OAO TMK

Consolidated Financial Statements

for the year ended December 31, 2013

Совершенствуя бизнес,
улучшаем мир

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Independent auditors' report

To the shareholders and Board of Directors
OAO TMK

We have audited the accompanying consolidated financial statements of OAO TMK and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2013, 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 auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

11 March 2014

A member firm of Ernst & Young Global Limited

OAO TMK

Consolidated Financial Statements

for the year ended December 31, 2013

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Consolidated Income Statement

for the year ended December 31, 2013

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

	NOTES	Year ended December 31, 2013	2012 (as restated*)
Revenue:	1	6,431,903	6,687,740
Sales of goods		*6,328,930*	*6,575,050*
Rendering of services		*102,973*	*112,690*
Cost of sales	2	(5,074,311)	(5,208,875)
Gross profit		**1,357,592**	**1,478,865**
Selling and distribution expenses	3	(379,205)	(433,243)
Advertising and promotion expenses	4	(12,481)	(11,060)
General and administrative expenses	5	(317,288)	(292,539)
Research and development expenses	6	(12,733)	(16,592)
Other operating expenses	7	(52,101)	(68,011)
Other operating income	8	17,779	10,707
Impairment of goodwill	19	(1,080)	–
Impairment of property, plant and equipment	18	(4,243)	(8,406)
Foreign exchange (loss)/gain, net		(49,189)	22,597
Finance costs		(252,247)	(297,099)
Finance income	9	7,164	22,329
Gain/(loss) on changes in fair value of derivative financial instruments		8,377	(7,436)
Share of profit of associates	13	176	41
Gain on disposal of subsidiary	12	1,862	–
Profit before tax		**312,383**	**400,153**
Income tax expense	10	(97,843)	(122,634)
Profit for the period		**214,540**	**277,519**
Attributable to:			
Equity holders of the parent entity		213,929	272,587
Non-controlling interests		611	4,932
		214,540	**277,519**
Earnings per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	11	**0.25**	**0.32**

* Certain amounts shown here do not correspond to the consolidated financial statements for the year ended December 31, 2012 and reflect changes in accounting policies.

OAO TMK

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2013

(All amounts in thousands of US dollars)

	NOTES	2013	2012 (as restated*)
Profit for the period		**214,540**	**277,519**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency [(a)]		(50,160)	34,895
Foreign currency (loss)/gain on hedged net investment in foreign operation [(b)]	31 (xi)	(81,742)	60,427
Income tax [(b)]	31 (xi)	16,348	(12,085)
		(65,394)	**48,342**
Movement on cash flow hedges [(a)]	31 (xii)	546	(3,998)
Income tax [(a)]	31 (xii)	(163)	972
		383	**(3,026)**
Items that may not be reclassified subsequently to profit or loss:			
Net actuarial gains [(a)]	26	**3,268**	**4,560**
Other comprehensive income/(loss) for the period, net of tax		**(111,903)**	**84,771**
Total comprehensive income/(loss) for the period, net of tax		**102,637**	**362,290**
Attributable to:			
Equity holders of the parent entity		106,866	352,629
Non-controlling interests		(4,229)	9,661
		102,637	**362,290**

(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:

	2013	2012 (as restated*)
Exchange differences on translation to presentation currency attributable to:		
Equity holders of the parent entity	(45,277)	30,413
Non-controlling interests	(4,883)	4,482
	(50,160)	**34,895**
Movement on cash flow hedges attributable to:		
Equity holders of the parent entity	381	(3,023)
Non-controlling interests	2	(3)
	383	**(3,026)**
Net actuarial gains attributable to:		
Equity holders of the parent entity	3,227	4,310
Non-controlling interests	41	250
	3,268	**4,560**

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

* Certain amounts shown here do not correspond to the consolidated financial statements for the year ended December 31, 2012 and reflect changes in accounting policies.

OAO TMK

Consolidated Statement of Financial Position

as at December 31, 2013

(All amounts in thousands of US dollars)

	NOTES	2013		2012 (as restated*)	
ASSETS					
Current assets					
Cash and cash equivalents	14	93,298		225,061	
Trade and other receivables	15	995,371		914,319	
Inventories	16	1,324,475		1,345,929	
Prepayments and input VAT	17	136,630		167,918	
Prepaid income taxes		11,276		12,447	
Other financial assets		155	**2,561,205**	4,008	**2,669,682**
Non-current assets					
Investments in associates	13	1,900		1,862	
Property, plant and equipment	18	3,845,355		3,809,634	
Goodwill	19	584,904		591,194	
Intangible assets	19	311,428		356,602	
Deferred tax asset	10	63,624		60,099	
Other non-current assets	20	50,252	**4,857,463**	114,191	**4,933,582**
TOTAL ASSETS			**7,418,668**		**7,603,264**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	21	944,165		855,569	
Advances from customers		59,936		189,693	
Accounts payable to related parties	29	101,151		87,103	
Provisions and accruals	22	51,184		55,520	
Interest-bearing loans and borrowings	23	393,941		1,065,044	
Finance lease liability	25	3,796		3,198	
Derivative financial instruments	32	2,080		10,520	
Dividends payable		5,863		303	
Income tax payable		8,504	**1,570,620**	8,281	**2,275,231**
Non-current liabilities					
Interest-bearing loans and borrowings	23	3,248,077		2,767,627	
Finance lease liability	25	47,969		49,045	
Deferred tax liability	10	297,874		302,314	
Provisions and accruals	22	33,327		29,293	
Employee benefits liability	26	45,067		53,272	
Other liabilities	27	46,115	**3,718,429**	42,856	**3,244,407**
Total liabilities			**5,289,049**		**5,519,638**
Equity	31				
Parent shareholders' equity					
Issued capital		326,417		326,417	
Treasury shares		(319,149)		(319,149)	
Additional paid-in capital		391,192		391,192	
Reserve capital		16,390		16,390	
Retained earnings		1,737,098		1,581,001	
Foreign currency translation reserve		(120,467)		(9,796)	
Other reserves		2,311	2,033,792	(1,297)	1,984,758
Non-controlling interests	28		95,827		98,868
Total equity			**2,129,619**		**2,083,626**
TOTAL EQUITY AND LIABILITIES			**7,418,668**		**7,603,264**

* Certain amounts shown here do not correspond to the consolidated financial statements as at December 31, 2012 and reflect changes in accounting policies and adjustments to provisional values of the acquired subsidiary.

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

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2013

(All amounts in thousands of US dollars)

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

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

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2013 (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, 2012	**326,417**	**(327,339)**	**384,581**	**16,390**	**1,421,437**	**(88,551)**	**–**	**1,732,935**	**91,849**	**1,824,784**
Changes in accounting policies	–	–	–	–	1,374	–	(2,584)	**(1,210)**	(89)	**(1,299)**
At January 1, 2012 (as restated*)	**326,417**	**(327,339)**	**384,581**	**16,390**	**1,422,811**	**(88,551)**	**(2,584)**	**1,731,725**	**91,760**	**1,823,485**
Profit for the period (as restated*)	–	–	–	–	272,587	–	–	**272,587**	4,932	**277,519**
Other comprehensive income/(loss) for the period, net of tax (as restated *)	–	–	–	–	–	78,755	1,287	**80,042**	4,729	**84,771**
Total comprehensive income/(loss) for the period, net of tax (as restated *)	**–**	**–**	**–**	**–**	**272,587**	**78,755**	**1,287**	**352,629**	**9,661**	**362,290**
Dividends declared by the parent entity to its shareholders	–	–	–	–	(111,540)	–	–	**(111,540)**	–	**(111,540)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 31 iv)	–	–	–	–	–	–	–	**–**	(1,571)	**(1,571)**
Acquisition of non-controlling interests in subsidiaries (Note 31 v)	–	–	1,711	–	–	–	–	**1,711**	(5,871)	**(4,160)**
Acquisition of non-controlling interests in subsidiaries in exchange for treasury shares (Note 31 vi)	–	8,190	4,900	–	–	–	–	**13,090**	(13,090)	**–**
Acquisition of subsidiaries (Note 12)	–	–	–	–	–	–	–	**–**	2,364	**2,364**
Contribution from non-controlling interest owners (Note 31 vii)	–	–	–	–	–	–	–	**–**	16,245	**16,245**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 31 viii)	–	–	–	–	(2,857)	–	–	**(2,857)**	(557)	**(3,414)**
Derecognition of non-controlling interests due to the expiration of subscription rights (Note 31 x)	–	–	–	–	–	–	–	**–**	(73)	**(73)**
At December 31, 2012 (as restated*)	**326,417**	**(319,149)**	**391,192**	**16,390**	**1,581,001**	**(9,796)**	**(1,297)**	**1,984,758**	**98,868**	**2,083,626**

* Certain amounts shown here do not correspond to the consolidated financial statements for the year ended December 31, 2012 and reflect changes in accounting policies.

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

OAO TMK

Consolidated Statement of Cash Flows

for the year ended December 31, 2013

(All amounts in thousands of US dollars)

	NOTES	2013	2012 (as restated*)
Operating activities			
Profit before tax		312,383	400,153
Adjustments to reconcile profit before tax to operating cash flows:			
Depreciation of property, plant and equipment		276,787	266,449
Amortisation of intangible assets	19	49,102	59,613
Loss on disposal of property, plant and equipment	7	5,861	17,255
Impairment of goodwill	19	1,080	–
Impairment of property, plant and equipment	18	4,243	8,406
Foreign exchange loss/(gain), net		49,189	(22,597)
Finance costs		252,247	297,099
Finance income	9	(7,164)	(22,329)
Gain on disposal of subsidiary	12	(1,862)	–
(Gain)/loss on changes in fair value of derivative financial instruments		(8,377)	7,436
Share of profit of associates	13	(176)	(41)
Allowance for net realisable value of inventory		1,246	6,399
Allowance for doubtful debts		15,628	9,711
Movement in provisions		(5,989)	12,261
Operating cash flows before working capital changes		**944,198**	**1,039,815**
Working capital changes:			
(Increase)/decrease in inventories		(65,273)	123,152
Increase in trade and other receivables		(158,946)	(101,650)
Decrease in prepayments		22,900	6,005
Increase/(decrease) in trade and other payables		162,818	(53,482)
Decrease in advances from customers		(120,060)	(7,866)
Cash generated from operations		**785,637**	**1,005,974**
Income taxes paid		(82,204)	(77,455)
Net cash flows from operating activities		**703,433**	**928,519**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(396,794)	(445,296)
Proceeds from sale of property, plant and equipment		6,451	1,137
Acquisition of subsidiaries	12	(38,300)	(33,017)
Disposal of subsidiary	12	(1,906)	–
Issuance of loans		(580)	(2,959)
Proceeds from repayment of loans issued		1,610	2,420
Interest received		3,456	6,240
Dividends received		2,674	14,256
Receipt of government grants		–	2,290
Net cash flows used in investing activities		**(423,389)**	**(454,929)**
Financing activities			
Proceeds from borrowings		1,562,500	649,222
Repayment of borrowings		(1,655,971)	(797,045)
Interest paid		(253,616)	(263,701)
Reimbursement of interest paid		–	545
Payment of finance lease liabilities		(5,337)	(4,789)
Acquisition of non-controlling interests		–	(4,160)
Contributions from non-controlling interest owners		2,525	10,265
Dividends paid to equity holders of the parent		(52,727)	(75,985)
Dividends paid to non-controlling interest shareholders		(4,185)	(3,184)
Net cash flows used in financing activities		**(406,811)**	**(488,832)**
Net decrease in cash and cash equivalents		(126,767)	(15,242)
Net foreign exchange difference		(4,996)	9,710
Cash and cash equivalents at January 1		225,061	230,593
Cash and cash equivalents at December 31		**93,298**	**225,061**

* Certain amounts shown here do not correspond to the consolidated financial statements for the year ended December 31, 2012 and reflect changes in accounting policies.

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

Corporate Information

These consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the year ended December 31, 2013 were authorised for issue in accordance with a resolution of the General Director on March 11, 2014.

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

As at December 31, 2013, the Company's controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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

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

Basis of Preparation of the Financial Statements

Basis of Preparation

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

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

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

Functional and Presentation Currency

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

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

Basis of Preparation of the Financial Statements (continued)

Functional and Presentation Currency (continued)

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

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

Significant Estimates and Assumptions

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

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

Impairment of Property, Plant and Equipment

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

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

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

Significant Estimates and Assumptions (continued)

Useful Lives of Items of Property, Plant and Equipment

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

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

Employee Benefits Liability

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

Allowance for Doubtful Debts

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

Significant Estimates and Assumptions (continued)

Net Realisable Value Allowance

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

Current Taxes

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

Tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Furthermore, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group’s entities may not coincide with that of management. As a result, tax authorities may challenge transactions and Group’s entities may be assessed additional taxes, penalties and interest, which can be significant. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions, outcomes of tax litigation and resolution of disputes arising from tax audits. As at December 31, 2013, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Changes in Accounting Policies

Application of New and Amended IFRS and IFRIC

The Group has adopted the following new and amended IFRS and IFRIC in the consolidated financial statements for the annual period beginning on January 1, 2013:

- IAS 1 *Financial Statement Presentation (amended) – Presentation of Items of Other Comprehensive Income;*
- IFRS 7 *Financial Instruments: Disclosures (amended) – Offsetting Financial Assets and Financial Liabilities;*
- IFRS 10 *Consolidated Financial Statements;*
- IFRS 11 *Joint Arrangements;*
- IFRS 12 *Disclosure of Involvement in Other Entities;*
- IFRS 13 *Fair Value Measurement;*
- IAS 19 *Employee Benefits (revised);*
- IAS 27 *Separate Financial Statements (revised);*
- IAS 28 *Investments in Associates and Joint Ventures (revised);*
- *Improvements to IFRSs.*

Changes in Accounting Policies (continued)

Application of New and Amended IFRS and IFRIC (continued)

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

IAS 1 Financial Statement Presentation (amended) – Presentation of Items of Other Comprehensive Income

The amendment changes the grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time should be presented separately from items that will never be reclassified. The amendment affected presentation only and had no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments: Disclosures (amended) – Offsetting Financial Assets and Financial Liabilities

The amendment requires disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment did not have any impact on the financial position or performance of the Group.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including structured entities. IFRS 10 had no impact on the consolidation of Group's subsidiaries.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Jointly controlled entities must be accounted for using the equity method. The application of the new standard did not have an impact on financial position or performance of the Group.

IFRS 12 Disclosure of Involvement in Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 *Consolidated and Separate Financial Statements* related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The Group provides these disclosures in Notes 12, 13 and 28.

Changes in Accounting Policies (continued)

Application of New and Amended IFRS and IFRIC (continued)

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards, including IFRS 7 *Financial Instruments: Disclosures*. The Group provides these disclosures in Note 32.

IAS 19 Employee Benefits (revised)

The revision includes a number of amendments to the accounting for defined benefit obligations, including removing the "corridor" mechanism (the revised standard requires actuarial gains and losses to be recognised in other comprehensive income when they occur) and the change of the timing for the recognition of past-service costs (the revised standard requires past-service costs to be recognised in the period of a plan amendment, unvested benefits are not spread over a future-service period). Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

IAS 19 *Employee Benefits* (revised) has been applied by the Group retrospectively. The transition to IAS 19 *Employee Benefits* (revised) had an impact on the defined benefit obligations of the Group due to the change in the accounting for unvested past service costs. Until December 31, 2012, the Group's unvested past service costs were recognised as an expense on a straight-line basis over the average period until the benefits become vested. Upon transition to the revised IAS 19, past service costs are recognised immediately in the period of a plan introduction or amendment. Also, the adoption of the revised standard affected the presentation of financial statements as actuarial gains and losses are now recognised in other comprehensive income and permanently excluded from profit and loss. Until December 31, 2012 the Group's accounting policy was to recognise actuarial gains and losses in full amount in the income statement in the period in which they occurred.

The impact of changes in accounting policies was as follows:

- employee benefits liability increased by 1,299 as at January 1, 2012;
- retained earnings attributable to equity holders of the parent increased by 1,374 as at January 1, 2012;
- other reserves decreased by 2,584 as at January 1, 2012;
- cost of sales for the year ended December 31, 2012 increased by 4,560 with the corresponding change of other comprehensive income;
- balance of non-controlling interests decreased by 89 as at January 1, 2012.

Changes in Accounting Policies (continued)

Application of New and Amended IFRS and IFRIC (continued)

IAS 27 Separate Financial Statements (revised)

As a consequence of the new IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Involvement with Other Entities*, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The revision had no impact on the consolidated financial statements of the Group.

IAS 28 Investments in Associates and Joint Ventures (revised)

As a consequence of the new IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Involvement with Other Entities*, IAS 28 has been renamed to IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The application of the revised standard did not have an impact on financial position or performance of the Group.

Improvements to IFRSs

In May 2012, the IASB issued "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 amendments did not have any impact on the financial position or performance of the Group.

New Accounting Pronouncements

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

IFRS 9 Financial Instruments (effective for financial years beginning on or after January 1, 2015)

IFRS 9 will replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard as issued addresses classification and measurement of financial assets and financial liabilities and hedge accounting. Subsequently IASB will also address impairment methodology. The Group will quantify the impact of IFRS 9 application when the final standard is issued.

Changes in Accounting Policies (continued)

New Accounting Pronouncements (continued)

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (amendements) – Investment Entities (effective for financial years beginning on or after January 1, 2014)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The Group expects that the adoption of the amended standards will not have a significant impact on its financial position or performance in the period of initial application.

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

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

IAS 32 Financial Instruments: Presentation (amended) – Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after January 1, 2014)

The amendment clarifies financial assets and financial liabilities offsetting rules. These amendments are not expected to impact the Group's financial position or performance.

IAS 36 Impairment of Assets (amended) – Recoverable Amount Disclosures for Non-Financial Assets (effective for financial years beginning on or after January 1, 2014)

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The adoption of the amended standard will not have a significant impact on its financial position or performance in the period of initial application.

IAS 39 Financial Instruments: Recognition and Measurement (amended) – Novation of Derivatives and Continuation of Hedge Accounting (effective for financial years beginning on or after January 1, 2014)

This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria. The Group expects that the adoption of the amended standards will not have a significant impact on its financial position or performance in the period of initial application.

Changes in Accounting Policies (continued)

Application of New and Amended IFRS and IFRIC (continued)

IFRIC 21 Levies (effective for financial years beginning on or after January 1, 2014)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Group does not expect that IFRIC 21 will have a significant impact on its financial position or performance in the period of initial application.

Improvements to IFRSs (effective for financial years beginning on or after July 1, 2014)

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 current practice. These improvements will not have any impact on the financial position or performance of the Group.

Significant Accounting Policies

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Significant Accounting Policies (continued)

A) Basis of Consolidation

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

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

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

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

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

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

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

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

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

Significant Accounting Policies (continued)

A) Basis of Consolidation (continued)

When the Group loses control over a subsidiary, it:

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

B) Business Combination and Goodwill

Acquisition of Subsidiaries

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

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

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

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

Goodwill

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

Significant Accounting Policies (continued)

B) Business Combination and Goodwill (continued)

Goodwill (continued)

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

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

C) Cash and Cash Equivalents

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

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

D) Financial Assets

Initial Recognition and Measurement

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

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

Significant Accounting Policies (continued)

D) Financial Assets (continued)

Subsequent Measurement

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

Loans and Receivables

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

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

Financial Assets at Fair Value through Profit or Loss

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

Held-to-Maturity Investments

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

Available-for-Sale Financial Assets

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

Significant Accounting Policies (continued)

D) Financial Assets (continued)

Derivatives

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

Hedge accounting

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

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

Impairment of Financial Assets

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

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.

Significant Accounting Policies (continued)

E) Inventories

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

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

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

F) Property, Plant and Equipment

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

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

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

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

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

G) Intangible Assets (Other than Goodwill)

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

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

Significant Accounting Policies (continued)

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

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

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

Research and Development

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

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

An assessment is made at each reporting date to determine whether there is an objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the recoverable amount is assessed and, when impaired, the asset is written down immediately 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 arm’s length transaction between knowledgeable, willing parties, 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.

Significant Accounting Policies (continued)

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

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

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

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

I) Borrowings

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

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

J) Leases

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

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

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

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

Significant Accounting Policies (continued)

K) Provisions

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

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

L) Employee Benefits Liability

Short-Term Employee Benefits

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

Defined Benefit Obligations

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

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

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

Significant Accounting Policies (continued)

L) Employee Benefits Liability (continued)

Defined Contribution Plans

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

M) Government Grants

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

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

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

N) Deferred Income Tax

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

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

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

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

Significant Accounting Policies (continued)

O) Equity

Share Capital

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

Treasury Shares

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

Dividends

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

P) Revenue Recognition

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

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

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1) Segment Information

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

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

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.

Starting from the interim condensed consolidated financial statements for the three months ended March 31, 2013, the calculation of Adjusted EBITDA was amended by including accruals of bonuses to management and employees instead of actual cash payments. Management believes such approach better reflects the Group's quarterly performance and eliminates fluctuations during the year. The comparative information in these consolidated financial statements was adjusted accordingly.

1) Segment Information (continued)

The following tables present revenue and profit information regarding the Group's reportable segments for the years ended December 31, 2013 and 2012, respectively.

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

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

1) Segment Information (continued)

Year ended December 31, 2012 (as restated)	Russia	Americas	Europe	TOTAL
Revenue	4,713,913	1,650,007	323,820	**6,687,740**
Cost of sales	(3,595,144)	(1,364,887)	(248,844)	**(5,208,875)**
GROSS PROFIT	**1,118,769**	**285,120**	**74,976**	**1,478,865**
Selling, general and administrative expenses	(565,957)	(150,235)	(37,242)	**(753,434)**
Other operating income/(expenses), net	(43,899)	(12,543)	(862)	**(57,304)**
OPERATING PROFIT	**508,913**	**122,342**	**36,872**	**668,127**
ADD BACK:				
Depreciation and amortisation	222,482	91,437	12,143	**326,062**
Loss on disposal of property, plant and equipment	10,482	6,175	598	**17,255**
Allowance for net realisable value of inventory	4,542	793	1,064	**6,399**
Allowance for doubtful debts	9,848	(760)	623	**9,711**
Movement in other provisions	2,539	(2,101)	450	**888**
	249,893	**95,544**	**14,878**	**360,315**
ADJUSTED EBITDA	**758,806**	**217,886**	**51,750**	**1,028,442**

Year ended December 31, 2012 (as restated)	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**758,806**	**217,886**	**51,750**	**1,028,442**
Reversal of adjustments from operating profit to EBITDA	(249,893)	(95,544)	(14,878)	**(360,315)**
OPERATING PROFIT	**508,913**	**122,342**	**36,872**	**668,127**
Impairment of property, plant and equipment	(8,406)	–	–	**(8,406)**
Foreign exchange gain/(loss), net	23,702	1,366	(2,471)	**22,597**
OPERATING PROFIT AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	**524,209**	**123,708**	**34,401**	**682,318**
Finance costs				**(297,099)**
Finance income				**22,329**
Loss on changes in fair value of derivative financial instruments				**(7,436)**
Share of profit of associates				**41**
PROFIT BEFORE TAX				**400,153**

The following tables present additional information of the Group's reportable segments as at December 31, 2013 and 2012:

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

Year ended December 31, 2012 (as restated)	Russia	Americas	Europe	TOTAL
Segment assets	5,300,940	1,863,149	439,175	**7,603,264**
Property, plant and equipment expenditure	346,728	95,046	45,432	**487,206**

1) Segment Information (continued)

The following table presents the revenues from external customers for each group of products and services for the years ended December 31, 2013 and 2012, respectively:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Year ended December 31, 2013	3,959,619	2,200,755	271,529	**6,431,903**
Year ended December 31, 2012	4,134,289	2,257,120	296,331	**6,687,740**

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

Year ended December 31, 2012 (as restated)	Russia	Americas	Europe	Cent.Asia & Caspian Region	Asia & Far East	Middle East & Gulf Region	Africa	TOTAL
Revenue	3,644,415	1,983,043	486,326	352,858	33,557	171,563	15,978	**6,687,740**
Non-current assets	3,117,967	1,300,327	274,980	24,142	–	40,004	10	**4,757,430**

2) Cost of Sales

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

	2013	2012 (as restated)
Raw materials and consumables	3,384,212	3,352,080
Staff costs including social security	721,647	673,916
Energy and utilities	409,374	383,754
Depreciation and amortisation	266,218	253,048
Repairs and maintenance	136,403	142,893
Contracted manufacture	76,318	81,829
Freight	66,710	58,149
Taxes	44,769	52,464
Professional fees and services	39,736	34,132
Rent	13,338	11,098
Travel	3,415	3,043
Insurance	834	1,008
Communications	905	1,040
Other	5,593	7,418
Total production cost	**5,169,472**	**5,055,872**
Change in own finished goods and work in progress	(115,467)	102,759
Cost of sales of externally purchased goods	18,066	24,479
Obsolete stock, write-offs	2,240	25,765
Cost of sales	**5,074,311**	**5,208,875**

3) Selling and Distribution Expenses

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

	2013	2012
Freight	191,782	246,801
Staff costs including social security	64,025	63,004
Depreciation and amortisation	43,319	53,312
Professional fees and services	23,399	17,262
Consumables	21,274	21,453
Bad debt expense	17,326	11,612
Rent	7,103	7,748
Travel	4,549	4,747
Utilities and maintenance	2,141	2,217
Communications	1,331	1,354
Insurance	1,395	1,350
Other	1,561	2,383
	379,205	**433,243**

4) Advertising and Promotion Expenses

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

	2013	2012
Outdoor advertising	5,512	4,132
Exhibits and catalogues	5,384	5,036
Media	887	927
Other	698	965
	12,481	**11,060**

5) General and Administrative Expenses

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

	2013	2012
Staff costs including social security	180,596	163,134
Professional fees and services	59,871	57,587
Depreciation and amortisation	16,429	16,110
Utilities and maintenance	12,544	9,469
Travel	11,560	11,319
Insurance	7,815	6,664
Transportation	6,894	6,240
Communications	6,637	6,160
Rent	5,065	6,356
Consumables	4,811	4,354
Taxes	2,421	3,029
Other	2,645	2,117
	317,288	**292,539**

6) Research and Development Expenses

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

	2013	2012
Staff costs including social security	6,360	9,535
Professional fees and services	2,758	3,227
Travel	1,340	1,021
Consumables	609	793
Depreciation and amortisation	216	634
Other	1,450	1,382
	12,733	**16,592**

7) Other Operating Expenses

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

	2013	2012
Social and social infrastructure maintenance expenses	19,459	19,133
Sponsorship and charitable donations	14,863	15,201
Penalties, fines and claims	9,224	14,142
Loss on disposal of property, plant and equipment	5,861	17,255
Other	2,694	2,280
	52,101	**68,011**

8) Other Operating Income

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

	2013	2012
Gain from penalties and fines	2,618	5,314
Gain on sales of current assets	67	360
Other	15,094	5,033
	17,779	**10,707**

9) Finance Income

Finance income for the year ended December 31 was as follows:

	2013	2012
Interest income – bank accounts and deposits	4,180	6,720
Dividends	2,984	15,609
	7,164	**22,329**

10) Income Tax

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

	2013	2012
Current income tax expense	77,059	99,338
Adjustments in respect of income tax of previous periods	3,306	2,203
Deferred tax expenses arising from write-down of deferred tax assets	–	207
Deferred tax expense related to origination and reversal of temporary differences	17,478	20,886
Total income tax expense	**97,843**	**122,634**

Profit before tax is reconciled to tax expense as follows:

	2013	2012 (as restated)
Profit before tax	312,383	400,153
Theoretical tax charge at statutory rate in Russia of 20%	62,477	80,031
Adjustments in respect of income tax of previous periods	3,306	2,203
Effect of items which are not deductible for taxation purposes or not taxable	20,021	19,474
Effect of different tax rates in countries other than Russia	10,551	22,584
Tax on dividends distributed by the Group's subsidiaries to parent company	904	2,432
Effect of differences in tax rates on dividend income	(326)	(1,716)
Deferred tax expenses arising from write-down of deferred tax assets	–	207
Increase due to acquisition of subsidiaries	479	–
Effect of unrecognised tax credits, tax losses and temporary differences of previous periods	145	(2,000)
Other	286	(581)
Total income tax expense	**97,843**	**122,634**

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

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

10) Income Tax (continued)

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2012 were as follows:

	2012 (as restated)	**Change recognised in income statement**	**Change recognised in other comprehensive income**	**Acquisition and disposal of subsidiaries**	**Currency translation adjustments**	**2011**
Valuation and depreciation of property, plant and equipment	(298,237)	(1,263)	–	(2,507)	(11,726)	(282,741)
Valuation and amortisation of intangible assets	(38,985)	7,693	–	–	8	(46,686)
Tax losses available for offset	57,318	(38,802)	(12,085)	5,615	4,541	98,049
Provisions and accruals	17,041	2,086	–	–	514	14,441
Finance lease obligations	9,520	2,352	–	–	459	6,709
Valuation of inventory	523	3,562	–	–	(79)	(2,960)
Valuation of accounts receivable	2,175	2,613	–	45	25	(508)
Other	8,430	666	972	–	1	6,791
	(242,215)	**(21,093)**	**(11,113)**	**3,153**	**(6,257)**	**(206,905)**
Reflected in the statement of financial position as follows:						
Deferred tax liability	(302,314)	12,698	588	(233)	(10,582)	(304,785)
Deferred tax asset	60,099	(33,791)	(11,701)	3,386	4,325	97,880

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, 2013, the deferred tax asset for 3,383 (December 31, 2012: 3,646) relating to tax deductible losses incurred in transactions with securities has not been recognised, as it is not probable that sufficient taxable profit on transactions with securities will be available to offset the deductible temporary differences to which the asset relates. Such tax losses are offset only against future taxable profits generated in transactions with securities over the remaining period of one year.

As at December 31, 2013, the Group has not recognised deferred tax liability in respect of 1,372,526 (December 31, 2012: 1,358,448) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

11) Earnings per Share

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

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

11) Earnings per Share (continued)

Earnings per share attributable to equity holders of the parent entity were as follows:

	2013	2012 (as restated)
Profit for the period attributable to the equity holders of the parent entity	213,929	272,587
Weighted average number of ordinary shares outstanding	865,026,466	863,306,943
Earnings per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	**0.25**	**0.32**

In the years ended December 31, 2013 and 2012, the convertible bonds were antidilutive.

12) Acquisition and Disposal of Subsidiaries

Acquisition of Gulf International Pipe Industry LLC

On December 2, 2012, the Group acquired 55% of the voting shares of Gulf International Pipe Industry LLC ("GIPI"), a company based in the Sultanate of Oman and specialising in the manufacture of welded steel pipes.

The following table summarises the purchase consideration for GIPI, the fair value of assets acquired, liabilities assumed and the non-controlling interests at the acquisition date:

	Initial estimation of fair values	Final estimation of fair values
Property, plant and equipment	89,646	93,368
Deferred tax asset	–	3,386
Cash and cash equivalents	591	591
Trade and other receivables	8,326	7,342
Inventories	2,256	1,882
Prepayments	–	872
Other assets	–	112
Total assets	**100,819**	**107,553**
Trade and other payables	(3,782)	(3,782)
Advances from customers	(27)	(27)
Provisions and accruals	(197)	(197)
Interest-bearing loans and borrowings	(97,690)	(97,690)
Employee benefits liability	(603)	(603)
Total liabilities	**(102,299)**	**(102,299)**
Total identifiable net (liabilities)/assets	**(1,480)**	**5,254**
Non-controlling interests	666	(2,364)
Goodwill	**39,945**	**36,241**
Purchase consideration	**(39,131)**	**(39,131)**

The fair value of assets and liabilities of GIPI recognised in the consolidated financial statements for the year ended December 31, 2012 was determined provisionally since the valuation was not completed. In the year ended December 31, 2013, the valuation was finalised and the Group recognised adjustments to the provisional values of identifiable assets and liabilities of the entity. The comparative information in these consolidated financial statements was restated to reflect the adjustments to the provisional amounts.

12) Acquisition and Disposal of Subsidiaries (continued)

Acquisition of Gulf International Pipe Industry LLC (continued)

The cash flows on acquisition were as follows in the years ended December 31:

	2013	2012
Net cash acquired with the subsidiary	–	591
Cash paid	(11,700)	(27,431)
Net cash outflow	**(11,700)**	**(26,840)**

Goodwill was allocated to the Middle East division cash-generating unit, none of the goodwill recognised is expected to be deductible for income tax purposes.

Acquisition-related costs of 1,103 were charged to general and administrative expenses in the consolidated income statement for the year ended December 31, 2012.

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

In April 2013, the Group acquired pipe services and precision manufacturing business located in the U.S. for 26,600. The acquisition will allow the Group to further integrate its operations and meet the pipe service requirements of customers throughout the U.S.

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

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

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

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

From the date of acquisition, the acquiree contributed 17,623 to the revenue of the Group.

12) Acquisition and Disposal of Subsidiaries (continued)

Acquisition of OOO "Uralskiy Dvor"

On August 3, 2012, the Group acquired 100% ownership interest in OOO "Uralskiy Dvor", hotel facilities, for cash consideration of 199,000 thousand Russian roubles (6,130 at the historical exchange rate). The fair value of the net identifiable assets and the liabilities of the acquiree as at the date of acquisition was 2,842, including property, plant and equipment in the amount of 3,296. The excess in the amount of 3,288 of the purchase consideration over the fair value of net assets of OOO "Uralskiy Dvor" was recognised as goodwill. In the year ended December 31, 2012, cash flows on acquisition amounted to 6,177, net of cash acquired of 449.

Disposal of OOO "Skladskoy Kompleks TMK"

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

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

13) Investments in Associates

The movement in investments in associates was as follows:

	2013	2012
Investments in associates as at January 1	1,862	1,717
Share of profit of associates	176	41
Currency translation adjustment	(138)	104
Investments in associates as at December 31	**1,900**	**1,862**

14) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	2013	2012
Russian rouble	62,838	171,689
US dollar	22,490	36,604
Euro	6,609	14,124
Romanian lei	165	707
Other currencies	1,196	1,937
	93,298	**225,061**

The above cash and cash equivalents consisted primarily of cash at banks. As at December 31, 2013, the restricted cash amounted to 7,452 (December 31, 2012: 22,862).

15) Trade and Other Receivables

Trade and other receivables consisted of the following:

	2013	2012
Trade receivables	1,014,149	905,075
Officers and employees	2,890	2,200
Other accounts receivable	14,504	27,449
Gross accounts receivable	**1,031,543**	**934,724**
Allowance for doubtful debts	(36,172)	(20,405)
Net accounts receivable	**995,371**	**914,319**

Accounts receivables in the amount of 106,741 were pledged as security for borrowings as at December 31, 2013 (December 31, 2012: 99,908).

16) Inventories

Inventories consisted of the following:

	2013	2012 (as restated)
Raw materials	287,247	402,994
Work in process	467,909	395,017
Finished goods and finished goods in transit	368,857	338,670
Goods for resale	6,677	4,545
Supplies	216,681	227,747
Gross inventories	**1,347,371**	**1,368,973**
Allowance for net realisable value of inventory	(22,896)	(23,044)
Net inventories	**1,324,475**	**1,345,929**

The amount of inventories carried at net realisable value was 343,047 as at December 31, 2013 (December 31, 2012: 265,926).

As at December 31, 2013 and 2012, certain items of inventory with a carrying amount of 100,000 were pledged as security for borrowings.

16) Inventories (continued)

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

	2013	2012
Balance at the beginning of the year	23,044	15,826
Increase in allowance	1,008	6,399
Currency translation adjustments	(1,156)	819
Balance at the end of the year	**22,896**	**23,044**

17) Prepayments and Input VAT

Prepayments and input VAT consisted of the following:

	2013	2012
Prepayment for VAT, input VAT	79,520	115,777
Prepayment for services, inventories	38,602	45,648
Prepayment for other taxes	13,785	706
Prepayment for insurance	3,890	4,115
Prepayment for property tax	189	416
Prepayment for rent	346	304
Other prepayments	298	952
	136,630	**167,918**

18) Property, Plant and Equipment

Movement in property, plant and equipment for the year ended December 31, 2013 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improve-ments	Construc-tion in progress	TOTAL
COST							
Balance at January 1, 2013 (as restated)	1,397,843	3,066,462	65,938	69,257	18,920	697,932	**5,316,352**
Additions	–	–	–	–	–	516,214	**516,214**
Assets put into operation	124,539	343,396	4,248	10,890	6,554	(489,627)	**–**
Disposals	(4,854)	(34,406)	(1,440)	(1,037)	–	(1,948)	**(43,685)**
Increase due to acquisition of subsidiaries (Note 12)	10,845	10,680	271	882	–	27	**22,705**
Reclassifications	(2,302)	918	1,384	–	–	–	**–**
Currency translation adjustments	(83,394)	(166,431)	(3,012)	(3,817)	(212)	(44,844)	**(301,710)**
BALANCE AT DECEMBER 31, 2013	**1,442,677**	**3,220,619**	**67,389**	**76,175**	**25,262**	**677,754**	**5,509,876**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2013	(262,127)	(1,167,234)	(31,450)	(41,743)	(4,164)	–	**(1,506,718)**
Depreciation charge	(39,618)	(222,556)	(4,361)	(9,879)	(1,440)	–	**(277,854)**
Impairment	(4,243)	–	–	–	–	–	**(4,243)**
Disposals	2,982	28,505	1,164	928	–	–	**33,579**
Reclassifications	133	428	(561)	–	–	–	**–**
Currency translation adjustments	15,868	70,730	1,524	2,556	37	–	**90,715**
BALANCE AT DECEMBER 31, 2013	**(287,005)**	**(1,290,127)**	**(33,684)**	**(48,138)**	**(5,567)**	**–**	**(1,664,521)**
NET BOOK VALUE AT DECEMBER 31, 2013	**1,155,672**	**1,930,492**	**33,705**	**28,037**	**19,695**	**677,754**	**3,845,355**
NET BOOK VALUE AT JANUARY 1, 2013 (as restated)	**1,135,716**	**1,899,228**	**34,488**	**27,514**	**14,756**	**697,932**	**3,809,634**

18) Property, Plant and Equipment (continued)

Movement in property, plant and equipment for the year ended December 31, 2012 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, 2012	1,251,585	2,664,393	59,453	54,878	12,860	495,403	**4,538,572**
Additions	–	–	–	–	–	487,206	**487,206**
Assets put into operation	63,821	226,949	4,662	12,386	5,953	(313,771)	**–**
Disposals	(4,103)	(26,541)	(879)	(949)	–	(527)	**(32,999)**
Increase due to acquisition of subsidiaries (Note 12)	21,573	74,849	90	152	–	–	**96,664**
Currency translation adjustments	64,967	126,812	2,612	2,790	107	29,621	**226,909**
BALANCE AT DECEMBER 31, 2012 (as restated)	**1,397,843**	**3,066,462**	**65,938**	**69,257**	**18,920**	**697,932**	**5,316,352**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2012	(206,163)	(922,159)	(26,792)	(32,430)	(3,380)	–	**(1,190,924)**
Depreciation charge	(38,011)	(212,704)	(4,174)	(8,390)	(760)	–	**(264,039)**
Impairment	(8,406)	–	–	–	–	–	**(8,406)**
Disposals	1,534	16,067	792	831	–	–	**19,224**
Currency translation adjustments	(11,081)	(48,438)	(1,276)	(1,754)	(24)	–	**(62,573)**
BALANCE AT DECEMBER 31, 2012	**(262,127)**	**(1,167,234)**	**(31,450)**	**(41,743)**	**(4,164)**	**–**	**(1,506,718)**
NET BOOK VALUE AT DECEMBER 31, 2012 (as restated)	**1,135,716**	**1,899,228**	**34,488**	**27,514**	**14,756**	**697,932**	**3,809,634**
NET BOOK VALUE AT JANUARY 1, 2012	**1,045,422**	**1,742,234**	**32,661**	**22,448**	**9,480**	**495,403**	**3,347,648**

As at December 31, 2013, bank borrowings were secured by properties and equipment with a carrying value of 117,945 (December 31, 2012: 401,813).

As at December 31, 2013, there were indicators of impairment of certain property in the Russia operating segment, therefore, the Group performed an impairment test in respect of these assets. As a result of the test, the Group determined that the carrying value of the property exceeds its recoverable amount. Resulting impairment loss of 4,243 was recognised in the income statement for the year ended December 31, 2013 (December 31, 2012: 8,406).

Capitalised Borrowing Costs

The Group has the combination of borrowings, that are specific to the acquisition and construction of a particular qualifying asset, and general borrowings. The amount of borrowing costs capitalised during the year ended December 31, 2013 was 16,972 (2012: 3,274). The rate of the specific borrowing used to determine the amount of capitalised borrowing costs was 5.19% in the years ended December 31, 2013 and 2012; the capitalisation rate relating to general borrowings was 6.52%.

19) Goodwill and Other Intangible Assets

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

	Patents and trademarks	Goodwill	Software	Customer relation-ships	Proprietary technology	Other	TOTAL
COST							
Balance at January 1, 2013 (as restated)	209,746	607,742	23,420	472,300	14,104	7,380	**1,334,692**
Additions	606	–	88	–	–	2,690	**3,384**
Disposals	(1)	–	–	–	–	(905)	**(906)**
Increase due to acquisition of subsidiaries (Note 12)	1,606	–	–	–	–	–	**1,606**
Currency translation adjustments	(76)	(6,401)	(1,650)	–	(4)	(566)	**(8,697)**
BALANCE AT DECEMBER 31, 2013	**211,881**	**601,341**	**21,858**	**472,300**	**14,100**	**8,599**	**1,330,079**
ACCUMULATED AMORTISATION AND IMPAIRMENT							
Balance at January 1, 2013	(370)	(16,548)	(18,025)	(341,374)	(8,024)	(2,555)	**(386,896)**
Amortisation charge	(111)	–	(4,128)	(41,344)	(1,762)	(1,757)	**(49,102)**
Impairment	–	(1,080)					**(1,080)**
Disposals	1	–	–	–	–	525	**526**
Currency translation adjustments	24	1,191	1,380	–	–	210	**2,805**
BALANCE AT DECEMBER 31, 2013	**(456)**	**(16,437)**	**(20,773)**	**(382,718)**	**(9,786)**	**(3,577)**	**(433,747)**
NET BOOK VALUE AT DECEMBER 31, 2013	**211,425**	**584,904**	**1,085**	**89,582**	**4,314**	**5,022**	**896,332**
NET BOOK VALUE AT JANUARY 1, 2013 (as restated)	**209,376**	**591,194**	**5,395**	**130,926**	**6,080**	**4,825**	**947,796**

Movement in intangible assets for the year ended December 31, 2012 was as follows:

	Patents and trademarks	Goodwill	Software	Customer relation-ships	Proprietary technology	Backlog	Other	TOTAL
COST								
Balance at January 1, 2012	209,541	562,823	21,542	472,300	14,100	8,500	6,274	**1,295,080**
Additions	175	–	590	–	4	–	1,624	**2,393**
Disposals	(16)	–	(8)	–	–	(8,500)	(1,798)	**(10,322)**
Increase due to acquisition of subsidiaries (Note 12)	–	39,529	–	–	–	–	–	**39,529**
Currency translation adjustments	46	5,390	1,296	–	–	–	1,280	**8,012**
BALANCE AT DECEMBER 31, 2012 (as restated)	**209,746**	**607,742**	**23,420**	**472,300**	**14,104**	**–**	**7,380**	**1,334,692**
ACCUMULATED AMORTISATION AND IMPAIRMENT								
Balance at January 1, 2012	(294)	(15,612)	(12,303)	(290,074)	(6,261)	(8,500)	(1,562)	**(334,606)**
Amortisation charge	(79)	–	(4,882)	(51,300)	(1,763)	–	(1,589)	**(59,613)**
Disposals	16	–	8	–	–	8,500	709	**9,233**
Currency translation adjustments	(13)	(936)	(848)	–	–	–	(113)	**(1,910)**
BALANCE AT DECEMBER 31, 2012	**(370)**	**(16,548)**	**(18,025)**	**(341,374)**	**(8,024)**	**–**	**(2,555)**	**(386,896)**
NET BOOK VALUE AT DECEMBER 31, 2012	**209,376**	**591,194**	**5,395**	**130,926**	**6,080**	**–**	**4,825**	**947,796**
NET BOOK VALUE AT JANUARY 1, 2012 (as restated)	**209,247**	**547,211**	**9,239**	**182,226**	**7,839**	**–**	**4,712**	**960,474**

19) Goodwill and Other Intangible Assets (continued)

Customer relationships represent non-contracted interactions with clients. Remaining amortisation period for customer relationships is 3-5 years. Customer relationships are amortised using the diminishing balance method which reflects the pattern of consumption of the economic benefits that customer relationships provide.

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

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (December 31, 2012: 208,700).

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

	2013		2012 (as restated)	
	Goodwill	**Intangible assets with indefinite useful lives**	**Goodwill**	**Intangible assets with indefinite useful lives**
American division	472,968	208,700	472,968	208,700
Middle East division	36,241	–	36,241	–
Oilfield division	29,468	–	31,755	–
European division	6,566	–	6,329	–
Kaztrubprom Plant	4,784	–	5,155	–
Other cash-generating units	34,877	–	38,746	–
	584,904	**208,700**	**591,194**	**208,700**

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

Goodwill and intangible assets with indefinite useful lives were tested for impairment as at December 31, 2013. As a result of the test, the Group recognised the impairment loss of 1,080 in respect of OOO “Uralskiy Dvor” goodwill in the income statement for the year ended December 31, 2013.

For the purpose of impairment testing of goodwill the Group has determined value in use of each of its cash-generating units. The value in use has been calculated using cash flow projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash-generating unit or group of cash-generating units. The key assumptions used by management in calculation of the value in use are presented in the table below. For the periods not covered by management plans, cash flow projections have been estimated by extrapolating the respective business plans taking into account business cycles using zero growth rate.

Cash-generating units	**Period of forecast, years**	**Pre-tax discount rate, %**
American division	5	11.38%
Middle East division	5	10.26%
Oilfield division	5	12.52%
European division	5	13.28%
Kaztrubprom Plant	5	11.78%
Other cash-generating units	5	11.97%-13.50%

19) Goodwill and Other Intangible Assets (continued)

Value in use of American division, which carries significant goodwill and intangible assets with indefinite useful lives, approximates 1,270,592. Value in use of the American division exceeds its carrying amount by 15,373. The reasonably possible deviations of assumptions from the underlying business plans could affect the recoverable amount of American division. American division recoverable amount was the most sensitive to the growth of discount rate, changes in sales volumes, prices and costs. A 10% increase in the discount rate would cause the impairment of goodwill in the amount of 112,618. A 5% rise in costs or a decrease in sales volume by 5% or a decrease in sales prices by 5% would result in the impairment of goodwill and intangible assets with indefinite useful lives in full amount.

20) Other Non-Current Assets

Other non-current assets consisted of the following:

	2013	2012
Prepayments for acquisition of property, plant and equipment	34,987	93,576
Long-term trade receivables	13,356	18,272
Loans to employees	5,193	6,958
Restricted cash deposits for fulfillment of guaranties	351	2,749
Other	15,184	14,990
	69,071	**136,545**
Allowance for doubtful debts	(18,819)	(22,354)
	50,252	**114,191**

21) Trade and Other Payables

Trade and other payables consisted of the following:

	2013	2012
Trade payables	708,350	612,038
Accounts payable for property, plant and equipment	64,763	47,748
Payroll liabilities	31,685	31,064
Liabilities for VAT	32,880	58,709
Accrued and withheld taxes on payroll	16,123	17,628
Liabilities for property tax	16,898	14,314
Liabilities under put options of non-controlling interest shareholders in subsidiaries	9,323	12,433
Sales rebate payable	8,601	9,152
Notes issued to third parties	5,353	5,386
Liabilities for other taxes	1,840	2,903
Other payables	48,349	44,194
	944,165	**855,569**

22) Provisions and Accruals

Provisions and accruals consisted of the following:

	2013	2012
Current:		
Provision for bonuses	16,816	26,527
Accrual for long-service bonuses	15,286	14,447
Current portion of employee benefits liability	6,215	5,042
Accrual for unused annual leaves, current portion	4,213	3,930
Environmental provision, current portion	1,510	964
Other provisions	7,144	4,610
	51,184	**55,520**
Non-current:		
Accrual for unused annual leaves	22,515	22,245
Environmental provision	3,887	3,094
Provision for bonuses	2,532	3,277
Other provisions	4,393	677
	33,327	**29,293**

23) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	2013	2012
Current:		
Bank loans	69,647	44,398
Interest payable	32,735	30,019
Current portion of non-current borrowings	292,522	418,738
Current portion of bearer coupon debt securities	–	574,569
Unamortised debt issue costs	(963)	(2,680)
Total short-term loans and borrowings	**393,941**	**1,065,044**
Non-current:		
Bank loans	2,139,397	2,697,918
Bearer coupon debt securities	1,412,500	1,074,568
Unamortised debt issue costs	(11,298)	(11,552)
Less: current portion of non-current borrowings	(292,522)	(418,738)
Less: current portion of bearer coupon debt securities	–	(574,569)
Total long-term loans and borrowings	**3,248,077**	**2,767,627**

23) Interest-Bearing Loans and Borrowings (continued)

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

	Interest rates for the period	2013	Interest rates for the period	2012
Russian rouble	Fixed 7.35%-9.6%	1,183,323	Fixed 8.5%-9.6%	1,776,496
US dollar	Fixed 5.25%	415,508	Fixed 5.25%	412,401
	Fixed 6.75%	504,693		
	Fixed 7.75%	513,951	Fixed 7.75%	513,423
	Fixed 4.99%-5.8%	407,578	Fixed 7%	401,222
			Cost of funds + 3% (*)	2,939
	Variable:	484,711	Variable:	527,617
	Libor (1m) + 2.25%-3%		Libor (1m) + 2%-3%	
	Libor (3m-12m) + 1.4%-4.5%		Libor (3m-12m) + 0.8%-4%	
Euro	Fixed 5.19%	38,157	Fixed 5.19%	55,084
	Variable:	93,989	Variable:	136,627
	Euribor (1m) + 1.9%-4%		Euribor (1m) + 3.5%-4%	
	Euribor (3m) + 1.7%-3%		Euribor (3m) + 1.7%-4%	
	Euribor (6m) + 0.9%		Euribor (6m) + 0.26%-0.9%	
Romanian lei	Robor (6m) + 3%	108	Robor (6m) + 3%	147
Omani rial		–	Fixed 8%	6,715
		3,642,018		**3,832,671**

(*) Cost of funds represents internal rate of a bank.

Loan Participation Notes

On April 3, 2013, TMK Capital S.A., the Group's structured entity, completed the offering of loan participation notes due 2020 in the total amount of 500,000 with a coupon of 6.75% per annum, payable on semi-annual basis. The notes are admitted for trading on the Irish Stock Exchange. Proceeds from the issue of the notes were used to repay existing bank loans.

Russian Bonds

On October 22, 2013, the Group fully redeemed 5,000,000 thousand Russian rouble bonds issued on October 26, 2010 (156,733 at the exchange rate as at the payment date) using the proceeds from a loan provided by Gazprombank.

Unutilised Borrowing Facilities

As at December 31, 2013, the Group had unutilised borrowing facilities in the amount of 1,619,478 (December 31, 2012: 1,536,687).

24) Convertible Bonds

On February 11, 2010, TMK Bonds S.A., the Group's structured entity, completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAO TMK. The bonds are listed on the London Stock Exchange. The bonds have nominal value of 100,000 US dollars each and were issued at 100% of their principal amount. The convertible bonds carry a coupon of 5.25% per annum, payable on a quarterly basis. As at December 31, 2013, the bonds were convertible into GDRs at conversion price of 22.137 US dollars per GDR (December 31, 2012: 22.308 US dollars per GDR). The conversion price was adjusted as a result of dividends in respect of 2012 distributed by the parent entity.

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

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

The Embedded Conversion Option in foreign currency was classified as financial instrument at fair value through profit or loss. The Embedded Conversion Option was initially recognised at the fair value of 35,455. The Group used binomial options pricing model for initial and subsequent measurement of fair value of this embedded derivative. For the purposes of this model, the Group assessed that the credit spread comprised 410 bps and 673 bps as at December 31, 2013 and December 31, 2012, respectively. As at December 31, 2013, the fair value of the Embedded Conversion Option was 2,080 (December 31, 2012: 10,490). The change in the fair value of the embedded derivative during the reporting period resulted in a gain of 8,410 (2012: loss of 7,466), which has been recorded as gain/(loss) on changes in fair value of derivative financial instruments in the income statement.

The fair value of the host component at the initial recognition date has been determined as a residual amount after deducting the fair value of the Embedded Conversion Option from the issue price of the convertible bonds adjusted for transaction costs. The host component is subsequently carried at the amortised cost using the effective interest method. As at December 31, 2013, the carrying value of the host component was 415,508 (December 31, 2012: 412,401).

As at December 31, 2012, the bond liability was recorded as short-term loans and borrowings due to the bondholder's right to request redemption of the bonds on February 11, 2013. No bonds were redeemed during the eligible period and the full issue remained outstanding. As a result, the bond liability was included in long-term loans and borrowings as at December 31, 2013.

There were no conversions of the bonds during the year ended December 31, 2013.

25) Finance Lease Liability

The Group's finance lease obligations primarily related to machinery, equipment and motor vehicles with certain leases having renewal and purchase options at the end of lease term.

The carrying value of the leased assets was as follows as at December 31:

	2013	2012
Machinery and equipment	40,362	42,761
Transport and motor vehicles	668	651
	41,030	**43,412**

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

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

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

Future minimum lease payments were as follows as at December 31, 2012:

	Minimum payments	Present value of payments
2013	5,150	3,198
2014-2017	19,160	12,629
after 2017	43,348	36,416
Total minimum lease payments	**67,658**	**52,243**
Less amounts representing finance charges	(15,415)	–
Present value of minimum lease payments	**52,243**	**52,243**

26) 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.

26) Employee Benefits Liability (continued)

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

	Russia		USA		Others		Total	
	2013	2012 (as restated)	2013	2012	2013	2012 (as restated)	2013	2012 (as restated)
Movement in the benefit liability:								
At January 1	**53,861**	**53,483**	**2,557**	**1,521**	**1,896**	**824**	**58,314**	**55,828**
Current service cost	2,261	1,909	574	509	415	62	3,250	2,480
Interest expense	3,698	4,517	98	73	58	130	3,854	4,720
Past service cost	(2,793)	218	–	–	–	53	(2,793)	271
Curtailment gain	–	–	(585)	–	–	–	(585)	–
Net benefit expense recognised in profit or loss	**3,166**	**6,644**	**87**	**582**	**473**	**245**	**3,726**	**7,471**
(Gains)/losses arising from changes in demographic assumptions	1,794	(3,155)	(3)	–	–	–	1,791	(3,155)
(Gains)/losses arising from changes in financial assumptions	(4,428)	264	(191)	454	209	28	(4,410)	746
Experience (gains)/losses	(698)	(2,380)	9	–	40	229	(649)	(2,151)
Actuarial (gains)/losses recognised in other comprehensive (income)/loss	**(3,332)**	**(5,271)**	**(185)**	**454**	**249**	**257**	**(3,268)**	**(4,560)**
Benefits paid	(3,675)	(4,047)	(29)	–	(119)	(245)	(3,823)	(4,292)
Increase due to acquisition of subsidiaries (Note 12)	–	–	–	–	–	603	–	603
Exchange differences	(3,775)	3,052	–	–	17	11	(3,758)	3,063
Other	–	–	–	–	91	201	91	201
At December 31	**46,245**	**53,861**	**2,430**	**2,557**	**2,607**	**1,896**	**51,282**	**58,314**
Short-term	**4,935**	**4,671**	**1,093**	**–**	**187**	**371**	**6,215**	**5,042**
Long-term	**41,310**	**49,190**	**1,337**	**2,557**	**2,420**	**1,525**	**45,067**	**53,272**

Net benefit expense was recognised as cost of sales, general and administrative expenses and selling and distribution expenses in the income statement for the years ended December 31, 2013 and 2012. Actuarial gains/(losses) for post-employment benefits were recognised in other comprehensive income/(loss).

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

	Russia		USA		Others	
	2013	2012	2013	2012	2013	2012
Discount rate	8.0%	7.3%	4.95%	4.4%	3.7%-3.8%	6.3%
Inflation	5.0%	5.3%	–	–	3.5%	4.95%
Average long-term rate of compensation increase	6.6%	6.4%	4%	3.5%	1.4%-2.1%	4.3%-4.5%
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	1.0%	1.0%

A quantitative sensitivity analysis for significant assumptions as at December 31, 2013 is provided below:

	Volatility range		Russia Effect on obligation increase/(decrease)		USA Effect on obligation increase/(decrease)		Others Effect on obligation increase/(decrease)	
	Low	High	Low	High	Low	High	Low	High
Discount rate	-1%	1%	4,461	(3,972)	229	(190)	7	(7)
Inflation	-1%	1%	(4,094)	4,583	–	–	(41)	47
Average long-term rate of compensation increase	-1%	1%	(1,467)	1,650	(58)	60	(184)	214
Turnover	-3%	1%-3%	7,852	(5,561)	30	(28)	241	(532)

27) Other Non-Current Liabilities

Other non-current liabilities consisted of the following:

	2013	2012
Liabilities under put options of non-controlling interest shareholders in subsidiaries	31,697	25,648
Derivative financial instruments	3,501	3,950
Deferred government grants	2,138	2,334
Other long-term liabilities	8,779	10,924
	46,115	**42,856**

28) 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 2013	Effective ownership interest 2012
Manufacturing facilities			
OAO "Seversky Tube Works"	Russia	96.33%	96.33%
OAO "Sinarsky Pipe Plant"	Russia	97.28%	97.28%
OAO "Taganrog Metallurgical Works"	Russia	96.38%	96.38%
OAO "Volzhsky Pipe Plant"	Russia	100.00%	100.00%
OOO "TMK-INOX" *	Russia	49.61%	49.61%
ZAO "TMK-CPW" *	Russia	49.13%	49.13%
OAO "Orsky Machine Building Plant"	Russia	75.00%	75.00%
IPSCO Tubulars Inc.	USA	100.00%	100.00%
IPSCO Koppel Tubulars, L.L.C.	USA	100.00%	100.00%
IPSCO Tubulars (KY) Inc.	USA	100.00%	100.00%
IPSCO Tubulars (OK) Inc.	USA	100.00%	100.00%
Ultra Premium Oilfield Services, Ltd	USA	100.00%	100.00%
S.C. TMK-ARTROM S.A.	Romania	92.73%	92.73%
S.C. TMK-RESITA S.A.	Romania	100.00%	100.00%
TOO "TMK-Kaztrubprom"	Kazakhstan	100.00%	100.00%
Gulf International Pipe Industry LLC	Oman	55.00%	55.00%
Services for oilfield and gas industries			
OOO "Predpriyatiye "Truboplast"	Russia	100.00%	100.00%
TMK NGS-Nizhnevartovsk (former ZAO "Pipe Repair Department")	Russia	100.00%	100.00%
LLC TMK NGS - Buzuluk (former OOO "Central Pipe Yard")	Russia	100.00%	100.00%
OFS International LLC	USA	75.00%	75.00%
Threading & Precision Manufacturing LLC	USA	75.00%	0.00%
Independent Inspection Services LLC	USA	75.00%	0.00%
Trading companies			
ZAO "Trade House TMK"	Russia	100.00%	100.00%
TMK IPSCO INTERNATIONAL, L.L.C.	USA	100.00%	100.00%
TMK IPSCO Canada, Ltd.	Canada	100.00%	100.00%
TMK Europe GmbH	Germany	100.00%	100.00%
TMK Italia s.r.l.	Italy	100.00%	100.00%
TMK Middle East FZCO	UAE	100.00%	100.00%
TOO "TMK-Kazakhstan"	Kazakhstan	100.00%	100.00%
TMK Global S.A.	Switzerland	100.00%	100.00%
Research and development			
OAO "Russian Research Institute of the Tube and Pipe Industries"	Russia	97.36%	97.36%
TMK R&D	Russia	100.00%	0.00%

* The Group recorded a liability under put option in the consolidated financial statements

28) Interests in Subsidiaries (continued)

Non-controlling Interests

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

Company	2013		2012 (as restated)	
	Non-controlling interest, %	**Non-controlling interest in net assets**	**Non-controlling interest, %**	**Non-controlling interest in net assets**
OAO "Sinarskaya heat and power plant"	33.08%	20,740	33.08%	22,452
Gulf International Pipe Industry LLC	45.00%	17,838	45.00%	19,099
OAO "Seversky Tube Works"	3.67%	12,720	3.67%	14,538
OAO "Sinarsky Pipe Plant"	2.72%	11,272	2.72%	11,406
OAO "Orsky Machine Building Plant"	25.00%	11,270	25.00%	11,767
OAO "Taganrog Metallurgical Works"	3.62%	10,971	3.62%	11,484
S.C. TMK-ARTROM S.A.	7.27%	8,716	7.27%	8,032
Other	–	2,300	–	90
		95,827		**98,868**

29) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

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

The compensation to key management personnel comprised of:

- Wages, salaries, social security contributions and other short-term benefits in the amount of 19,166 for the year ended December 31, 2013 (2012: 14,855);
- Provision for performance bonuses in the amount of 5,029 for the year ended December 31, 2013 (2012: 5,032).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the years ended December 31, 2013 and 2012.

The balance of loans issued to key management personnel amounted to 1,055 as at December 31, 2013 (December 31, 2012: 1,194). The Group guaranteed debts of key management personnel outstanding as at December 31, 2013 in the amount of 2,323 with maturity in 2014-2016 (December 31, 2012: 2,582). In the year ended December 31, 2013, other transactions with key management personnel amounted to 555.

Transactions with the Parent of the Company

In November 2012, the Group approved the distribution of interim dividends in respect of 2012, from which 1,008,046 thousand Russian roubles (32,138 at the exchange rate at the date of approval) related to the parent of the Company. In January 2013, these dividends were paid in full amount.

29) Related Parties Disclosures (continued)

Transactions with the Parent of the Company (continued)

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

In November 2013, the Group approved interim dividends in respect of six months 2013, from which 698,912 thousand Russian roubles (21,473 at the exchange rate at the date of approval) related to the parent of the Company. As at December 31, 2013, no interim dividends were paid.

On April 16, 2013, the Group increased share capital of the subsidiary, OFS Development S.a r.l. The share capital increase was partially financed by the parent of the Company, an owner of non-controlling interest in OFS Development S.a r.l. Consideration received from the parent of the Company amounted to 2,525.

Transactions with Associates

In the years ended December 31, 2013 and 2012, the Group received services from its associates in the amount of 883 and 566, respectively.

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

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

	2013	2012
Cash and cash equivalents	3,730	43,548
Accounts receivable	4,576	1,992
Prepayments	30	16
Accounts payable for raw materials	(79,154)	(41,383)
Other accounts payable	(643)	(12,531)
Advances received	(6)	–

On October 18, 2012, the Group acquired three real estate companies in Romania whose principal assets comprised of office building, residential property and land for 11,586 (at the historical exchange rate). The acquired buildings and land were considered an asset acquisition. The most part of consideration was payable to the related party of the Group in order to settle the liability of the acquired companies. The liability of the acquired companies in the amount of 11,685 (at exchange rate as at December 31, 2012) was included in accounts payable to related parties in the statement of financial position.

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

	2013	2012
Purchases of raw materials	606,506	680,322
Purchases of other goods and services	9,377	8,083
Sales revenue	11,382	14,217
Interest income	86	647
Interest expenses	–	27

30) Contingencies and Commitments

Operating Environment of the Group

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

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government. The Russian economy is vulnerable to market downturns and global economic slowdowns. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

The US economic activity continues to expand at a moderate pace: activity in the industrial sector has risen modestly; businesses keep hiring at a modest pace. The specialists forecast the pace of economic recovery will gradually pick up over the next few years, with a gradual decline in unemployment and gradual improvement in consumption growth. An uncertainty over the US economic growth could have a negative impact on the Group's future financial position, results of operations and business prospects.

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

Taxation

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

Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 348,414 thousand Russian roubles (10,645 at the exchange rate as at December 31, 2013). Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in additional 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, 2013.

Contractual Commitments and Guarantees

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amounts of 199,567 and 263,743 as at December 31, 2013 and 2012, respectively (contractual commitments were expressed net of VAT).

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 28,777 (December 31, 2012: 33,492).

30) 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, 2013 in the amount of 2,805 (December 31, 2012: 3,275).

31) Equity

i) Share Capital

	2013	2012
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	937,586,094	937,586,094
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	937,586,094	937,586,094

ii) 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.

iii) Dividends Declared by the Parent Entity to its Shareholders

On June 25, 2013, the annual shareholder meeting approved final dividends in respect of 2012 in the amount of 787,572 thousand Russian roubles (23,931 at the exchange rate at the date of approval) or 0.84 Russian roubles per share (0.03 US dollars per share), from which 60,950 thousand Russian roubles (1,852 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

31) Equity (continued)

iii) Dividends Declared by the Parent Entity to its Shareholders (continued)

On November 11, 2013, the extraordinary shareholders' meeting approved interim dividends in respect of six months 2013 in the amount of 975,090 thousand Russian roubles (29,959 at the exchange rate at the date of approval) or 1.04 Russian roubles per share (0.03 US dollars per share), from which 75,462 thousand Russian roubles (2,319 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

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

During the years ended December 31, 2013 and 2012, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 1,554 and 1,571, respectively.

v) Acquisition of Non-controlling Interests in Subsidiaries

In the year ended December 31, 2012, the Company purchased additional 0.74% of OAO "Seversky Tube Works" shares, 0.57% of OAO "Sinarsky Pipe Plant" shares and 0.25% of OAO "Taganrog Metallurgical Works" shares for cash consideration of 4,160. The excess in the amount of 1,711 of the carrying values of net assets attributable to the acquired interests over the consideration paid was recorded in additional paid-in capital.

vi) Acquisition of Non-controlling Interests in Subsidiaries in Exchange for Treasury Shares

In the year ended December 31, 2012, the Company acquired 0.96% of OAO "Seversky Tube Works" shares and 2.31% of OAO "Sinarsky Pipe Plant" shares in exchange for 1,860,868 treasury shares of the Company. The excess in the amount of 4,900 of the carrying values of net assets attributable to the acquired interests over the value of treasury shares transferred (Note 31 ix) was recorded in additional paid-in capital.

vii) Contributions from Non-controlling Interest Owners

On December 24, 2012, the Group increased share capital of Gulf International Pipe Industry LLC. The share capital increase was partially financed by the non-controlling interest shareholders. Consideration received from the non-controlling interest shareholders amounted to 16,245 and comprised of cash in the amount of 10,265 and loans converted into the share capital in the amount of 5,980.

31) Equity (continued)

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

Non-controlling interest shareholder of OOO "TMK-INOX" has a right to sell its ownership interest to the Group under certain circumstances beyond the Group's control starting 2018. The terms of the put option do not provide the Group with a present ownership interest in the shares subject to the put, thus the Group accounted for this put option as the following:

- the Group derecognised the non-controlling interest's share of loss in OOO "TMK-INOX", net of dividends attributable, in the amount of 217 in the year ended December 31, 2013 as if it was acquired at that date (2012: profit of 557);
- the Group recorded change in the fair value of financial liability in respect of put option held by non-controlling interest shareholder of OOO "TMK-INOX" and accounted for the difference between the non-controlling interest in OOO "TMK-INOX" derecognised and the change in fair value of financial liability in the amount of 8,113 in retained earnings (2012: 2,857).

ix) Treasury Shares

	2013		2012	
	Number of shares	Cost	Number of shares	Cost
Outstanding as at January 1	72,559,628	319,149	74,420,496	327,339
Treasury shares transferred as consideration for the acquisition of non-controlling interests (Note 31 vi)	–	–	(1,860,868)	(8,190)
Outstanding as at December 31	**72,559,628**	**319,149**	**72,559,628**	**319,149**

x) Derecognition of Non-controlling Interests Due to the Expiration of Subscription Rights

In the year ended December 31, 2012, the Group derecognised the non-controlling interests in SC TMK-ARTROM SA in the amount of 73 as a result of the expiration of subscription rights.

xi) Hedges of Net Investment in Foreign Operations

As at December 31, 2013, a proportion of the Group's US dollar-denominated borrowing in the amount of 1,197,710 (December 31, 2012: 1,158,610) 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, 2013, the effective portion of net losses from spot rate changes in the amount of 2,551,380 thousand Russian roubles (81,742 at historical exchange rates), net of income tax of 510,276 thousand Russian roubles (16,348 at historical exchange rates), was recognised in other comprehensive income.

31) Equity (continued)

xii) Movement on Cash Flow Hedges

The Group hedges its exposure to foreign currency risk using currency forwards and its exposure to variability in cash flows attributable to interest rate risk using interest rate swaps.

The details of movement on cash flow hedges during the years ended December 31, 2013 and 2012 are presented in the following table:

	Currency forward contracts		Interest rate swap contracts		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Cash flow hedges						
Gain(loss) arising during the period	103	(665)	(47)	(3,950)	56	(4,615)
Recognition of realised results in the income statement	(49)	617	539	–	490	617
Movement on cash flow hedges	**54**	**(48)**	**492**	**(3,950)**	**546**	**(3,998)**
Income tax	(8)	5	(155)	967	(163)	972
Movement on cash flow hedges, net of tax	**46**	**(43)**	**337**	**(2,983)**	**383**	**(3,026)**

32) 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 other price risk), liquidity risk and credit risk. The presented information shows susceptibility of the Group concerning each of these risks. The Board of Directors reviews and establishes policies for managing each of these risks which are summarised below.

Market Risk

The Group is exposed to risk from movements in interest rates, 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.

32) Financial Risk Management Objectives and Policies (continued)

Interest Rate Risk (continued)

The Group borrows on both a fixed and variable rate basis. EURIBOR and LIBOR served as the basis for the calculation of interest rates on loans with variable rate. The Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. Variable rate loans accounted for 9% of the total loan portfolio at the end of 2013, after taking into account the effect of interest rate swaps (11% at the end of 2012).

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. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Basis points	Effect on profit before tax
As at December 31, 2013		
Increase in LIBOR	3	(76)
Decrease in LIBOR	(3)	76
Increase in EURIBOR	13	(119)
Decrease in EURIBOR	(13)	119
As at December 31, 2012		
Increase in LIBOR	5	(128)
Decrease in LIBOR	(5)	128
Increase in EURIBOR	16	(225)
Decrease in EURIBOR	(16)	225

Foreign Currency Risk

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

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

	2013	2012
USD/RUR	(1,731,183)	(1,320,539)
EUR/RUR	(94,785)	(144,625)
USD/EUR	23,877	3,864
USD/RON	(14,185)	(12,699)
EUR/RON	(84,008)	(59,464)
KZT/RUR	8,700	3,414
USD/CAD	(9,441)	(5,458)

32) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

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

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 before tax and other comprehensive income. The movement in other comprehensive income 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 31 xi). In estimating reasonably possible changes for 2013 and 2012 the Group assessed the volatility of foreign exchange rates during the three years preceding the end of the reporting period.

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

	As at December 31, 2012					
	Volatility range		Effect on profit before tax		Effect on other comprehensive income	
	Low	High	Low	High	Low	High
USD/RUR	10.81%	-10.81%	(29,492)	29,492	(113,304)	113,304
EUR/RUR	8.45%	-8.45%	(12,221)	12,221	–	–
USD/EUR	10.72%	-10.72%	414	(414)	–	–
USD/RON	12.73%	-12.73%	(1,617)	1,617	–	–
EUR/RON	4.45%	-4.45%	(2,645)	2,645	–	–
KZT/RUR	10.45%	-10.45%	357	(357)	–	–
USD/CAD	9%	-9%	(492)	492	–	–

Other Price Risk

Other 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.

32) Financial Risk Management Objectives and Policies (continued)

Other Price Risk (continued)

The Group's exposure to other price risk relates to changes of the fair value of the Embedded Conversion Option (Note 24) as a result of fluctuations of GDR's quotations. The Group manages its exposure to other price risk by holding treasury shares in the quantity corresponding to the number of shares in which convertible bonds are convertible. The reasonably possible changes in the price of underlying GDRs, with all other variables held constant, would have an effect on the Group's profit before tax. In estimating reasonably possible fluctuations of GDR's quotations, the Group assessed the volatility of GDRs during the year ended December 31, 2013. A 36.06% increase to the value of GDR as at December 31, 2013 would reduce profit before tax by 9,878. A 36.06% decrease from the value of GDR as at December 31, 2013 would result in the increase of profit before tax by 2,080.

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.

32) 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:

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

As at December 31, 2012	less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	TOTAL
Trade and other payables	712,010	–	–	–	–	**712,010**
Accounts payable to related parties	87,103	–	–	–	–	**87,103**
Interest-bearing loans and borrowings:						
Principal	1,040,259	761,742	586,044	631,393	800,000	**3,819,438**
Interest	241,556	172,557	133,389	86,714	60,418	**694,634**
Finance lease liability	5,150	4,861	4,888	4,781	47,978	**67,658**
Dividends payable	303	–	–	–	–	**303**
Liabilities under put options of non-controlling interest shareholders in subsidiaries	12,433	–	–	–	25,648	**38,081**
Other non-current liabilities	–	427	314	1,152	9,031	**10,924**
	2,098,814	**939,587**	**724,635**	**724,040**	**943,075**	**5,430,151**

Credit Risk

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

32) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

As at December 31, 2013, accounts receivable from the three biggest debtors of the Group amounted to 317,162 (December 31, 2012: 270,423). Management determines concentration by reference to receivables from particular customers as percentage of total accounts receivable.

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

	2013		2012	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
Current trade and other receivables – not past due	781,817	(4,459)	679,590	(420)
Current trade and other receivables – past due				
less than 30 days	85,771	(546)	137,564	(884)
between 30 and 90 days	85,486	(702)	60,129	(630)
over 90 days	73,861	(30,433)	55,449	(18,471)
Accounts receivable from related parties – not past due	4,608	(32)	1,992	–
Non-current trade and other receivables – not past due	27,072	(18,819)	32,959	(22,354)
Other - not past due	5,712	–	9,807	–
	1,064,327	**(54,991)**	**977,490**	**(42,759)**

Movement in allowance for doubtful debts was as follows:

	2013	2012
Balance at the beginning of the year	42,759	31,782
Utilised during the year	(800)	(2,068)
Additional increase in allowance	16,032	11,061
Currency translation adjustment	(3,000)	1,984
Balance at the end of the year	**54,991**	**42,759**

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 2013, the Group was in compliance with such externally imposed capital requirements. The Group met its objectives for managing capital.

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

32) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments Carried at Fair Value

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

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

	2013	2012
Embedded Conversion Option (Note 24)	(2,080)	(10,490)
Foreign exchange forward contracts	–	(30)
Total current derivative financial instruments	**(2,080)**	**(10,520)**
Interest rate swaps	(3,501)	(3,950)
Total non-current derivative financial instruments	**(3,501)**	**(3,950)**
Foreign exchange forward contracts	–	15
Total current assets measured at fair value	**–**	**15**

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

The Group provided the disclosure of the valuation technique used for the fair value measurement of the Embedded Conversion Option in Note 24.

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

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

Fair Value of Financial Instruments not Carried at Fair Value

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

32) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments not Carried at Fair Value (continued)

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

	2013		2012	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial liabilities				
Fixed rate long-term bank loans	1,489,452	1,489,888	2,046,239	2,043,917
Variable rate long-term bank loans	497,756	480,429	397,937	386,896
5.25 per cent convertible bonds	412,500	415,993	409,946	411,560
6.75 per cent loan participation notes due 2020	500,000	506,755	–	–
7.75 per cent loan participation notes due 2018	500,000	523,315	500,000	527,000
Russian bonds due 2013	–	–	164,622	164,786

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.