OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Three-month period ended March 31, 2013

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Three-month period ended March 31, 2013

Contents

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

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

Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors OAO TMK

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of OAO TMK and its subsidiaries ("Group") as of March 31, 2013 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and condensed explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

May 29, 2013

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Unaudited Interim Consolidated Income Statement

Three-month period ended March 31, 2013

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

	NOTES	Three-month period ended March 31, 2013	2012
Revenue:	1	1,724,700	1,658,582
Sales of goods		*1,696,595*	*1,626,194*
Rendering of services		*28,105*	*32,388*
Cost of sales	2	(1,355,255)	(1,247,202)
Gross profit		**369,445**	**411,380**
Selling and distribution expenses	3	(93,460)	(119,695)
Advertising and promotion expenses	4	(2,942)	(1,956)
General and administrative expenses	5	(80,589)	(72,076)
Research and development expenses	6	(2,703)	(4,566)
Other operating expenses	7	(11,732)	(10,887)
Other operating income	8	1,674	2,236
Foreign exchange (loss)/gain, net		(4,619)	31,362
Finance costs		(71,827)	(77,309)
Finance income	9	2,078	2,248
Gain/(loss) on changes in fair value of derivative financial instruments		4,801	(9,164)
Share of loss of associates	13	(218)	(344)
Gain on disposal of subsidiary	12	1,862	–
Profit before tax		**111,770**	**151,229**
Income tax expense	10	(26,505)	(45,846)
Profit for the period		**85,265**	**105,383**
Attributable to:			
Equity holders of the parent entity		83,229	103,762
Non-controlling interests		2,036	1,621
		85,265	**105,383**
Earnings per share attributable to equity holders of the parent entity (in US dollars)			
Basic	11	**0.10**	**0.12**
Diluted	11	**0.10**	**0.10**

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

OAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income

Three-month period ended March 31, 2013

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31, 2013	2012
Profit for the period		**85,265**	**105,383**
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation to presentation currency [(a)]		(29,780)	64,398
Foreign currency (loss)/gain on hedged net investment in foreign operation [(b)]	25 (ii)	(24,391)	109,792
Income tax [(b)]	25 (ii)	4,878	(21,958)
		(19,513)	**87,834**
Movement on cash flow hedges [(a)]	25 (iv)	62	101
Income tax [(a)]	25 (iv)	(17)	34
		45	**135**
Other comprehensive income/(loss) for the period, net of tax		**(49,248)**	**152,367**
Total comprehensive income/(loss) for the period, net of tax		**36,017**	**257,750**
Attributable to:			
Equity holders of the parent entity		35,820	247,792
Non-controlling interests		197	9,958
		36,017	**257,750**

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

	Three-month period ended March 31, 2013	2012
Exchange differences on translation to presentation currency attributable to:		
Equity holders of the parent entity	(27,939)	56,082
Non-controlling interests	(1,841)	8,316
	(29,780)	**64,398**
Movement on cash flow hedges attributable to:		
Equity holders of the parent entity	43	114
Non-controlling interests	2	21
	45	**135**

(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.

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

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Unaudited Interim Consolidated Statement of Financial Position

At March 31, 2013

(All amounts in thousands of US dollars)

	NOTES	March 31, 2013		December 31, 2012 (as restated*)	
ASSETS					
Current assets					
Cash and cash equivalents	14, 23	117,749		225,061	
Trade and other receivables		1,020,002		912,327	
Accounts receivable from related parties	23	3,038		2,008	
Inventories	15	1,252,167		1,345,929	
Prepayments and input VAT		137,188		167,902	
Prepaid income taxes		21,021		12,447	
Other financial assets		4,259	**2,555,424**	4,008	**2,669,682**
Non-current assets					
Investments in associates	13	1,607		1,862	
Property, plant and equipment	16	3,752,837		3,809,634	
Goodwill	17	591,118		593,057	
Intangible assets	17	344,854		356,602	
Deferred tax asset		50,390		56,713	
Other non-current assets		105,822	**4,846,628**	114,191	**4,932,059**
TOTAL ASSETS			**7,402,052**		**7,601,741**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	18	827,662		855,569	
Advances from customers		92,955		189,693	
Accounts payable to related parties	23	41,804		87,103	
Provisions and accruals	19	29,720		55,520	
Interest-bearing loans and borrowings	20, 21	1,052,885		1,065,044	
Finance lease liability		3,176		3,198	
Derivative financial instruments	22	5,659		10,520	
Dividends payable		287		303	
Income tax payable		6,120	**2,060,268**	8,281	**2,275,231**
Non-current liabilities					
Interest-bearing loans and borrowings	20, 21	2,745,292		2,767,627	
Finance lease liability		47,720		49,045	
Deferred tax liability		300,894		302,314	
Provisions and accruals	19	34,851		29,293	
Employee benefits liability		52,905		53,272	
Other liabilities		42,002	**3,223,664**	42,856	**3,244,407**
Total liabilities			**5,283,932**		**5,519,638**
Equity	25				
Parent shareholders' equity					
Issued capital		326,417		326,417	
Treasury shares		(319,149)		(319,149)	
Additional paid-in capital		388,335		388,335	
Reserve capital		16,390		16,390	
Retained earnings		1,666,865		1,583,858	
Foreign currency translation reserve		(57,248)		(9,796)	
Other reserves		(1,254)	2,020,356	(1,297)	1,984,758
Non-controlling interests			97,764		97,345
Total equity			**2,118,120**		**2,082,103**
TOTAL EQUITY AND LIABILITIES			**7,402,052**		**7,601,741**

* Certain amounts shown here do not correspond to the annual 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 unaudited interim condensed consolidated financial statements.

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Unaudited Interim Consolidated Statement of Changes in Equity

Three-month period ended March 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 reported)	**326,417**	**(319,149)**	**388,335**	**16,390**	**1,586,794**	**(9,796)**	**(3,023)**	**1,985,968**	**95,927**	**2,081,895**
Adjustments to provisional values (Note 12)	–	–	–	–	–	–	–	–	1,507	**1,507**
Changes in accounting policies	–	–	–	–	(2,936)	–	1,726	**(1,210)**	(89)	**(1,299)**
At January 1, 2013 (as restated)	**326,417**	**(319,149)**	**388,335**	**16,390**	**1,583,858**	**(9,796)**	**(1,297)**	**1,984,758**	**97,345**	**2,082,103**
Profit for the period	–	–	–	–	83,229	–	–	**83,229**	2,036	**85,265**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(47,452)	43	**(47,409)**	(1,839)	**(49,248)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**83,229**	**(47,452)**	**43**	**35,820**	**197**	**36,017**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 25 iii)	–	–	–	–	(222)	–	–	**(222)**	222	**–**
At March 31, 2013	**326,417**	**(319,149)**	**388,335**	**16,390**	**1,666,865**	**(57,248)**	**(1,254)**	**2,020,356**	**97,764**	**2,118,120**

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

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Unaudited Interim Consolidated Statement of Changes in Equity

Three-month period ended March 31, 2013 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent								Non-controlling interests	TOTAL
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves	Total		
At January 1, 2012 (as reported)	**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	–	–	–	–	103,762	–	–	**103,762**	1,621	**105,383**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	143,916	114	**144,030**	8,337	**152,367**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**103,762**	**143,916**	**114**	**247,792**	**9,958**	**257,750**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	98	–	–	–	–	**98**	(98)	**–**
Acquisition of non-controlling interests in subsidiaries	–	–	16	–	–	–	–	**16**	(91)	**(75)**
At March 31, 2012	326,417	(327,339)	384,695	16,390	1,526,573	55,365	(2,470)	1,979,631	101,529	**2,081,160**

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

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Unaudited Interim Consolidated Cash Flow Statement

Three-month period ended March 31, 2013

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31, 2013	2012
Operating activities			
Profit before tax		111,770	151,229
Adjustments to reconcile profit before tax to operating cash flows:			
Depreciation of property, plant and equipment		68,570	65,458
Amortisation of intangible assets	17	12,233	15,004
Loss on disposal of property, plant and equipment	7	2,146	1,468
Foreign exchange loss/(gain), net		4,619	(31,362)
Finance costs		71,827	77,309
Finance income	9	(2,078)	(2,248)
Gain on disposal of subsidiary	12	(1,862)	–
(Gain)/loss on changes in fair value of derivative financial instruments		(4,801)	9,164
Share of loss of associates	13	218	344
Allowance for net realisable value of inventory		662	84
Allowance for doubtful debts		988	4,056
Movement in provisions		(18,316)	(13,579)
Operating cash flows before working capital changes		**245,976**	**276,927**
Working capital changes:			
Decrease/(increase) in inventories		64,994	(56,272)
Increase in trade and other receivables		(141,759)	(10,208)
Decrease in prepayments		26,226	9,599
Increase/(decrease) in trade and other payables		12,667	(17,837)
(Decrease)/increase in advances from customers		(94,535)	17,652
Cash generated from operations		**113,569**	**219,861**
Income taxes paid		(24,740)	(10,701)
Net cash flows from operating activities		**88,829**	**209,160**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(92,808)	(96,880)
Proceeds from sale of property, plant and equipment		354	302
Acquisition of subsidiary	12	(8,000)	–
Disposal of subsidiary	12	(1,906)	–
Issuance of loans		(261)	(352)
Proceeds from repayment of loans issued		679	384
Interest received		1,246	2,084
Net cash flows used in investing activities		**(100,696)**	**(94,462)**
Financing activities			
Proceeds from borrowings		146,314	73,511
Repayment of borrowings		(132,084)	(132,619)
Interest paid		(73,113)	(74,755)
Payment of finance lease liabilities		(1,239)	(1,162)
Acquisition of non-controlling interests		–	(75)
Dividends paid to equity holders of the parent		(31,569)	–
Net cash flows used in financing activities		**(91,691)**	**(135,100)**
Net decrease in cash and cash equivalents		(103,558)	(20,402)
Net foreign exchange difference		(3,754)	8,368
Cash and cash equivalents at January 1		225,061	230,593
Cash and cash equivalents at March 31		**117,749**	**218,559**

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

Corporate Information

These interim condensed consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the three-month period ended March 31, 2013 were authorised for issue in accordance with a resolution of the General Director on May 29, 2013.

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 March 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

Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2012. Operating results for the three-month period ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

Changes in Accounting Policies

In the preparation of these interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2012, except for the effect of adoption of new International Financial Reporting Standards ("IFRS") and revision of existing standards and interpretations. The nature and the impact of changes in accounting policies of the Group resulting from the adoption of new and revised standards, which became effective on January 1, 2013, is described below:

Basis of Preparation (continued)

Changes in Accounting Policies (continued)

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 special purpose 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. A number of new disclosures are also required. None of these disclosure requirements are applicable for the interim condensed consolidated financial statements, unless significant events and transactions in the interim period require that they are provided. Accordingly, the Group has not made such disclosures.

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*. Some of these disclosures are specifically required for financial instruments by IAS 34 *Interim Financial Reporting*, thereby affecting the interim condensed consolidated financial statements. The Group provides these disclosures in Note 22.

Basis of Preparation (continued)

Changes in Accounting Policies (continued)

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.

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 on these interim consolidated financial statements was as follows:

- employee benefits liability increased by 1,299 as at January 1, 2013 and 2012;
- retained earnings attributable to equity holders of the parent reduced by 2,936 as at January 1, 2013 (as at January 1, 2012: increased by 1,374);
- other reserves increased by 1,726 as at January 1, 2013 (as at January 1, 2012: decreased by 2,584); and
- balance of non-controlling interests decreased by 89 as at January 1, 2013 and 2012.

Basis of Preparation (continued)

Changes in Accounting Policies (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 International Accounting Standards Board 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.

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

Index to the Notes

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

1) Segment Information

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

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

Management amended the definition of Adjusted EBITDA by including accruals of bonuses to management and employees into calculation of Adjusted EBITDA 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 interim consolidated financial statements was adjusted accordingly.

The following tables present revenue and profit information regarding the Group's reportable segments for the three-month periods ended March 31, 2013 and 2012, respectively.

Three-month period ended March 31, 2013	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	1,276,744	368,853	79,103	**1,724,700**
Cost of sales	(955,656)	(332,520)	(67,079)	**(1,355,255)**
GROSS PROFIT	**321,088**	**36,333**	**12,024**	**369,445**
Selling, general and administrative expenses	(132,613)	(38,091)	(8,990)	**(179,694)**
Other operating income/(expenses), net	(8,168)	(1,656)	(234)	**(10,058)**
OPERATING PROFIT/(LOSS)	**180,307**	**(3,414)**	**2,800**	**179,693**
ADD BACK:				
Depreciation and amortisation	57,570	20,381	2,852	**80,803**
Loss on disposal of property, plant and equipment	1,642	491	13	**2,146**
Allowance for net realisable value of inventory	(325)	984	3	**662**
Allowance for doubtful debts	640	353	(5)	**988**
Movement in other provisions	6,916	1,262	190	**8,368**
	66,443	**23,471**	**3,053**	**92,967**
ADJUSTED EBITDA	**246,750**	**20,057**	**5,853**	**272,660**

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

1) Segment Information (continued)

Three-month period ended March 31, 2013	**Russia**	**Americas**	**Europe**	**TOTAL**
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**246,750**	**20,057**	**5,853**	**272,660**
Reversal of adjustments from operating profit to EBITDA	(66,443)	(23,471)	(3,053)	**(92,967)**
OPERATING PROFIT/(LOSS)	**180,307**	**(3,414)**	**2,800**	**179,693**
Foreign exchange gain/(loss), net	(4,902)	(218)	501	**(4,619)**
OPERATING PROFIT/(LOSS) AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**175,405**	**(3,632)**	**3,301**	**175,074**
Finance costs				**(71,827)**
Finance income				**2,078**
Gain on changes in fair value of derivative financial instruments				**4,801**
Share of loss of associates				**(218)**
Gain on disposal of subsidiary				**1,862**
PROFIT BEFORE TAX				**111,770**

Three-month period ended March 31, 2012	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	1,132,654	439,563	86,365	**1,658,582**
Cost of sales	(848,903)	(333,575)	(64,724)	**(1,247,202)**
GROSS PROFIT	**283,751**	**105,988**	**21,641**	**411,380**
Selling, general and administrative expenses	(152,636)	(35,856)	(9,801)	**(198,293)**
Other operating income/(expenses), net	(7,511)	(1,001)	(139)	**(8,651)**
OPERATING PROFIT/(LOSS)	**123,604**	**69,131**	**11,701**	**204,436**
ADD BACK:				
Depreciation and amortisation	54,250	23,060	3,152	**80,462**
Loss on disposal of property, plant and equipment	355	1,051	62	**1,468**
Allowance for net realisable value of inventory	701	(594)	(23)	**84**
Allowance for doubtful debts	4,257	(749)	548	**4,056**
Movement in other provisions	3,765	473	(147)	**4,091**
	63,328	**23,241**	**3,592**	**90,161**
ADJUSTED EBITDA	**186,932**	**92,372**	**15,293**	**294,597**

Three-month period ended March 31, 2012	**Russia**	**Americas**	**Europe**	**TOTAL**
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**186,932**	**92,372**	**15,293**	**294,597**
Reversal of adjustments from operating profit to EBITDA	(63,328)	(23,241)	(3,592)	**(90,161)**
OPERATING PROFIT/(LOSS)	**123,604**	**69,131**	**11,701**	**204,436**
Foreign exchange gain/(loss), net	31,799	930	(1,367)	**31,362**
OPERATING PROFIT/(LOSS) AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**155,403**	**70,061**	**10,334**	**235,798**
Finance costs				**(77,309)**
Finance income				**2,248**
Loss on changes in fair value of derivative financial instruments				**(9,164)**
Share of loss of associates				**(344)**
PROFIT BEFORE TAX				**151,229**

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

1) Segment Information (continued)

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

Segment assets	Russia	Americas	Europe	TOTAL
At March 31, 2013	5,100,611	1,881,416	420,025	**7,402,052**
At December 31, 2012	5,299,417	1,863,149	439,175	**7,601,741**

The following table presents the revenues from external customers for each group of products and services for the three-month periods ended March 31, 2013 and 2012, respectively:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Three-month period ended March 31, 2013	1,084,475	563,330	76,895	**1,724,700**
Three-month period ended March 31, 2012	1,059,231	526,182	73,169	**1,658,582**

2) Cost of Sales

Cost of sales for the three-month period ended March 31 consisted of the following:

	2013	2012
Raw materials and consumables	880,286	914,104
Staff costs including social security	187,257	178,176
Energy and utilities	112,541	106,930
Depreciation and amortisation	66,357	63,655
Repairs and maintenance	33,824	35,062
Contracted manufacture	21,616	17,272
Freight	18,329	17,004
Taxes	13,518	13,075
Professional fees and services	8,435	10,571
Rent	2,971	2,836
Travel	731	584
Insurance	287	254
Communications	231	353
Other	4,852	1,209
Total production cost	**1,351,235**	**1,361,085**
Change in own finished goods and work in progress	(5,227)	(120,663)
Cost of sales of externally purchased goods	8,612	6,491
Obsolete stock, write-offs	635	289
Cost of sales	**1,355,255**	**1,247,202**

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

3) Selling and Distribution Expenses

Selling and distribution expenses for the three-month period ended March 31 consisted of the following:

	2013	2012
Freight	48,351	72,477
Staff costs including social security	17,045	16,465
Depreciation and amortisation	10,849	13,373
Consumables	5,884	5,408
Professional fees and services	4,725	2,935
Bad debt expense	1,908	4,189
Rent	1,900	1,830
Travel	983	1,111
Utilities and maintenance	549	605
Communications	335	340
Insurance	277	326
Other	654	636
	93,460	**119,695**

4) Advertising and Promotion Expenses

Advertising and promotion expenses for the three-month period ended March 31 consisted of the following:

	2013	2012
Exhibits and catalogues	1,855	1,455
Outdoor advertising	729	–
Media	202	246
Other	156	255
	2,942	**1,956**

5) General and Administrative Expenses

General and administrative expenses for the three-month period ended March 31 consisted of the following:

	2013	2012
Staff costs including social security	48,460	41,563
Professional fees and services	13,695	13,226
Depreciation and amortisation	4,073	3,716
Utilities and maintenance	2,614	2,795
Travel	2,592	2,168
Communications	1,822	1,627
Insurance	1,731	1,709
Transportation	1,690	1,658
Rent	1,423	1,327
Consumables	1,078	832
Taxes	715	907
Other	696	548
	80,589	**72,076**

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

6) Research and Development Expenses

Research and development expenses for the three-month period ended March 31 consisted of the following:

	2013	2012
Staff costs including social security	1,585	3,104
Travel	269	267
Professional fees and services	233	272
Consumables	116	195
Depreciation and amortisation	56	247
Other	444	481
	2,703	**4,566**

7) Other Operating Expenses

Other operating expenses for the three-month period ended March 31 consisted of the following:

	2013	2012
Social and social infrastructure maintenance expenses	3,938	3,788
Sponsorship and charitable donations	3,002	3,911
Penalties, fines and claims	2,266	946
Loss on disposal of property, plant and equipment	2,146	1,468
Other	380	774
	11,732	**10,887**

8) Other Operating Income

Other operating income for the three-month period ended March 31 consisted of the following:

	2013	2012
Gain from penalties and fines	1,049	760
Other	625	1,476
	1,674	**2,236**

9) Finance Income

Finance income for the three-month period ended March 31 consisted of the following:

	2013	2012
Interest income – bank accounts and deposits	1,395	2,248
Dividends	683	–-
	2,078	**2,248**

10) Income Tax

Income tax expense for the three-month period ended March 31 consisted of the following:

	2013	2012
Current income tax expense	13,700	28,427
Adjustments in respect of income tax of previous years	499	(1)
Deferred tax expenses related to origination and reversal of temporary differences	12,306	17,420
Total income tax expense	**26,505**	**45,846**

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

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.

In calculation of diluted earnings per share, the denominator represents the weighted average number of ordinary shares which could be outstanding assuming that all of the convertible bonds were converted into ordinary shares (Note 21).

Earnings per share attributable to equity holders of the parent entity, basic and diluted for the three-month period ended March 31 were as follows:

	Three-month period ended March 31,	
	2013	**2012**
Profit for the period attributable to the equity holders of the parent entity	83,229	103,762
Effect of convertible bonds, net of tax (if dilutive)	–	(12,938)
Profit for the period attributable to the equity holders of the parent entity adjusted for the effect of dilution	83,229	90,824
Weighted average number of ordinary shares outstanding	865,026,466	863,165,598
Weighted average number of ordinary shares outstanding adjusted for the effect of dilution (where convertible bonds were dilutive)	865,026,466	935,133,146
Earnings per share attributable to the equity holders of the parent entity (in US dollars)		
Basic	0.10	0.12
Diluted	0.10	0.10

In the three-month period ended March 31, 2013, the convertible bonds were antidilutive as the interest expense and other gains and losses for the period, net of tax, relating to convertible bonds divided by the number of ordinary shares obtainable on the conversion of the convertible bonds exceeded basic earnings per share.

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.

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

12) Acquisition and Disposal of Subsidiaries (continued)

Acquisition of Gulf International Pipe Industry LLC (continued)

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
Cash and cash equivalents	591	591
Property, plant and equipment	89,646	93,368
Trade and other receivables	8,326	7,342
Prepayments	–	872
Inventories	2,256	1,882
Other assets	–	112
Total assets	**100,819**	**104,167**
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)**	**1,868**
Non-controlling interests	666	(841)
Goodwill	**39,945**	**38,104**
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. Up to the date of authorisation of these consolidated financial statements for issuance 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 interim consolidated financial statements was restated to reflect the adjustments to the provisional amounts.

In January-February 2013, the Group paid 8,000 of purchase consideration for the acquisition of GIPI. As at March 31, 2013, the unpaid amount of the purchase consideration was 3,700.

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

12) Acquisition and Disposal of Subsidiaries (continued)

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 in the three-month period ended March 31, 2013:

	Volgograd River Port
Investments in associates as at January 01, 2013	1,862
Share of loss of associate	(218)
Currency translation adjustment	(37)
Investments in associates as at March 31, 2013	**1,607**

14) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	March 31, 2013	**December 31, 2012**
Russian rouble	82,911	171,689
US dollar	23,183	36,604
Euro	7,173	14,124
Romanian lei	1,256	707
Other currencies	3,226	1,937
	117,749	**225,061**

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

As at March 31, 2013, the amount of cash and cash equivalents included 18,242 which is available to finance investing activities only (December 31, 2012: 22,862).

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

15) Inventories

Inventories consisted of the following:

	March 31, 2013	December 31, 2012 (as restated)
Finished goods and work in process	751,767	738,781
Raw materials and supplies	523,468	630,742
Gross inventories	**1,275,235**	**1,369,523**
Allowance for net realisable value of inventory	(23,068)	(23,594)
Net inventories	**1,252,167**	**1,345,929**

16) Property, Plant and Equipment

Movement in property, plant and equipment was as follows in the three-month period ended March 31, 2013:

	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	–	–	–	–	–	90,067	**90,067**
Assets put into operation	6,303	38,807	1,208	1,773	1,067	(49,158)	**–**
Disposals	(195)	(4,215)	(541)	(218)	–	(48)	**(5,217)**
Reclassifications	–	(1,384)	1,384	–	–	–	**–**
Currency translation adjustments	(29,833)	(59,958)	(1,635)	(1,280)	(67)	(14,994)	**(107,767)**
BALANCE AT MARCH 31, 2013	**1,374,118**	**3,039,712**	**66,354**	**69,532**	**19,920**	**723,799**	**5,293,435**
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	(9,848)	(55,442)	(1,157)	(2,455)	(227)	–	**(69,129)**
Disposals	57	3,113	392	166	–	–	**3,728**
Reclassifications	–	561	(561)	–	–	–	**–**
Currency translation adjustments	5,800	24,617	226	866	12	–	**31,521**
BALANCE AT MARCH 31, 2013	**(266,118)**	**(1,194,385)**	**(32,550)**	**(43,166)**	**(4,379)**	**–**	**(1,540,598)**
NET BOOK VALUE AT MARCH 31, 2013	**1,108,000**	**1,845,327**	**33,804**	**26,366**	**15,541**	**723,799**	**3,752,837**
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**

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

17) Goodwill and Other Intangible Assets

Movement in intangible assets was as follows in the three-month period ended March 31, 2013:

	Patents and trademarks	Goodwill	Software	Customer relation-ships	Proprietary technology	Other	TOTAL
COST							
Balance at January 1, 2013 (as restated)	209,746	609,605	23,420	472,300	14,104	7,380	**1,336,555**
Additions	7	–	–	–	–	1,070	**1,077**
Disposals	–	–	–	–	–	(462)	**(462)**
Currency translation adjustments	(25)	(2,317)	(539)	–	(4)	(177)	**(3,062)**
BALANCE AT MARCH 31, 2013	**209,728**	**607,288**	**22,881**	**472,300**	**14,100**	**7,811**	**1,334,108**
ACCUMULATED AMORTISATION AND IMPAIRMENT							
Balance at January 1, 2013	(370)	(16,548)	(18,025)	(341,374)	(8,024)	(2,555)	**(386,896)**
Amortisation charge	(19)	–	(1,056)	(10,334)	(441)	(383)	**(12,233)**
Disposals	–	–	–	–	–	104	**104**
Currency translation adjustments	10	378	437	–	–	64	**889**
BALANCE AT MARCH 31, 2013	**(379)**	**(16,170)**	**(18,644)**	**(351,708)**	**(8,465)**	**(2,770)**	**(398,136)**
NET BOOK VALUE AT MARCH 31, 2013	**209,349**	**591,118**	**4,237**	**120,592**	**5,635**	**5,041**	**935,972**
NET BOOK VALUE AT JANUARY 1, 2013 (as restated)	**209,376**	**593,057**	**5,395**	**130,926**	**6,080**	**4,825**	**949,659**

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

	March 31, 2013		December 31, 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	38,104	–	38,104	–
Oilfield division	31,029	–	31,755	–
European division	6,119	–	6,329	–
Kaztrubprom Plant	5,038	–	5,155	–
Other cash-generating units	37,860	–	38,746	–
	591,118	**208,700**	**593,057**	**208,700**

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. At March 31, 2013, there were no indicators of impairment of cash generating units.

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

18) Trade and Other Payables

Trade and other payables consisted of the following:

	March 31, 2013	December 31, 2012
Trade payables	598,348	612,038
Liabilities for VAT	47,189	58,709
Accounts payable for property, plant and equipment	41,557	47,748
Payroll liabilities	33,277	31,064
Liabilities for property tax	20,545	14,314
Accrued and withheld taxes on payroll	19,101	17,628
Liabilities under put options of non-controlling interest shareholders in subsidiaries	12,453	12,433
Sales rebate payable	10,171	9,152
Notes issued to third parties	4,690	5,386
Liabilities for other taxes	1,942	2,903
Other payables	38,389	44,194
	827,662	**855,569**

19) Provisions and Accruals

Provisions and accruals consisted of the following:

	March 31, 2013	December 31, 2012
Current:		
Provision for bonuses	9,028	26,527
Accrual for unused annual leaves, current portion	5,014	3,930
Current portion of employee benefits liability	4,749	5,042
Accrual for long-service bonuses	4,618	14,447
Environmental provision, current portion	960	964
Other provisions	5,351	4,610
	29,720	**55,520**
Non-current:		
Accrual for unused annual leaves	27,491	22,245
Provision for bonuses	3,701	3,277
Environmental provision	3,106	3,094
Other provisions	553	677
	34,851	**29,293**

20) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	March 31, 2013	December 31, 2012
Current:		
Bank loans	64,233	44,398
Interest payable	23,546	30,019
Current portion of non-current borrowings	805,963	418,738
Current portion of bearer coupon debt securities	160,858	574,569
Unamortised debt issue costs	(1,715)	(2,680)
Total short-term loans and borrowings	**1,052,885**	**1,065,044**
Non-current:		
Bank loans	2,648,652	2,697,918
Bearer coupon debt securities	1,073,358	1,074,568
Unamortised debt issue costs	(9,897)	(11,552)
Less: current portion of non-current borrowings	(805,963)	(418,738)
Less: current portion of bearer coupon debt securities	(160,858)	(574,569)
Total long-term loans and borrowings	**2,745,292**	**2,767,627**

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

20) 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	March 31, 2013	Interest rates for the period	December 31, 2012
Russian rouble	Fixed 7.75% - 9.6%	1,768,084	Fixed 8.5% - 9.6%	1,776,496
US dollar	Fixed 5.25%	415,508	Fixed 5.25%	412,401
	Fixed 7.75%	503,863	Fixed 7.75%	513,423
	Fixed 7%	400,450	Fixed 7%	401,222
			Cost of funds + 3% (*)	2,939
	Variable:	530,026	Variable:	527,617
	Libor (1m) + 2% - 3%		Libor (1m) + 2% - 3%	
	Libor (3m - 12m) + 1.3% - 4%		Libor (3m - 12m) + 0.8% - 4%	
Euro	Fixed 5.19%	42,025	Fixed 5.19%	55,084
	Variable:	131,604	Variable:	136,627
	Euribor (1m) + 3.5% - 4%		Euribor (1m) + 3.5% - 4%	
	Euribor (3m) + 1.7% - 3.5%		Euribor (3m) + 1.7% - 4%	
	Euribor (6m) + 0.26% - 1.1%		Euribor (6m) + 0.26% - 0.9%	
Romanian lei	Robor (6m) + 3%	161	Robor (6m) + 3%	147
Omani rial	Fixed 6%	6,456	Fixed 8%	6,715
		3,798,177		**3,832,671**

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

Unutilised Borrowing Facilities

As at March 31, 2013, the Group had unutilised borrowing facilities in the amount of 1,007,568 (December 31, 2012: 1,536,687).

21) Convertible Bonds

On February 11, 2010, TMK Bonds S.A., the Group's special purpose 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 March 31, 2013 and December 31, 2012, the bonds are convertible into GDRs at conversion price of 22.308 US dollars per GDR.

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

21) Convertible Bonds (continued)

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 546 bps and 673 bps as at March 31, 2013 and December 31, 2012, respectively. As at March 31, 2013, the fair value of the Embedded Conversion Option was 5,659 (December 31, 2012: 10,490). The change in the fair value of the embedded derivative during the reporting period resulted in a gain of 4,831 (three-month period ended March 31, 2012: loss of 9,164), 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 March 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 March 31, 2013.

There were no conversions of the bonds during the three-month period ended March 31, 2013.

22) Fair Value of Financial Instruments

Fair Value of Financial Instruments Carried at Fair Value

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

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

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

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

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

22) Fair Value of Financial Instruments (continued)

Fair Value of Financial Instruments Carried at Fair Value (continued)

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

	March 31, 2013	December 31, 2012
Foreign exchange forward contracts	1	15
Total current assets measured at fair value	**1**	**15**
Embedded Conversion Option	(5,659)	(10,490)
Foreign exchange forward contracts	–	(30)
Total current derivative financial instruments	**(5,659)**	**(10,520)**
Interest rate swaps	(3,934)	(3,950)
Total non-current derivative financial instruments	**(3,934)**	**(3,950)**

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 21.

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) it was assumed that the carrying amounts approximated to their fair value.

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

	March 31, 2013		December 31, 2012	
	Net carrying amount	Fair value	Net carrying amount	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,632,140	1,629,409	2,046,239	2,043,917
Variable rate long-term bank loans	426,507	409,036	397,937	386,896
Russian bonds due 2013	160,858	160,858	164,622	164,786
5.25 per cent convertible bonds	412,500	407,608	409,946	411,560
7.75 per cent loan participation notes due 2018	500,000	530,315	500,000	527,000

22) Fair Value of Financial Instruments (continued)

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

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.

23) 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, totaling 33 persons as at March 31, 2013 (31 persons as at December 31, 2012).

The Group provides compensation to key management personnel only in the form of short-term employee benefits, which include:

- Wages, salaries, social security contributions and other benefits in the amount of 4,049 for the three-month period ended March 31, 2013 (three-month period ended March 31, 2012: 2,997).
- Provision for performance bonuses which are dependent on operating results for 2013 year in the amount of 1,397 for the three-month period ended March 31, 2013 (three-month period ended March 31, 2012: 1,319).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the three-month periods ended March 31, 2013 and March 31, 2012.

In the periods ended March 31, 2013 and 2012, the Group did not provide compensation to key management personnel in the form of post-employment benefits, other long-term benefits, share-based payments or termination benefits.

The balance of loans issued to key management personnel amounted to 1,093 as at March 31, 2013 (December 31, 2012: 1,194).

The Group guaranteed debts of key management personnel outstanding as at March 31, 2013 in the amount of 2,342 with maturity in 2014-2016 (December 31, 2012: 2,582).

Transactions with the Parent of the Company and Entities under Common Control 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 and entities under common control with the parent of the Company. In January 2013, these dividends were paid in full amount.

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

23) Related Parties Disclosures (continued)

Transactions with Other Related Parties

The following table provides outstanding balances with other related parties:

	March 31, 2013	December 31, 2012
Cash and cash equivalents	8,023	43,548
Accounts receivable	2,975	1,992
Prepayments	63	16
Accounts payable	(41,804)	(53,914)

Accounts payable to related parties included accounts payable for raw materials in the amount of 41,014 as at March 31, 2013 (December 31, 2012: 41,383).

The following table provides the total amount of transactions with other related parties for the three-month period ended March 31:

	2013	2012
Purchases of goods and services	142,603	123,164
Sales revenue	2,729	2,629
Interest income from loans and borrowings	78	526

Purchases of goods and services from related parties during the three-month period ended March 31, 2013 included purchases of raw materials in the amount of 140,592 (three-month period ended March 31, 2012: 121,198).

24) 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 economy stays on a moderate growth path: activity in the industrial sector remains tenuous, businesses keep hiring at a modest pace. The specialists forecast little improvement in consumption growth, significantly reduced growth in investments in equipment and software and reduced growth in industrial production. 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.

24) Contingencies and Commitments (continued)

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 had not been finalised for the claims in the amount of 47,716 thousand Russian roubles (1,535 at the exchange rate as at March 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 tax claims being contested by the Group were not accrued in the consolidated financial statements for the three-month period ended March 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 219,574 and 263,743 as at March 31, 2013 and December 31, 2012, respectively (contractual commitments were expressed net of VAT). As at March 31, 2013, the Group had advances of 86,421 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2012: 93,576). These advances were included in other non-current assets.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 48,357 (December 31, 2012: 33,492).

Insurance Policies

The Group currently 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 results of operations or financial position of the Group.

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding at March 31, 2013 in the amount of 2,947 (December 31, 2012: 3,275).

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

25) Equity

i) Share Capital

	March 31, 2013	December 31, 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) Hedges of Net Investment in Foreign Operations

At the date of the acquisition of controlling interests in NS Group, Inc. and IPSCO Tubulars, Inc. the Group hedged its net investment in these operations against foreign currency risk using borrowings in US dollars made by Russian companies of the Group. As at March 31, 2013, the Group designated US dollar denominated loans in the amount of 1,158,610 as the hedging instrument.

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 three-month period ended March 31, 2013, the effective portion of losses from spot rate changes in the amount of 741,841 thousand Russian roubles (24,391 at historical exchange rate), net of income tax of 148,368 thousand Russian roubles (4,878 at historical exchange rate), was recognised in other comprehensive income.

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

In the three-month period ended March 31, 2013, the non-controlling interest's share of loss in OOO "TMK-INOX" amounted to 222. This amount was charged to retained earnings.

iv) 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 three-month period ended March 31, 2013 are presented in the following table:

	Currency forward contracts	Interest rate swap contracts	TOTAL
Cash flow hedges			
Gain/(loss) arising during the period	64	(122)	(58)
Recognition of realised results in the income statement	(18)	138	120
Movement on cash flow hedges	**46**	**16**	**62**
Income tax	(2)	(15)	(17)
Movement on cash flow hedges, net of tax	**44**	**1**	**45**

26) Subsequent Events

Loan Participation Notes

On April 3, 2013, TMK Capital S.A. 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.

Acquisition of Gulf International Pipe Industry LLC

In April 2013, the Group paid the remaining 3,700 of purchase consideration for the acquisition of Gulf International Pipe Industry LLC.

Dividends Proposed by the Parent Entity to its Shareholders

On May 16, 2013, the Board of Directors proposed final dividends in respect of 2012 in the amount of 787,572 thousand Russian roubles (25,059 at the exchange rate at the date of proposal) or 0.84 Russian roubles per share (0.03 US dollars per share). Dividends are to be approved by the Annual General Meeting of Shareholders on June 25, 2013.

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

In April 2013, the Group acquired pipe services and precision manufacturing assets located in the U.S. for 27 million US dollars. The newly acquired assets will allow the Group to further integrate its operations and meet the pipe service requirements of customers throughout the U.S.