OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 2013

OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 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 June 30, 2013 and the related interim consolidated statements of income and comprehensive income for the three-month and six-month periods then ended, interim consolidated statements of changes in equity and cash flows for the six-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

August 26, 2013

OAO TMK

Unaudited Interim Consolidated Income Statement

Six-month period ended June 30, 2013

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

	NOTES	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012	Three-month period ended June 30, 2013	Three-month period ended June 30, 2012
Revenue:	1	3,373,750	3,439,280	1,649,050	1,780,698
Sales of goods		*3,321,261*	*3,378,622*	*1,624,666*	*1,752,428*
Rendering of services		*52,489*	*60,658*	*24,384*	*28,270*
Cost of sales	2	(2,649,683)	(2,638,738)	(1,294,428)	(1,391,536)
Gross profit		**724,067**	**800,542**	**354,622**	**389,162**
Selling and distribution expenses	3	(186,631)	(228,286)	(93,171)	(108,591)
Advertising and promotion expenses	4	(6,329)	(5,147)	(3,387)	(3,191)
General and administrative expenses	5	(164,083)	(142,243)	(83,494)	(70,167)
Research and development expenses	6	(6,078)	(9,620)	(3,375)	(5,054)
Other operating expenses	7	(22,694)	(28,472)	(10,962)	(17,585)
Other operating income	8	3,196	4,565	1,522	2,329
Foreign exchange (loss)/gain, net		(44,156)	5,140	(39,537)	(26,222)
Finance costs		(136,651)	(149,045)	(64,824)	(71,736)
Finance income	9	5,147	12,306	3,069	10,058
Gain/(loss) on changes in fair value of derivative financial instruments		5,101	(2,059)	300	7,105
Share of profit/(loss) of associates	13	22	(277)	240	67
Gain on disposal of subsidiary	12	1,862	–	–	–
Profit before tax		**172,773**	**257,404**	**61,003**	**106,175**
Income tax expense	10	(47,614)	(75,562)	(21,109)	(29,716)
Profit/(loss) for the period		**125,159**	**181,842**	**39,894**	**76,459**
Attributable to:					
Equity holders of the parent entity		124,298	179,120	41,069	75,358
Non-controlling interests		861	2,722	(1,175)	1,101
		125,159	**181,842**	**39,894**	**76,459**
Earnings per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)	11	**0.14**	**0.21**	**0.05**	**0.09**

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

OAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income

Six-month period ended June 30, 2013

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012	Three-month period ended June 30, 2013	Three-month period ended June 30, 2012
Profit/(loss) for the period		**125,159**	**181,842**	**39,894**	**76,459**
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation to presentation currency [(a)]		(66,515)	(36,410)	(36,735)	(100,808)
Foreign currency loss on hedged net investment in foreign operation [(b)]	25 (iv)	(77,944)	(22,403)	(53,553)	(132,195)
Income tax [(b)]	25 (iv)	15,589	4,481	10,711	26,439
		(62,355)	**(17,922)**	**(42,842)**	**(105,756)**
Movement on cash flow hedges [(a)]	25 (vi)	1,590	(2,910)	1,528	(3,011)
Income tax [(a)]	25 (vi)	(370)	679	(353)	645
		1,220	**(2,231)**	**1,175**	**(2,366)**
Other comprehensive income/(loss) for the period, net of tax		**(127,650)**	**(56,563)**	**(78,402)**	**(208,930)**
Total comprehensive income/(loss) for the period, net of tax		**(2,491)**	**125,279**	**(38,508)**	**(132,471)**
Attributable to:					
Equity holders of the parent entity		1,931	124,791	(33,889)	(123,001)
Non-controlling interests		(4,422)	488	(4,619)	(9,470)
		(2,491)	**125,279**	**(38,508)**	**(132,471)**

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

	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012	Three-month period ended June 30, 2013	Three-month period ended June 30, 2012
Exchange differences on translation to presentation currency attributable to:				
Equity holders of the parent entity	(61,230)	(34,206)	(33,291)	(90,288)
Non-controlling interests	(5,285)	(2,204)	(3,444)	(10,520)
	(66,515)	**(36,410)**	**(36,735)**	**(100,808)**
Movement on cash flow hedges attributable to:				
Equity holders of the parent entity	1,218	(2,201)	1,175	(2,315)
Non-controlling interests	2	(30)	–	(51)
	1,220	**(2,231)**	**1,175**	**(2,366)**

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

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

OAO TMK

Unaudited Interim Consolidated Statement of Financial Position

At June 30, 2013

(All amounts in thousands of US dollars)

	NOTES	June 30, 2013		December 31, 2012 (as restated*)	
ASSETS					
Current assets					
Cash and cash equivalents	14, 23	133,592		225,061	
Trade and other receivables		988,275		912,327	
Accounts receivable from related parties	23	3,088		2,008	
Inventories	15	1,196,520		1,345,929	
Prepayments and input VAT		114,828		167,902	
Prepaid income taxes		27,677		12,447	
Other financial assets		3,831	**2,467,811**	4,008	**2,669,682**
Non-current assets					
Investments in associates	13	1,750		1,862	
Property, plant and equipment	16	3,682,621		3,809,634	
Goodwill	17	587,565		593,057	
Intangible assets	17	333,465		356,602	
Deferred tax asset		57,309		56,713	
Other non-current assets		86,375	**4,749,085**	114,191	**4,932,059**
TOTAL ASSETS			**7,216,896**		**7,601,741**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	18	812,188		855,569	
Advances from customers		31,318		189,693	
Accounts payable to related parties	23	73,657		87,103	
Provisions and accruals	19	32,009		55,520	
Interest-bearing loans and borrowings	20, 21	526,830		1,065,044	
Finance lease liability		3,618		3,198	
Derivative financial instruments	22	5,372		10,520	
Dividends payable		9,663		303	
Income tax payable		7,102	**1,501,757**	8,281	**2,275,231**
Non-current liabilities					
Interest-bearing loans and borrowings	20, 21	3,190,102		2,767,627	
Finance lease liability		48,808		49,045	
Deferred tax liability		293,523		302,314	
Provisions and accruals	19	33,889		29,293	
Employee benefits liability		51,535		53,272	
Other liabilities		38,778	**3,656,635**	42,856	**3,244,407**
Total liabilities			**5,158,392**		**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		1,685,922		1,583,858	
Foreign currency translation reserve		(133,381)		(9,796)	
Other reserves		(79)	1,964,455	(1,297)	1,984,758
Non-controlling interests			94,049		97,345
Total equity			**2,058,504**		**2,082,103**
TOTAL EQUITY AND LIABILITIES			**7,216,896**		**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.

Unaudited Interim Consolidated Statement of Changes in Equity

Six-month period ended June 30, 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/(loss) for the period	–	–	–	–	124,298	–	–	**124,298**	861	**125,159**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(123,585)	1,218	**(122,367)**	(5,283)	**(127,650)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**124,298**	**(123,585)**	**1,218**	**1,931**	**(4,422)**	**(2,491)**
Dividends declared by the parent entity to its shareholders (Note 25 ii)	–	–	–	–	(22,079)	–	–	**(22,079)**	–	**(22,079)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 25 iii)	–	–	–	–	–	–	–	**–**	(1,554)	**(1,554)**
Contribution from non-controlling interest owners (Note 23)	–	–	–	–	–	–	–	**–**	2,525	**2,525**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 25 v)	–	–	–	–	(155)	–	–	**(155)**	155	**–**
At June 30, 2013	**326,417**	**(319,149)**	**388,335**	**16,390**	**1,685,922**	**(133,381)**	**(79)**	**1,964,455**	**94,049**	**2,058,504**

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

OAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity

Six-month period ended June 30, 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 (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/(loss) for the period	–	–	–	–	179,120	–	–	**179,120**	2,722	**181,842**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(52,128)	(2,201)	**(54,329)**	(2,234)	**(56,563)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**179,120**	**(52,128)**	**(2,201)**	**124,791**	**488**	**125,279**
Dividends declared by the parent entity to its shareholders	–	–	–	–	(70,262)	–	–	**(70,262)**	–	**(70,262)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	–	–	–	–	–	–	–	**–**	(1,571)	**(1,571)**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	386	–	–	–	–	**386**	(386)	**–**
Acquisition of non-controlling interests in subsidiaries	–	–	140	–	–	–	–	**140**	(560)	**(420)**
At June 30, 2012	**326,417**	**(327,339)**	**385,107**	**16,390**	**1,531,669**	**(140,679)**	**(4,785)**	**1,786,780**	**89,731**	**1,876,511**

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

OAO TMK

Unaudited Interim Consolidated Cash Flow Statement

Six-month period ended June 30, 2013

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30, 2013	Six-month period ended June 30, 2012
Operating activities			
Profit before tax		172,773	257,404
Adjustments to reconcile profit before tax to operating cash flows:			
Depreciation of property, plant and equipment		137,567	130,957
Amortisation of intangible assets	17	24,494	29,931
Loss on disposal of property, plant and equipment	7	3,184	6,884
Foreign exchange loss/(gain), net		44,156	(5,140)
Finance costs		136,651	149,045
Finance income	9	(5,147)	(12,306)
Gain on disposal of subsidiary	12	(1,862)	–
(Gain)/loss on changes in fair value of derivative financial instruments		(5,101)	2,059
Share of (profit)/loss of associates	13	(22)	277
Allowance for net realisable value of inventory		(252)	(667)
Allowance for doubtful debts		7,105	9,616
Movement in provisions		(13,043)	(1,264)
Operating cash flows before working capital changes		**500,503**	**566,796**
Working capital changes:			
Decrease in inventories		78,319	47,536
Increase in trade and other receivables		(147,410)	(131,643)
Decrease in prepayments		41,765	39,974
Increase/(decrease) in trade and other payables		20,387	(110,057)
Decrease in advances from customers		(153,112)	(72,537)
Cash generated from operations		**340,452**	**340,069**
Income taxes paid		(54,147)	(28,133)
Net cash flows from operating activities		**286,305**	**311,936**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(166,446)	(197,724)
Proceeds from sale of property, plant and equipment		738	315
Acquisition of subsidiaries	12	(38,300)	(5,411)
Disposal of subsidiary	12	(1,906)	–
Issuance of loans		(391)	(1,800)
Proceeds from repayment of loans issued		1,175	884
Interest received		2,404	3,542
Dividends received		604	4,525
Net cash flows used in investing activities		**(202,122)**	**(195,669)**
Financing activities			
Proceeds from borrowings		880,172	152,119
Repayment of borrowings		(901,740)	(226,456)
Interest paid		(125,445)	(133,404)
Payment of finance lease liabilities		(2,557)	(2,279)
Acquisition of non-controlling interests		–	(324)
Contributions from non-controlling interest owners	23	2,525	–
Dividends paid to equity holders of the parent		(31,569)	–
Dividends paid to non-controlling interest shareholders		(152)	(243)
Net cash flows used in financing activities		**(178,766)**	**(210,587)**
Net decrease in cash and cash equivalents		(94,583)	(94,320)
Net foreign exchange difference		3,114	1,093
Cash and cash equivalents at January 1		225,061	230,593
Cash and cash equivalents at June 30		**133,592**	**137,366**

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 six-month period ended June 30, 2013 were authorised for issue in accordance with a resolution of the General Director on August 26, 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 June 30, 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 six-month period ended June 30, 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 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 interim consolidated financial statements was adjusted accordingly.

The following tables present revenue and profit information regarding the Group's reportable segments for the six-month periods ended June 30, 2013 and 2012, respectively.

Six-month period ended June 30, 2013	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	2,440,432	782,171	151,147	**3,373,750**
Cost of sales	(1,828,872)	(695,889)	(124,922)	**(2,649,683)**
GROSS PROFIT	**611,560**	**86,282**	**26,225**	**724,067**
Selling, general and administrative expenses	(270,127)	(74,012)	(18,982)	**(363,121)**
Other operating income/(expenses), net	(16,361)	(2,991)	(146)	**(19,498)**
OPERATING PROFIT	**325,072**	**9,279**	**7,097**	**341,448**
ADD BACK:				
Depreciation and amortisation	114,256	41,405	6,400	**162,061**
Loss on disposal of property, plant and equipment	2,060	902	222	**3,184**
Allowance for net realisable value of inventory	(761)	715	(206)	**(252)**
Allowance for doubtful debts	5,970	349	786	**7,105**
Movement in other provisions	8,307	570	211	**9,088**
	129,832	**43,941**	**7,413**	**181,186**
ADJUSTED EBITDA	**454,904**	**53,220**	**14,510**	**522,634**

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

1) Segment Information (continued)

Six-month period ended June 30, 2013	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**454,904**	**53,220**	**14,510**	**522,634**
Reversal of adjustments from operating profit to EBITDA	(129,832)	(43,941)	(7,413)	**(181,186)**
OPERATING PROFIT	**325,072**	**9,279**	**7,097**	**341,448**
Foreign exchange gain/(loss), net	(42,905)	(532)	(719)	**(44,156)**
OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**282,167**	**8,747**	**6,378**	**297,292**
Finance costs				**(136,651)**
Finance income				**5,147**
Gain on changes in fair value of derivative financial instruments				**5,101**
Share of profit of associates				**22**
Gain on disposal of subsidiary				**1,862**
PROFIT BEFORE TAX				**172,773**

Six-month period ended June 30, 2012	Russia	Americas	Europe	TOTAL
Revenue	2,369,851	887,227	182,202	**3,439,280**
Cost of sales	(1,804,141)	(698,909)	(135,688)	**(2,638,738)**
GROSS PROFIT	**565,710**	**188,318**	**46,514**	**800,542**
Selling, general and administrative expenses	(293,329)	(72,113)	(19,854)	**(385,296)**
Other operating income/(expenses), net	(18,077)	(5,380)	(450)	**(23,907)**
OPERATING PROFIT	**254,304**	**110,825**	**26,210**	**391,339**
ADD BACK:				
Depreciation and amortisation	111,650	43,204	6,034	**160,888**
Loss on disposal of property, plant and equipment	3,851	2,839	194	**6,884**
Allowance for net realisable value of inventory	(346)	(315)	(6)	**(667)**
Allowance for doubtful debts	9,759	(775)	632	**9,616**
Movement in other provisions	6,466	337	(105)	**6,698**
	131,380	**45,290**	**6,749**	**183,419**
ADJUSTED EBITDA	**385,684**	**156,115**	**32,959**	**574,758**

Six-month period ended June 30, 2012	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**385,684**	**156,115**	**32,959**	**574,758**
Reversal of adjustments from operating profit to EBITDA	(131,380)	(45,290)	(6,749)	**(183,419)**
OPERATING PROFIT	**254,304**	**110,825**	**26,210**	**391,339**
Foreign exchange gain/(loss), net	5,798	778	(1,436)	**5,140**
OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**260,102**	**111,603**	**24,774**	**396,479**
Finance costs				**(149,045)**
Finance income				**12,306**
Loss on changes in fair value of derivative financial instruments				**(2,059)**
Share of loss of associates				**(277)**
PROFIT BEFORE TAX				**257,404**

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

1) Segment Information (continued)

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

Segment assets	Russia	Americas	Europe	TOTAL
At June 30, 2013	4,903,150	1,900,428	413,318	**7,216,896**
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:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Six-month period ended June 30, 2013	2,109,868	1,120,439	143,443	**3,373,750**
Six-month period ended June 30, 2012	2,143,070	1,141,912	154,298	**3,439,280**

2) Cost of Sales

Cost of sales consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2013	**2012**	**2013**	**2012**
Raw materials and consumables	1,706,606	1,774,372	826,320	860,268
Staff costs including social security	368,445	350,754	181,188	172,578
Energy and utilities	204,276	191,430	91,735	84,500
Depreciation and amortisation	133,155	126,208	66,798	62,553
Repairs and maintenance	66,262	69,845	32,438	34,783
Contracted manufacture	41,195	59,598	19,579	42,326
Freight	33,683	33,339	15,354	16,335
Taxes	24,311	26,259	10,793	13,184
Professional fees and services	16,947	18,350	8,512	7,779
Rent	6,041	5,617	3,070	2,781
Travel	1,621	1,377	890	793
Insurance	514	520	227	266
Communications	437	607	206	254
Other	5,327	3,088	475	1,879
Total production cost	**2,608,820**	**2,661,364**	**1,257,585**	**1,300,279**
Change in own finished goods and work in progress	27,626	(40,901)	32,853	79,762
Cost of sales of externally purchased goods	11,015	13,624	2,403	7,133
Obsolete stock, write-offs	2,222	4,651	1,587	4,362
Cost of sales	**2,649,683**	**2,638,738**	**1,294,428**	**1,391,536**

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

3) Selling and Distribution Expenses

Selling and distribution expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2013	**2012**	**2013**	**2012**
Freight	94,153	132,870	45,802	60,393
Staff costs including social security	32,996	31,895	15,951	15,430
Depreciation and amortisation	21,702	26,672	10,853	13,299
Consumables	11,439	10,661	5,555	5,253
Professional fees and services	8,656	6,895	3,931	3,960
Bad debt expense	8,181	9,808	6,273	5,619
Rent	3,707	3,628	1,807	1,798
Travel	2,261	2,365	1,278	1,254
Utilities and maintenance	1,108	1,053	559	448
Communications	661	674	326	334
Insurance	592	616	315	290
Other	1,175	1,149	521	513
	186,631	**228,286**	**93,171**	**108,591**

4) Advertising and Promotion Expenses

Advertising and promotion expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2013	**2012**	**2013**	**2012**
Exhibits and catalogues	3,418	2,581	1,563	1,126
Outdoor advertising	2,235	1,771	1,506	1,771
Media	400	435	198	189
Other	276	360	120	105
	6,329	**5,147**	**3,387**	**3,191**

5) General and Administrative Expenses

General and administrative expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2013	**2012**	**2013**	**2012**
Staff costs including social security	93,691	81,994	45,231	40,431
Professional fees and services	33,194	26,169	19,499	12,943
Depreciation and amortisation	8,091	7,745	4,018	4,029
Travel	5,717	4,931	3,125	2,763
Utilities and maintenance	5,367	4,784	2,753	1,989
Communications	3,611	3,223	1,789	1,596
Insurance	3,502	3,256	1,771	1,547
Transportation	3,405	3,055	1,715	1,397
Rent	2,607	2,533	1,184	1,206
Consumables	2,365	1,872	1,287	1,040
Taxes	1,266	1,762	551	855
Other	1,267	919	571	371
	164,083	**142,243**	**83,494**	**70,167**

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

6) Research and Development Expenses

Research and development expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2013	**2012**	**2013**	**2012**
Staff costs including social security	3,069	6,522	1,484	3,418
Professional fees and services	1,403	830	1,170	558
Travel	621	496	352	229
Consumables	269	426	153	231
Depreciation and amortisation	125	512	69	265
Other	591	834	147	353
	6,078	**9,620**	**3,375**	**5,054**

7) Other Operating Expenses

Other operating expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2013	**2012**	**2013**	**2012**
Social and social infrastructure maintenance expenses	8,552	8,778	4,614	4,990
Sponsorship and charitable donations	6,341	6,818	3,339	2,907
Penalties, fines and claims	3,967	4,806	1,701	3,860
Loss on disposal of property, plant and equipment	3,184	6,884	1,038	5,416
Other	650	1,186	270	412
	22,694	**28,472**	**10,962**	**17,585**

8) Other Operating Income

Other operating income consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2013	**2012**	**2013**	**2012**
Gain from penalties and fines	1,309	1,958	260	1,198
Other	1,887	2,607	1,262	1,131
	3,196	**4,565**	**1,522**	**2,329**

9) Finance Income

Finance income consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2013	2012	**2013**	**2012**
Interest income - bank accounts and deposits	2,618	3,853	1,223	1,605
Dividends	2,529	8,453	1,846	8,453
	5,147	**12,306**	**3,069**	**10,058**

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

10) Income Tax

Income tax expense consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2013	**2012**	**2013**	**2012**
Current income tax expense	32,391	60,768	18,691	32,341
Adjustments in respect of income tax of previous periods	214	(27)	(285)	(26)
Deferred tax expenses related to origination and reversal of temporary differences	15,009	14,821	2,703	(2,599)
Total income tax expense	**47,614**	**75,562**	**21,109**	**29,716**

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.

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

	Six-month period ended June 30,		Three-month period ended June 30,	
	2013	**2012**	**2013**	**2012**
Profit for the period attributable to the equity holders of the parent entity	124,298	179,120	41,069	75,358
Weighted average number of ordinary shares outstanding	865,026,466	863,165,598	865,026,466	863,165,598
Earnings per share attributable to the equity holders of the parent entity, basic and diluted (in US dollars)	0.14	0.21	0.05	0.09

In the six and three months ended June 30, 2013 and 2012, the convertible bonds were antidilutive.

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

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
Cash and cash equivalents	591	591
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. In the reporting period, 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-April 2013, the Group paid 11,700 of purchase consideration for the acquisition of GIPI.

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.

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

12) Acquisition and Disposal of Subsidiaries (continued)

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

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

	April 4, 2013
Property, plant and equipment	23,522
Intangible assets	648
Trade and other receivables	1,171
Inventories	1,823
Other assets	438
Total assets	**27,602**
Trade and other payables	(1,002)
Total liabilities	**(1,002)**
Total identifiable net assets	**26,600**
Purchase consideration	**(26,600)**

The fair values of assets and liabilities of the acquiree were determined provisionally in accordance with IFRS 3 *Business Combinations*, since the valuation was not completed up to the date of authorisation of these interim consolidated financial statements for issuance.

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

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**

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

13) Investments in Associates

The movement in investments in associates was as follows in the six-month period ended June 30, 2013:

	Volgograd River Port
Investments in associates as at January 1, 2013	1,862
Share of profit of associate	22
Currency translation adjustment	(134)
Investments in associates as at June 30, 2013	**1,750**

14) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2013	December 31, 2012
Russian rouble	97,611	171,689
US dollar	29,640	36,604
Euro	3,429	14,124
Romanian lei	967	707
Other currencies	1,945	1,937
	133,592	**225,061**

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

As at June 30, 2013, the amount of cash and cash equivalents included 14,445 which was available to finance investing activities only (December 31, 2012: 22,862).

15) Inventories

Inventories consisted of the following:

	June 30, 2013	December 31, 2012 (as restated)
Finished goods and work in process	699,674	738,781
Raw materials and supplies	518,279	630,742
Gross inventories	**1,217,953**	**1,369,523**
Allowance for net realisable value of inventory	(21,433)	(23,594)
Net inventories	**1,196,520**	**1,345,929**

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

16) Property, Plant and Equipment

Movement in property, plant and equipment was as follows in the six-month period ended June 30, 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	–	–	–	–	–	211,783	**211,783**
Assets put into operation	38,820	111,346	1,766	3,226	1,578	(156,736)	**–**
Disposals	(1,065)	(8,032)	(712)	(479)	–	(73)	**(10,361)**
Increase due to acquisition of subsidiaries (Note 12)	10,845	11,497	271	882	–	27	**23,522**
Reclassifications	–	(1,384)	1,384	–	–	–	**–**
Currency translation adjustments	(86,605)	(172,986)	(3,839)	(3,815)	(196)	(47,524)	**(314,965)**
BALANCE AT JUNE 30, 2013	**1,359,838**	**3,006,903**	**64,808**	**69,071**	**20,302**	**705,409**	**5,226,331**
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	(19,314)	(111,722)	(2,246)	(4,870)	(602)	–	**(138,754)**
Disposals	756	5,680	476	410	–	–	**7,322**
Reclassifications	–	561	(561)	–	–	–	**–**
Currency translation adjustments	16,740	73,129	1,917	2,616	38	–	**94,440**
BALANCE AT JUNE 30, 2013	**(263,945)**	**(1,199,586)**	**(31,864)**	**(43,587)**	**(4,728)**	**–**	**(1,543,710)**
NET BOOK VALUE AT JUNE 30, 2013	**1,095,893**	**1,807,317**	**32,944**	**25,484**	**15,574**	**705,409**	**3,682,621**
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**

17) Goodwill and Other Intangible Assets

Movement in intangible assets was as follows in the six-month period ended June 30, 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	109	–	–	–	–	1,667	**1,776**
Disposals	(1)	–	–	–	–	(533)	**(534)**
Increase due to acquisition of subsidiaries (Note 12)	–	–	–	–	–	648	**648**
Currency translation adjustments	(73)	(6,675)	(1,653)	–	(4)	(576)	**(8,981)**
BALANCE AT JUNE 30, 2013	**209,781**	**602,930**	**21,767**	**472,300**	**14,100**	**8,586**	**1,329,464**
ACCUMULATED AMORTISATION AND IMPAIRMENT							
Balance at January 1, 2013	(370)	(16,548)	(18,025)	(341,374)	(8,024)	(2,555)	**(386,896)**
Amortisation charge	(43)	–	(2,084)	(20,672)	(881)	(814)	**(24,494)**
Disposals	–	–	–	–	–	150	**150**
Currency translation adjustments	23	1,183	1,387	–	–	213	**2,806**
BALANCE AT JUNE 30, 2013	**(390)**	**(15,365)**	**(18,722)**	**(362,046)**	**(8,905)**	**(3,006)**	**(408,434)**
NET BOOK VALUE AT JUNE 30, 2013	**209,391**	**587,565**	**3,045**	**110,254**	**5,195**	**5,580**	**921,030**
NET BOOK VALUE AT JANUARY 1, 2013 (as restated)	**209,376**	**593,057**	**5,395**	**130,926**	**6,080**	**4,825**	**949,659**

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

17) Goodwill and Other Intangible Assets (continued)

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

	June 30, 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	29,487	–	31,755	–
European division	6,240	–	6,329	–
Kaztrubprom Plant	4,787	–	5,155	–
Other cash-generating units	35,979	–	38,746	–
	587,565	**208,700**	**593,057**	**208,700**

18) Trade and Other Payables

Trade and other payables consisted of the following:

	June 30, 2013	December 31, 2012
Trade payables	573,365	612,038
Accounts payable for property, plant and equipment	63,748	47,748
Liabilities for VAT	54,319	58,709
Payroll liabilities	29,039	31,064
Accrued and withheld taxes on payroll	17,318	17,628
Liabilities for property tax	11,268	14,314
Liabilities under put options of non-controlling interest shareholders in subsidiaries	9,305	12,433
Sales rebate payable	5,932	9,152
Notes issued to third parties	3,425	5,386
Liabilities for other taxes	1,806	2,903
Other payables	42,663	44,194
	812,188	**855,569**

19) Provisions and Accruals

Provisions and accruals consisted of the following:

	June 30, 2013	December 31, 2012
Current:		
Provision for bonuses	10,080	26,527
Accrual for long-service bonuses	7,086	14,447
Accrual for unused annual leaves, current portion	4,998	3,930
Current portion of employee benefits liability	4,534	5,042
Environmental provision, current portion	952	964
Other provisions	4,359	4,610
	32,009	**55,520**
Non-current:		
Accrual for unused annual leaves	26,701	22,245
Provision for bonuses	3,701	3,277
Environmental provision	3,118	3,094
Other provisions	369	677
	33,889	**29,293**

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

20) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	June 30, 2013	December 31, 2012
Current:		
Bank loans	38,225	44,398
Interest payable	34,841	30,019
Current portion of non-current borrowings	302,344	418,738
Current portion of bearer coupon debt securities	152,863	574,569
Unamortised debt issue costs	(1,443)	(2,680)
Total short-term loans and borrowings	**526,830**	**1,065,044**
Non-current:		
Bank loans	2,093,474	2,697,918
Bearer coupon debt securities	1,565,363	1,074,568
Unamortised debt issue costs	(13,528)	(11,552)
Less: current portion of non-current borrowings	(302,344)	(418,738)
Less: current portion of bearer coupon debt securities	(152,863)	(574,569)
Total long-term loans and borrowings	**3,190,102**	**2,767,627**

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

	Interest rates for the period	June 30, 2013	Interest rates for the period	December 31, 2012
Russian rouble	Fixed 7.35% - 9.6%	1,195,822	Fixed 8.5% - 9.6%	1,776,496
US dollar	Fixed 5.25%	415,508	Fixed 5.25%	412,401
	Fixed 6.75%	504,404		
	Fixed 7.75%	513,681	Fixed 7.75%	513,423
	Fixed 4.99% - 5.8%	408,202	Fixed 7%	401,222
			Cost of funds + 3% (*)	2,939
	Variable:	514,693	Variable:	527,617
	Libor (1m) + 2% - 2.5%		Libor (1m) + 2% - 3%	
	Libor (3m - 8m) + 1.3% - 4.5%		Libor (3m - 12m) + 0.8% - 4%	
Euro	Fixed 5.19%	44,692	Fixed 5.19%	55,084
	Variable:	119,832	Variable:	136,627
	Euribor (1m) + 3.5% - 4%		Euribor (1m) + 3.5% - 4%	
	Euribor (3m) + 0.9% - 3.5%		Euribor (3m) + 1.7% - 4%	
	Euribor (6m) + 0.26%		Euribor (6m) + 0.26% - 0.9%	
Romanian lei	Robor (6m) + 3%	98	Robor (6m) + 3%	147
Omani rial		–	Fixed 8%	6,715
		3,716,932		**3,832,671**

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

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.

Unutilised Borrowing Facilities

As at June 30, 2013, the Group had unutilised borrowing facilities in the amount of 1,132,765 (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 June 30, 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. 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.

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 556 bps and 673 bps as at June 30, 2013 and December 31, 2012, respectively. As at June 30, 2013, the fair value of the Embedded Conversion Option was 5,357 (December 31, 2012: 10,490). The change in the fair value of the embedded derivative during the reporting period resulted in a gain of 5,133 (six-month period ended June 30, 2012: loss of 2,059), 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 June 30, 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 June 30, 2013.

There were no conversions of the bonds during the six-month period ended June 30, 2013.

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

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.

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

	June 30, 2013	December 31, 2012
Embedded Conversion Option (Note 21)	(5,357)	(10,490)
Foreign exchange forward contracts	(15)	(30)
Total current derivative financial instruments	**(5,372)**	**(10,520)**
Interest rate swaps	(2,440)	(3,950)
Total non-current derivative financial instruments	**(2,440)**	**(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 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.

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

22) Fair Value of Financial Instruments (continued)

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

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

	June 30, 2013		December 31, 2012	
	Carrying value	Fair value	Carrying value	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,457,267	1,457,573	2,046,239	2,043,917
Variable rate long-term bank loans	530,967	507,563	397,937	386,896
Russian bonds due 2013	152,863	153,230	164,622	164,786
5.25 per cent convertible bonds	412,500	407,279	409,946	411,560
6.75 per cent loan participation notes due 2020	500,000	464,565	–	–
7.75 per cent loan participation notes due 2018	500,000	501,565	500,000	527,000

For quoted debt instruments (bonds and loan participation notes) the fair values were determined based on quoted market prices. The fair values of unquoted debt instruments were estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

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.

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 10,866 for the six-month period ended June 30, 2013 (six-month period ended June 30, 2012: 6,852).
- Provision for performance bonuses which are dependent on operating results for 2013 in the amount of 2,968 for the six-month period ended June 30, 2013 (six-month period ended June 30, 2012: 2,761).

The amounts disclosed above were recognised as general and administrative expenses in the income statement for the six-month periods ended June 30, 2013 and 2012.

In the six-month periods ended June 30, 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 1,044 as at June 30, 2013 (December 31, 2012: 1,194). The Group guaranteed debts of key management personnel outstanding as at June 30, 2013 in the amount of 2,342 with maturity in 2014-2016 (December 31, 2012: 2,582). In the six-month period ended June 30, 2013, other transactions with key management personnel amounted to 555.

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

23) Related Parties Disclosures (continued)

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.

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 and entities under common control with the parent of the Company. During the reporting period, no final dividends were paid to the parent of the Company and entities under common control with the parent of the Company.

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 six-month periods ended June 30, 2013 and 2012, the Group received services from its associates in the amounts of 393 and 166, respectively. The balance of accounts payable to associates as at June 30, 2013 amounted to 148.

Transactions with Other Related Parties

The following table provides outstanding balances with other related parties:

	June 30, 2013	December 31, 2012
Cash and cash equivalents	5,360	43,548
Accounts receivable	3,088	2,008
Accounts payable for raw materials	(55,386)	(41,383)
Other accounts payable	(865)	(12,531)

The following table provides the total amount of transactions with other related parties:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2013	2012	2013	2012
Purchases of raw materials	300,268	301,403	159,676	180,205
Purchases of other goods and services	4,264	3,960	2,280	1,994
Sales revenue	5,165	7,926	2,436	5,297
Interest income from loans and borrowings	83	561	5	35

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.

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 43,011 thousand Russian roubles (1,315 at the exchange rate as at June 30, 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 six-month period ended June 30, 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 187,692 and 263,743 as at June 30, 2013 and December 31, 2012, respectively (contractual commitments were expressed net of VAT). As at June 30, 2013, the Group had advances of 68,491 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 46,362 (December 31, 2012: 33,492).

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

24) Contingencies and Commitments (continued)

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 June 30, 2013 in the amount of 2,904 (December 31, 2012: 3,275).

25) Equity

i) Share Capital

	June 30, 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) 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.

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

During the six-month period ended June 30, 2013, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amount of 1,554.

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

25) Equity (continued)

iv) 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 June 30, 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 six-month period ended June 30, 2013, the effective portion of losses from spot rate changes in the amount of 2,434,793 thousand Russian roubles (77,944 at historical exchange rate), net of income tax of 486,959 thousand Russian roubles (15,589 at historical exchange rate), was recognised in other comprehensive income.

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

In the six-month period ended June 30, 2013, the non-controlling interest's share of loss in OOO "TMK-INOX" amounted to 155. This amount was charged to retained earnings.

vi) 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 six-month period ended June 30, 2013 are presented in the following table:

	Currency forward contracts	Interest rate swap contracts	TOTAL
Cash flow hedges			
Gain arising during the period	83	1,277	1,360
Recognition of realised results in the income statement	(45)	275	230
Movement on cash flow hedges	**38**	**1,552**	**1,590**
Income tax	(5)	(365)	(370)
Movement on cash flow hedges, net of tax	**33**	**1,187**	**1,220**