**450,521**	**(144,003)**	**14,311**	**320,829**
Impairment of goodwill	(13,687)	(314,395)	–	**(328,082)**
Impairment of property, plant and equipment	(2,730)	(21,104)	–	**(23,834)**
Foreign exchange gain/(loss), net	(137,790)	(2,150)	(838)	**(140,778)**
OPERATING PROFIT/(LOSS) AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	**296,314**	**(481,652)**	**13,473**	**(171,865)**
Finance costs				**(278,592)**
Finance income				**9,803**
Gain/(loss) on changes in fair value of derivative financial instruments				**(2,397)**
Share of profit/(loss) of associates				**85**
PROFIT/(LOSS) BEFORE TAX				**(442,966)**

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/(LOSS)	**890,995**	**223,091**	**55,390**	**1,169,476**
Selling, general and administrative expenses	(475,941)	(144,616)	(37,497)	**(658,054)**
Other operating income/(expenses)	(32,349)	(336)	(2,669)	**(35,354)**
OPERATING PROFIT/(LOSS)	**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**

Year ended December 31, 2014	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
Adjusted EBITDA	**613,721**	**158,530**	**31,839**	**804,090**
Reversal of adjustments from operating profit/(loss) to EBITDA	(231,016)	(80,391)	(16,615)	**(328,022)**
OPERATING PROFIT/(LOSS)	**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/(loss) on changes in fair value of derivative financial instruments				**2,080**
Share of profit/(loss) of associates				**273**
PROFIT/(LOSS) BEFORE TAX				**(201,373)**

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

3) Segment Information (continued)

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
Year ended December 31, 2015	2,597,606	1,346,294	182,760	**4,126,660**
Year ended December 31, 2014	3,748,470	1,998,483	261,993	**6,008,946**

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, 2015	Russia	Americas	Europe	Cent.Asia & Caspian Region	Middle East & Gulf Region	Asia & Far East	Africa	TOTAL
Revenue	2,721,598	896,821	287,827	91,664	84,089	34,645	10,016	**4,126,660**
Non-current assets	1,434,766	692,780	241,713	9,838	103,455	–	–	**2,482,552**

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**

4) Cost of Sales

	Year ended December 31,	
	2015	**2014**
Raw materials and consumables	2,022,023	3,080,247
Staff costs including social security	467,204	687,066
Energy and utilities	249,941	386,677
Depreciation and amortisation	206,471	252,048
Repairs and maintenance	64,790	118,165
Contracted manufacture	62,375	102,385
Freight	42,345	70,683
Taxes	31,500	40,081
Professional fees and services	27,969	39,358
Rent	14,230	15,101
Travel	1,902	3,159
Insurance	515	737
Communications	404	623
Other	3,189	3,744
Total production cost	**3,194,858**	**4,800,074**
Change in own finished goods and work in progress	20,133	3,883
Cost of sales of externally purchased goods	20,100	21,573
Obsolete stock, write-offs	47,022	13,940
Cost of sales	**3,282,113**	**4,839,470**

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

5) Selling and Distribution Expenses

	Year ended December 31,	
	2015	**2014**
Freight	123,003	176,789
Staff costs including social security	45,456	60,614
Depreciation and amortisation	28,305	35,177
Professional fees and services	27,815	25,229
Consumables	15,601	20,758
Bad debt expense	7,274	14,660
Rent	4,995	6,272
Travel	2,757	3,703
Utilities and maintenance	1,936	2,837
Insurance	1,057	1,255
Communications	863	1,221
Other	1,226	1,434
	260,288	**349,949**

6) General and Administrative Expenses

	Year ended December 31,	
	2015	**2014**
Staff costs including social security	122,710	159,357
Professional fees and services	35,544	50,427
Depreciation and amortisation	8,627	11,851
Utilities and maintenance	8,191	12,559
Insurance	6,771	7,448
Communications	5,361	6,667
Travel	5,220	7,654
Rent	3,979	4,279
Taxes	3,276	3,448
Consumables	2,694	4,056
Transportation	2,580	6,568
Other	2,007	4,109
	206,960	**278,423**

7) Research and Development Expenses

	Year ended December 31,	
	2015	**2014**
Staff costs including social security	5,749	6,600
Depreciation and amortisation	4,217	4,308
Other	3,295	4,306
	13,261	**15,214**

8) Other Operating Income and Expenses

	Year ended December 31,	
	2015	**2014**
Social and social infrastructure maintenance expenses	8,856	16,215
Sponsorship and charitable donations	5,777	8,540
Taxes and penalties	11,932	5,137
Disposal of property, plant and equipment	10,526	4,395
Other (income)/expenses, net	(1,827)	1,067
	35,264	**35,354**

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

9) Income Tax

Income tax (benefit)/expense was as follows:

	Year ended December 31,	
	2015	2014
Current income tax expense	53,587	61,721
Adjustments in respect of income tax of previous periods	(6,220)	(5,358)
Deferred tax (benefit)/expense related to origination and reversal of temporary differences	(122,324)	(41,087)
	(74,957)	**15,276**

The income tax is different from that which would be obtained by applying the Russian Federation statutory income tax rate to profit/(loss) before income tax. A reconciliation between the theoretical and the actual tax is provided below.

	Year ended December 31,	
	2015	2014
Profit/(loss) before tax	(442,966)	(201,373)
Theoretical tax at statutory rate in Russia of 20%	(88,593)	(40,275)
Adjustments in respect of income tax of previous periods	(6,220)	(5,358)
Effect of items which are not deductible for taxation purposes or not taxable	76,516	70,525
Effect of different tax rates in countries other than Russia	(61,238)	(14,005)
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	4,521	3,210
Other	57	1,179
	(74,957)	**15,276**

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2015 were as follows:

	2015	Change recognised in income statement	Change recognised in other comprehensive income/(loss)	Acquisition of subsidiaries	Currency translation adjustments	2014
Valuation and depreciation of property, plant and equipment	(204,650)	13,755	–	(423)	28,075	(246,057)
Valuation and amortisation of intangible assets	(10,950)	27,548	–	(7,354)	473	(31,617)
Tax losses available for offset	245,128	74,985	46,058	188	(45,243)	169,140
Valuation of inventory	20,420	6,822	–	(2)	(1,796)	15,396
Provisions and accruals	14,423	(2,056)	–	69	(1,836)	18,246
Finance lease obligations	7,580	1,099	–	–	(1,838)	8,319
Valuation of accounts receivable	4,748	1,698	–	5	(1,504)	4,549
Other	(766)	(1,527)	(351)	(269)	181	1,200
	75,933	**122,324**	**45,707**	**(7,786)**	**(23,488)**	**(60,824)**
Reflected in the statement of financial position as follows:						
Deferred tax liability	(109,564)	86,016	(351)	(7,931)	18,369	(205,667)
Deferred tax asset	185,497	36,308	46,058	145	(41,857)	144,843

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

9) Income Tax (continued)

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
Valuation of inventory	15,396	10,106	–	(2,800)	8,090
Provisions and accruals	18,246	4,132	–	(4,684)	18,798
Finance lease obligations	8,319	2,827	–	(3,650)	9,142
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

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, 2015, the Group has not recognised deferred tax liability in respect of 840,320 (December 31, 2014: 907,714) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and it is not expected to reverse them in the foreseeable future.

10) Earnings per Share

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

	Year ended December 31,	
	2015	**2014**
Profit/(loss) for the period	(363,193)	(215,559)
Weighted average number of ordinary shares outstanding	917,184,543	865,576,037
Earnings/(loss) per share, basic and diluted (in US dollars)	**(0.40)**	**(0.25)**

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

11) Acquisition of Subsidiaries

Acquisition of Metal Scrap Companies

On February 9, 2015, the Group acquired from the entity under common control 100% interest in OOO ChermetService-Snabzhenie (and its subsidiaries) specialising on scrap supply to steel plants, which includes collection, processing, distribution of ferrous scrap and comprehensive procurement services. ChermetService-Snabzhenie is one of the leaders in the Russian steel scrap market. The acquisition will allow the Group to establish a complete scrap supply cycle at its facilities, which will guarantee the Group's feedstock security. In the year ended December 31, 2015, OOO ChermetService-Snabzhenie was renamed to TMK CHERMET LLC.

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

	February 9, 2015
Cash	2,233
Trade and other receivables (including receivables from the Group in the amount of 27,068)	44,643
Inventories	2,470
Prepayments and input VAT	2,194
Property, plant and equipment	10,543
Intangible assets	36,384
Deferred tax assets	231
Other non-current assets	3,408
Total assets	**102,106**
Trade and other payables	(32,264)
Interest-bearing loans and borrowings	(45,885)
Deferred tax liability	(7,931)
Total liabilities	**(86,080)**
Total identifiable net assets	**16,026**
Goodwill	**25,294**
Purchase consideration	**41,320**

Goodwill arising on the acquisition related to the expected synergy from integration of the acquired subsidiaries into the Group. Goodwill was included in the Other cash-generating units (Note 17).

Trade and other receivables included loan issued to the entity under common control in the amount of 16,959 which was partially repaid during 2015. The unpaid balance of the loan in the amount of 69 was included in trade and other receivables as at December 31, 2015.

In October-November 2014, the Group paid 2,729 million Russian roubles for the acquisition of the metal scrap companies. As at December 31, 2014, the prepaid amount was included in other non-current assets.

Acquisition of Well Completions Business in Canada

In February 2015, the Group acquired well completions business located in Canada for 8,315, including contingent consideration in the amount of 2,011. The acquisition will allow the Group to enter the well completions market and to enlarge the range of products and services offered to its clients. The fair value of the net identifiable assets of the acquiree as at the date of acquisition was 6,117. The excess of the purchase consideration over the fair value of net assets in the amount of 2,198 was recognised as goodwill. The Group paid 4,417 of purchase consideration for the acquisition of the business.

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

12) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	December 31, 2015	December 31, 2014
Russian rouble	260,967	163,557
US dollar	38,346	84,214
Euro	4,079	3,335
Romanian lei	599	1,043
Other currencies	1,214	749
	305,205	**252,898**

The above cash and cash equivalents consisted primarily of cash at banks. As at December 31, 2015, the restricted cash amounted to 6,680 (December 31, 2014: 1,139).

13) Trade and Other Receivables

	December 31, 2015	December 31, 2014
Trade receivables	532,025	745,379
Officers and employees	1,069	1,166
Other accounts receivable	14,219	22,013
	547,313	**768,558**
Allowance for doubtful debts	(35,593)	(40,218)
	511,720	**728,340**

Accounts receivable in the carrying amount of 22,276 were pledged as security for borrowings as at December 31, 2015 (December 31, 2014: 87,563).

14) Inventories

	December 31, 2015	December 31, 2014
Finished goods	233,022	272,623
Work in progress	279,779	344,731
Raw materials and supplies	335,722	452,782
	848,523	**1,070,136**
Allowance for net realisable value of inventory	(63,971)	(23,229)
	784,552	**1,046,907**

The amount of inventories carried at net realisable value was 240,805 as at December 31, 2015 (December 31, 2014: 290,851).

As at December 31, 2015, certain items of inventory with the carrying amount of 58,184 were pledged as security for borrowings (December 31, 2014: 40,489).

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

	Year ended December 31,	
	2015	**2014**
Balance at January 1	23,229	22,896
Increase/(decrease) in allowance	45,775	8,782
Currency translation adjustments	(5,033)	(8,449)
Balance at December 31	**63,971**	**23,229**

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

15) Prepayments and Input VAT

	December 31, 2015	December 31, 2014
Prepayment for VAT, input VAT	59,736	59,034
Prepayment for services, inventories	25,845	33,164
Prepayment for other taxes	7,295	8,568
Prepayment for insurance	3,555	3,843
Other prepayments	659	534
	97,090	**105,143**

16) Property, Plant and Equipment

Movement in property, plant and equipment for the year ended December 31, 2015 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, 2015	1,023,064	2,509,724	56,435	56,511	28,813	194,343	**3,868,890**
Additions	–	–	–	–	–	186,584	**186,584**
Assets put into operation	24,689	170,179	3,932	4,870	1,174	(204,844)	**–**
Disposals	(6,685)	(31,278)	(1,510)	(887)	(120)	(1,518)	**(41,998)**
Increase due to acquisition of subsidiaries	4,580	2,375	4,012	14	8	–	**10,989**
Reclassifications	(124)	(410)	531	3	–	–	**–**
Currency translation adjustments	(189,137)	(417,527)	(11,142)	(8,307)	(1,108)	(33,824)	**(661,045)**
BALANCE AT DECEMBER 31, 2015	**856,387**	**2,233,063**	**52,258**	**52,204**	**28,767**	**140,741**	**3,363,420**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2015	(214,935)	(973,538)	(25,238)	(38,232)	(6,777)	–	**(1,258,720)**
Depreciation charge	(27,504)	(174,644)	(4,957)	(6,958)	(988)	–	**(215,051)**
Impairment	(6,965)	(16,869)	–	–	–	–	**(23,834)**
Disposals	1,950	23,092	1,358	773	74	–	**27,247**
Reclassifications	7	35	(39)	(3)	–	–	**–**
Currency translation adjustments	41,107	176,164	4,970	6,168	71	–	**228,480**
BALANCE AT DECEMBER 31, 2015	**(206,340)**	**(965,760)**	**(23,906)**	**(38,252)**	**(7,620)**	**–**	**(1,241,878)**
NET BOOK VALUE AT DECEMBER 31, 2015	**650,047**	**1,267,303**	**28,352**	**13,952**	**21,147**	**140,741**	**2,121,542**
NET BOOK VALUE AT JANUARY 1, 2015	**808,129**	**1,536,186**	**31,197**	**18,279**	**22,036**	**194,343**	**2,610,170**

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

16) Property, Plant and Equipment (continued)

Movement in property, plant and equipment for the year ended December 31, 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**

Capitalised Borrowing Costs

The amount of borrowing costs capitalised during the year ended December 31, 2015 was 1,844 (2014: 25,535). The capitalisation rate was 11.3% (2014: 9.6%).

Leased Assets

The carrying value of the leased assets included in property, plant and equipment was as follows:

	December 31, 2015	December 31, 2014
Machinery and equipment	20,356	26,752
Transport and motor vehicles	5,393	7,791
	25,749	**34,543**

Pledged Assets

As at December 31, 2015, bank borrowings were secured by properties and equipment with the carrying value of 4,328 (December 31, 2014: 129,274).

Impairment of Property and Equipment

As at December 31, 2015, there were indicators of impairment of certain individual items of property and equipment. The Group determined the value in use of those assets and recognised the impairment losses of 21,104 and 2,730 for the Americas and Russia operating segments' property and equipment, respectively (2014: 1,135 in respect of the Russia operating segment). Those assets in the Americas operating segment primarily related to the welded pipe business and the reasons for their impairment are discussed in Note 17.

(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, 2015 was as follows:

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	Proprietary technology	Other	TOTAL
COST							
Balance at January 1, 2015	211,591	564,793	12,833	472,300	14,100	5,663	**1,281,280**
Additions	328	–	570	–	–	1,884	**2,782**
Disposals	(7)	–	–	–	–	(252)	**(259)**
Increase due to acquisition of subsidiaries	–	27,492	–	37,708	2,646	44	**67,890**
Currency translation adjustments	(320)	(22,485)	(2,907)	(3,410)	–	(1,502)	**(30,624)**
BALANCE AT DECEMBER 31, 2015	**211,592**	**569,800**	**10,496**	**506,598**	**16,746**	**5,837**	**1,321,069**
ACCUMULATED AMORTISATION AND IMPAIRMENT							
Balance at January 1, 2015	(368)	(160,932)	(12,477)	(416,117)	(11,548)	(2,735)	**(604,177)**
Amortisation charge	(123)	–	(87)	(31,878)	(1,762)	(860)	**(34,710)**
Impairment	–	(328,082)	–	–	–	–	**(328,082)**
Disposals	7	–	–	–	–	86	**93**
Currency translation adjustments	92	2,403	2,818	767	(2)	739	**6,817**
BALANCE AT DECEMBER 31, 2015	**(392)**	**(486,611)**	**(9,746)**	**(447,228)**	**(13,312)**	**(2,770)**	**(960,059)**
NET BOOK VALUE AT DECEMBER 31, 2015	**211,200**	**83,189**	**750**	**59,370**	**3,434**	**3,067**	**361,010**
NET BOOK VALUE AT JANUARY 1, 2015	**211,223**	**403,861**	**356**	**56,183**	**2,552**	**2,928**	**677,103**

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

	Patents and trademarks	Goodwill	Software	Customer and supplier relationships	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**

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 210,306 (December 31, 2014: 210,306).

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

17) Goodwill and Other Intangible Assets (continued)

The carrying amount of goodwill and intangible assets with indefinite useful lives were allocated among cash-generating units (CGU) as follows:

	December 31, 2015	December 31, 2014
American division	208,700	531,272
Middle East division	22,668	36,241
Oilfield subdivision	13,234	17,143
European division	5,225	5,805
Other cash-generating units	43,668	23,706
	293,495	**614,167**

American division carrying value included intangible assets with indefinite useful lives in the amount of 208,700 as at December 31, 2015 and 2014.

Goodwill and intangible assets with indefinite useful lives were tested for impairment as at December 31, 2015. In performing impairment tests, the Group determined 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 pre-tax discount rates used in the calculations are presented in the table below:

Cash-generating units	December 31, 2015	December 31, 2014
American division	10.17%	10.83%
Middle East division	10.72%	10.88%
Oilfield division	15.73%	15.75%
European division	12.52%	12.49%
Other cash-generating units	11.01%-15.85%	11.89%-15.21%

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC).

As a result of the tests, the Group recognised 314,395 of impairment loss in respect of goodwill of American division (2014: 150,396) and 13,573 of Middle East division (2014: no impairment loss). The impairment was primarily driven by continuing decline in consumption of OCTG products in the US and Middle East markets due to the drop of oil prices. It reflects the changes of the operating environment and the recent developments in oil and gas industry in these regions.

The specific assumptions used in impairment tests for American and Middle East divisions were as follows:

American Division

- forecast sales prices decrease by 17% in 2016 and remain stable thereafter;
- forecast sales volume decreases by 12% in 2016, remains at the level of 2016 in 2017 and increases by 11% on average thereafter;
- forecast operating costs decrease by 26% in 2016 and remain stable thereafter.

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

17) Goodwill and Other Intangible Assets (continued)

American Division (continued)

The American division recoverable amount was 656,237 at December 31, 2015. It 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 73,359; a 5% rise in costs would result in an additional decrease of the recoverable amount by 157,244; a decrease in sales prices by 5% would result in an additional decrease of the recoverable amount by 352,198; a decrease in sales volume by 5% would result in an additional decrease of the recoverable amount by 89,718.

Middle East Division

- forecast sales prices decrease by 32.8% in 2016 and remain stable thereafter;
- forecast sales volume increases by 26% in 2016 and by 17% on average thereafter;
- forecast operating costs are at the level of 2015 in 2016, decrease by 17% in 2017 and remain stable thereafter.

As at December 31, 2015, the Group determined that the recoverable amount of Middle East division was 104,899. It was the most sensitive to the changes in sales volumes, prices and costs. A 5% rise in costs would result in an additional decrease of the recoverable amount by 42,710; a decrease in sales prices by 5% would result in an additional decrease of the recoverable amount by 59,785; a decrease in sales volume by 5% would result in an additional decrease of the recoverable amount by 18,010.

18) Other Non-Current Assets

	December 31, 2015	December 31, 2014
Prepayments for acquisition of property, plant and equipment	13,277	15,627
Prepayment for acquisition of subsidiary	–	48,506
Loans to employees	1,448	2,497
Restricted cash deposits for fulfillment of guaranties	2,703	1,143
Long-term trade receivables	42	287
Other	10,452	6,180
	27,922	**74,240**
Allowance for doubtful debts	(15)	(38)
	27,907	**74,202**

19) Trade and Other Payables

	December 31, 2015	December 31, 2014
Trade payables	385,415	568,763
Liabilities for VAT	32,828	39,523
Accounts payable for property, plant and equipment	22,569	52,429
Payroll liabilities	15,459	21,095
Liabilities for property tax	12,084	12,980
Accrued and withheld taxes on payroll	9,892	11,361
Liabilities for acquisition of non-controlling interests in subsidiaries	28,124	6,639
Sales rebate payable	3,600	9,440
Liabilities for other taxes	904	1,309
Dividends payable	73	6,631
Other payables	31,001	37,899
	541,949	**768,069**

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

20) Provisions and Accruals

	December 31, 2015	December 31, 2014
Current		
Provision for bonuses	8,140	17,190
Accrual for long-service bonuses	7,444	9,396
Accrual for unused annual leaves	2,631	3,060
Current portion of employee benefits liability	2,518	2,366
Environmental provision	188	1,351
Other provisions	11,393	8,034
	32,314	**41,397**
Non-current		
Accrual for unused annual leaves	11,175	14,062
Environmental provision	4,152	4,133
Provision for bonuses	417	770
Other provisions	4,950	3,951
	20,694	**22,916**

Other provisions include contingent consideration for the acquisition of the subsidiary, provisions for taxation, legal costs and claims not covered by insurance.

21) Interest-Bearing Loans and Borrowings

	December 31, 2015	December 31, 2014
Current		
Bank loans	90,332	265,439
Interest payable	24,796	30,841
Current portion of non-current borrowings	477,090	152,135
Current portion of bearer coupon debt securities	–	311,000
Unamortised debt issue costs	(956)	(610)
	591,262	**758,805**
Non-current		
Bank loans	1,262,778	1,419,101
Bearer coupon debt securities	908,220	1,000,000
Unamortised debt issue costs	(7,544)	(8,201)
	2,163,454	**2,410,900**

Breakdown of the Group’s interest-bearing loans and borrowings by currency and interest rate was as follows:

	Interest rates	December 31, 2015	December 31, 2014
Russian rouble	Fixed interest rates	932,851	958,177
US dollar	Coupon 5.25%	–	313,262
	Coupon 6.75%	505,714	505,235
	Coupon 7.75%	420,425	514,521
	Fixed interest rates	634,961	406,272
	Variable interest rates	172,733	386,679
Euro	Fixed interest rates	–	11,540
	Variable interest rates	88,032	74,019
		2,754,716	**3,169,705**

Unutilised Borrowing Facilities

As at December 31, 2015, the Group had unutilised borrowing facilities in the amount of 527,955 (December 31, 2014: 879,656).

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

21) Interest-Bearing Loans and Borrowings (continued)

Convertible Bonds

In February 2015, the Group redeemed its 5.25% convertible bonds due 2015 convertible into Global Depositary Receipts (GDRs) each representing four ordinary shares of PAO TMK.

Loan Participation Notes

In October-November 2015, the Group redeemed 91,780 of 500,000 7.75% loan participation notes due 2018.

22) 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 the lease term.

Future minimum lease payments were as follows:

	December 31, 2015		**December 31, 2014**	
	Minimum payments	**Present value of payments**	**Minimum payments**	**Present value of payments**
Less than 1 year	10,435	8,558	7,664	5,545
1 to 5 years	18,417	12,959	22,176	16,615
> 5 years	28,213	24,955	36,099	31,026
Total minimum lease payments	**57,065**	**46,472**	**65,939**	**53,186**
Less amounts representing finance charges	(10,593)	–	(12,753)	–
Present value of minimum lease payments	**46,472**	**46,472**	**53,186**	**53,186**

23) 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.

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

23) Employee Benefits Liability (continued)

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

	Russia		USA		Others		TOTAL	
	2015	2014	2015	2014	2015	2014	2015	2014
At January 1	**18,820**	**46,245**	**1,993**	**2,430**	**2,597**	**2,607**	**23,410**	**51,282**
Current service cost	591	1,432	402	401	567	736	1,560	2,569
Interest expense	2,259	2,811	76	82	32	39	2,367	2,932
Past service cost	(39)	(4,154)	–	–	–	43	(39)	(4,111)
Other	(146)	–	(712)	(88)	–	–	(858)	(88)
Net benefit expense/(income) recognised in profit or loss	**2,665**	**89**	**(234)**	**395**	**599**	**818**	**3,030**	**1,302**
(Gains)/losses arising from changes in demographic assumptions	(80)	(1,009)	(1)	3	(35)	(373)	(116)	(1,379)
(Gains)/losses arising from changes in financial assumptions	1,668	(6,734)	(107)	235	(11)	(83)	1,550	(6,582)
Experience (gains)/losses	(1,313)	1,458	211	6	66	13	(1,036)	1,477
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	**275**	**(6,285)**	**103**	**244**	**20**	**(443)**	**398**	**(6,484)**
Benefits paid	(1,627)	(3,051)	(223)	(1,076)	(142)	(131)	(1,992)	(4,258)
Exchange differences	(4,509)	(18,178)	–	–	(154)	(254)	(4,663)	(18,432)
At December 31	**15,624**	**18,820**	**1,639**	**1,993**	**2,920**	**2,597**	**20,183**	**23,410**
Short-term	**1,433**	**1,949**	**984**	**277**	**101**	**140**	**2,518**	**2,366**
Long-term	**14,191**	**16,871**	**655**	**1,716**	**2,819**	**2,457**	**17,665**	**21,044**

Net benefit expense/(income) 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, 2015 and 2014.

The principal actuarial assumptions used in determining the Group's defined benefit obligations are shown below:

	Russia		USA		Others	
	2015	2014	2015	2014	2015	2014
Discount rate	9.80%	13.00%	4.60%	4.10%	2.94%-3.15%	3.10%
Inflation	5.60%	7.50%	–	–	2.50%	2.60%
Average long-term rate of compensation increase	6.10%	9.10%	4.00%	4.00%	2.50%	2.60%
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%-5.77%	1.88%-5.44%

A quantitative sensitivity analysis for significant assumptions as at December 31, 2015 is provided below:

	Volatility range		Russia Effect on obligation increase/(decrease)		USA Effect on obligation increase/(decrease)		Others Effect on obligation increase/(decrease)	
Discount rate	-1%	1%	1,372	(1,235)	121	(98)	114	(102)
Inflation	-1%	1%	(1,235)	1,372	–	–	(98)	108
Average long-term rate of compensation increase	-1%	1%	(316)	357	(30)	32	(98)	108
Turnover	-3% – -1%	1% – 3%	1,578	(1,413)	34	(30)	122	(110)

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

24) Other Non-Current Liabilities

	December 31, 2015	December 31, 2014
Derivative financial instruments	21,835	2,076
Deferred government grants	1,383	1,198
Liabilities for acquisition of non-controlling interests in subsidiaries	–	15,326
Other long-term liabilities	1,987	8,299
	25,205	**26,899**

On December 29, 2015, the Group completed a deal with a bank to raise approximately 10 billion Russian roubles (141,270 at the historical exchange rates) by selling shares of PAO TMK. Part of the shares (58,888,888 ordinary shares) will be delivered in 2016. Simultaneously the Group entered into the settled net in cash forward contract on the corresponding number of own shares. The difference between historical cost of treasury shares sold 326,017 (Note 28 ii), the fair value of the consideration received for the shares and the fair value of the forward was recognised in additional paid-in capital. The change in the fair value of the forward during the reporting period resulted in the loss of 2,397 recognised in the income statement.

25) 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, 2015	December 31, 2014
Manufacturing facilities			
"Volzhsky Pipe Plant", JSC	Russia	100.00%	100.00%
Public Joint Stock Company, "Sinarsky Pipe Plant"	Russia	97.47%	97.28%
Public Joint Stock Company "Taganrog Metallurgical Works"	Russia	96.38%	96.38%
Seversky Tube Works, Public Joint Stock Company	Russia	96.54%	96.54%
Limited Liability Company TMK-INOX	Russia	97.47%	49.61%
ZAO "TMK-CPW"	Russia	49.23%	49.23%
Joint Stock Company "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) Incorporated	USA	100.00%	100.00%
Ultra Premium Oilfield Services, Ltd.	USA	100.00%	100.00%
TMK-ARTROM SA	Romania	92.73%	92.73%
TMK-RESITA SA	Romania	100.00%	100.00%
LLP "TMK-Kaztrubprom"	Kazakhstan	100.00%	100.00%
TMK Gulf International Pipe Industry L.L.C.	Oman	55.00%	55.00%
TMK CHERMET LLC and its subsidiaries	Russia	100.00%	0.00%
Services for oilfield and gas industries			
Truboplast Pipe Coating Company	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 and its subsidiaries	USA	75.00%	75.00%
TMK Completions LTD. and its subsidiaries	Canada/USA	75.00%	75.00%
Trading companies			
"Trade House "TMK" Joint Stock Company	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 M.E. FZCO	UAE	100.00%	100.00%
LLP "TMK-Kazakhstan"	Kazakhstan	100.00%	100.00%
TMK Global S.A.	Switzerland	100.00%	100.00%
Research and development			
The Russian Research Institute of the Tube & Pipe Industries, Joint Stock Company	Russia	97.36%	97.36%
TMK R&D	Russia	100.00%	100.00%

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

25) Interests in Subsidiaries (continued)

Non-controlling Interests

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

Company	December 31, 2015		December 31, 2014	
	Non-controlling interest, %	Non-controlling interest in net assets	Non-controlling interest, %	Non-controlling interest in net assets
TMK Gulf International Pipe Industry L.L.C.	45.00%	13,277	45.00%	16,879
Public Joint Stock Company "Sinarskaya Power Plant"	32.95%	7,915	33.08%	11,476
TMK-ARTROM SA	7.27%	7,603	7.27%	8,502
Joint Stock Company "Orsky Machine Building Plant"	25.00%	6,052	25.00%	6,799
Seversky Tube Works, Public Joint Stock Company	3.46%	4,324	3.46%	6,364
Public Joint Stock Company "Taganrog Metallurgical Works"	3.62%	4,654	3.62%	6,245
Public Joint Stock Company, "Sinarsky Pipe Plant"	2.53%	4,512	2.72%	5,784
Other		4,608		4,187
		52,945		**66,236**

26) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

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

The compensation to key management personnel included:

- Wages, salaries, social security contributions and other short-term benefits in the amount of 13,498 (2014: 15,780);
- Provision for performance bonuses in the amount of 3,184 (2014: 4,123).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the years ended December 31, 2015 and 2014.

The balance of loans issued to key management personnel amounted to 310 as at December 31, 2015 (December 31, 2014: 517).

Transactions with the Parent of the Company

In October 2015, the Group approved interim dividends in respect of six months 2015, from which 1,626,315 thousand Russian roubles (26,532 at the exchange rate at the date of approval) related to the parent of the Company. As at December 31, 2015, interim dividends were fully paid.

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, 2015, interim dividends were fully paid.

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

26) 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 February 2015, the Group increased share capital of the subsidiary Completions Development S.a r.l. The share capital increase was partially financed by the parent of the Company, an owner of the non-controlling interest in Completions Development S.a r.l. Contribution received from the parent of the Company amounted to 1,250.

In June 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 the 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

The following table provides balances with entities under common control with the Company:

	December 31, 2015	December 31, 2014
Cash and cash equivalents	129,995	80,550
Trade and other receivables	6,229	4,731
Prepayment for acquisition of subsidiary	–	48,506
Other prepayments	7	10
Advances received	(2,138)	(2,825)
Accounts payable for raw materials	–	(38,262)
Other accounts payable	(854)	(480)

The following table provides the summary of transactions with entities under common control with the Company:

	Year ended December 31,	
	2015	2014
Purchases of raw materials	26,770	604,690
Purchases of other goods and services	6,920	12,420
Sales revenue	8,017	14,195
Other income	5,153	702

27) 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.

27) Contingencies and Commitments (continued)

Operating Environment of the Group (continued)

In 2015, the Russian economy continued to be 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 2014. The Rouble interest rates remained high after the Central Bank of Russia raised its key rate in December 2014, with subsequent gradual decrease in 2015. 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 overall growing, the drop in oil prices resulted in the decline in oil exploration, drilling and production activities. As a result, the demand for the oil pipes in the US market decreased accordingly. Further significant decline in demand could negatively affect 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 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 155 million Russian roubles (2,123 at the exchange rate as at December 31, 2015). 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, 2015.

In 2014, the Controlled Foreign Company (CFC) legislation was adopted in the Russian Federation and took effect on January 1, 2015. This legislation covered the terms of beneficial ownership, fiscal residence of legal entities, and income tax rules for CFCs. This legislation is not expected to have significant impact on the Group's income tax liabilities.

Contractual Commitments and Guarantees

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amounts of 123,963 and 135,904 as at December 31, 2015 and 2014, respectively (contractual commitments were expressed net of VAT).

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 34,885 (December 31, 2014: 22,500).

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

27) Contingencies and Commitments (continued)

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, 2015 in the amount of 561 (December 31, 2014: 494).

28) Equity

i) Share Capital

	December 31, 2015	December 31, 2014
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	991,907,260	991,907,260
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	991,907,260	991,907,260

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.

ii) Treasury Shares

	Year ended December 31,			
	2015		2014	
	Number of shares	Cost	Number of shares	Cost
Balance at January 1	72,559,628	319,149	72,559,628	319,149
Purchase of treasury shares	7,493,952	7,460	–	–
Sales of treasury shares	(80,000,000)	(326,017)	–	–
Balance at December 31	**53,580**	**592**	**72,559,628**	**319,149**

28) Equity (continued)

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 October 12, 2015, the extraordinary shareholders' meeting approved interim dividends in respect of six months 2015 in the amount of 2,400,416 thousand Russian roubles (39,161 at the exchange rate at the date of approval) or 2.42 Russian roubles per share (0.04 US dollars per share), from which 187,168 thousand Russian roubles (3,054 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.

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.

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

During the years ended December 31, 2015 and 2014, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 66 and 1,367, respectively.

vi) Acquisition of Non-controlling Interests in Subsidiaries

In the year ended December 31, 2015, the Group purchased additional 0.19% of Public Joint Stock Company "Sinarsky Pipe Plant" shares for cash consideration of 227. The excess in the amount of 146 of the carrying values of net assets attributable to the acquired interests over the consideration paid was recorded in additional paid-in capital.

In the year ended December 31, 2014, the Group purchased additional 0.21% of Seversky Tube Works, Public Joint Stock Company 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.

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

28) Equity (continued)

vii) Acquisition of Non-controlling Interests in Subsidiaries Previously Recognised as an Equity Transaction

In November 2015, the Group acquired 49% of TMK-INOX LLC from the non-controlling interest owner. The Group accounted the non-controlling share in TMK-INOX LLC according to its policy for partial recognition of non-controlling interests considering the terms of the put option held by the non-controlling interest owner. At the acquisition date, the Group derecognised the amounts reported in equity and recognised the fair value of the liability for the acquisition of the share in TMK-INOX LLC. The consideration for the acquisition has not been paid as at December 31, 2015. It was included in trade and other payables.

viii) Hedges of Net Investment in Foreign Operations

As at December 31, 2015, a proportion of the Group's US dollar-denominated borrowing in the amount of 1,197,710 (December 31, 2014: 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, 2015, the effective portion of net losses from spot rate changes in the amount of 15,298,987 thousand Russian roubles (230,292 at historical exchange rates), net of income tax of 3,059,797 thousand Russian roubles (46,058 at historical exchange rates), was recognised in other comprehensive income/(loss).

ix) Movement on Cash Flow Hedges

	Year ended December 31,					
	2015			2014		
	Interest rate swap contracts	**Currency forward**	**Total**	**Interest rate swap contracts**	**Currency forward**	**Total**
Gain/(loss) arising during the period	(1,016)	–	(1,016)	(744)	(26)	(770)
Recognition of realised results in the income statement	2,621	–	2,621	2,502	26	2,528
Movement on cash flow hedges	**1,605**	**–**	**1,605**	**1,758**	**–**	**1,758**
Income tax	(351)	–	(351)	(406)	–	(406)
Movement on cash flow hedges, net of tax	**1,254**	**–**	**1,254**	**1,352**	**–**	**1,352**

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

29) 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, foreign currency risk and price risk), liquidity risk and credit risk. A description of the Group's risks and associated management policies are described below.

Market Risk

The Group is exposed to risk from movements in interest rates, foreign currency exchange rates and market prices 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. LIBOR and EURIBOR 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 2015, after taking into account the effect of interest rate swaps (8% at the end of 2014). The Group does not have any financial assets with variable interest rate.

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:

	December 31, 2015				December 31, 2014			
	Volatility range		Effect on profit/(loss) before tax		Volatility range		Effect on profit/(loss) before tax	
LIBOR	-12 bps	+12 bps	162	(162)	-2 bps	+2 bps	40	(40)
EURIBOR	–	–	–	–	-7 bps	+7 bps	55	(55)

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

29) Financial Risk Management Objectives and Policies (continued)

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:

	December 31, 2015	December 31, 2014
USD/RUR	(1,286,356)	(1,571,946)
EUR/RUR	(111,055)	(79,014)
USD/EUR	25,160	(5,584)
USD/RON	(14,425)	(4,893)
EUR/RON	(32,776)	(50,723)
KZT/RUR	5,573	10,350
USD/CAD	(3,463)	(25,049)

The Group hedged its net investments in foreign operations against foreign currency risk using borrowings in US dollars made by the Russian companies of the Group. The Group doesn't have other formal arrangements to manage currency risk. However, the Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk.

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 28 viii). In estimating reasonably possible changes the Group assessed the volatility of foreign exchange rates during the relevant year.

	As at December 31, 2015					
	Volatility range		Effect on profit/(loss) before tax		Effect on other comprehensive income/(loss)	
USD/RUR	-27.00%	27.00%	110,533	(110,533)	236,783	(236,783)
EUR/RUR	-27.66%	27.66%	30,718	(30,718)	–	–
USD/EUR	-11.54%	11.54%	(2,903)	2,903	–	–
USD/RON	-12.44%	12.44%	1,794	(1,794)	–	–
EUR/RON	-3.22%	3.22%	1,055	(1,055)	–	–
KZT/RUR	-49.26%	49.26%	(2,745)	2,745	–	–
USD/CAD	-9.12%	9.12%	316	(316)	–	–

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

29) Financial Risk Management Objectives and Policies (continued)

Price Risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's exposure to price risk related to changes of the fair value of the net cash-settled forward on own shares as a result of fluctuations of share's quotations. The reasonably possible changes in the price of shares, with all other variables held constant, would have an effect on the Group's loss before tax. In estimating reasonably possible fluctuations of share's quotations, the Group assessed the volatility of shares during the year ended December 31, 2015. A 44% increase in the value of share as at December 31, 2015 would reduce loss before tax by 21,277. A 44% decrease in the value of share as at December 31, 2015 would result in the increase of loss before tax by 21,277.

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.

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.

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

29) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

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

December 31, 2015	**Less than 1 year**	**1 to 4 years**	**> 4 years**	**TOTAL**
Interest-bearing loans and borrowings:				
Principal	567,422	1,437,746	733,252	**2,738,420**
Interest	233,246	408,056	216,327	**857,629**
Finance lease liability	10,435	14,171	32,459	**57,065**
Trade and other payables	470,782	–	–	**470,782**
Other non-current liabilities	–	23,750	72	**23,822**
	1,281,885	**1,883,723**	**982,110**	**4,147,718**

December 31, 2014	**Less than 1 year**	**1 to 4 years**	**> 4 years**	**TOTAL**
Interest-bearing loans and borrowings:				
Principal	728,574	1,675,318	743,783	**3,147,675**
Interest	201,592	364,347	59,044	**624,983**
Finance lease liability	7,664	20,431	37,844	**65,939**
Trade and other payables	681,801	–	–	**681,801**
Other non-current liabilities	–	15,362	8,263	**23,625**
	1,619,631	**2,075,458**	**848,934**	**4,544,023**

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 primarily expose the Group to concentrations of credit risk are trade and other receivables.

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.

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, 2015, accounts receivable from the three biggest debtors of the Group amounted to 111,374 (December 31, 2014: 207,044). Management determines concentration by reference to receivables from particular customers as percentage of total accounts receivable.

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

29) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

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

	December 31, 2015		December 31, 2014	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
Current trade and other receivables – not past due	415,299	(4,795)	651,264	(18,363)
Current trade and other receivables – past due:				
- less than 30 days	61,527	(1,128)	61,489	(1,188)
- between 30 and 90 days	21,787	(883)	17,608	(282)
- over 90 days	48,700	(28,787)	38,197	(20,385)
	547,313	**(35,593)**	**768,558**	**(40,218)**

Movement in the provision for impairment of trade and other receivables was as follows:

	Year ended December 31,	
	2015	**2014**
Balance at January 1	40,218	36,172
Utilised during the year	(2,037)	(6,284)
Increase/(decrease) in allowance	6,353	26,903
Currency translation adjustment	(8,941)	(16,573)
Balance at December 31	**35,593**	**40,218**

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 2015, the Group was in compliance with such externally imposed capital requirements. The Group meets 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.

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

29) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments Carried at Fair Value

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

	December 31, 2015	December 31, 2014
Net cash-settled forward on own shares	(21,835)	–
Interest rate swaps	(122)	(2,076)
	(21,957)	**(2,076)**

Specific valuation techniques used to value financial instruments are described below:

- Interest rate swaps were measured by the Group using valuation techniques based on observable market data (level 2 in the fair value hierarchy). The fair value of interest rate swaps was calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of the net cash-settled forward on own shares was determined using forward pricing model. The important assumptions were obtained with reference to the contractual provisions and from independent market sources. The fair value of the forward was adjusted to take into account the inherent uncertainty relating to the future cash flows such as liquidity risk, historical volatility and other economic factors. As a result of the inclusion of these unobservable inputs, the forward was classified as level 3 in the fair value hierarchy.

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.

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

	December 31, 2015		December 31, 2014	
	Nominal value	**Fair value**	**Nominal value**	**Fair value**
Financial liabilities				
Fixed rate long-term bank loans	1,206,620	1,222,513	1,161,283	1,089,008
Variable rate long-term bank loans	67,728	66,019	408,379	405,099
5.25 per cent convertible bonds	–	–	311,000	289,043
6.75 per cent loan participation notes due 2020	500,000	472,440	500,000	291,665
7.75 per cent loan participation notes due 2018	408,220	407,640	500,000	320,000

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.