

OAO TMK

Unaudited Interim Condensed

Consolidated Financial Statements

Six-month period ended June 30, 2014

OAo TMK

Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 2014

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Report on review of interim condensed consolidated financial statements

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Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors OAO TMK

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of OAO TMK and its subsidiaries ("Group") as of June 30, 2014 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.



August 22, 2014

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Unaudited Interim Consolidated Income Statement

Six-month period ended June 30, 2014

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

	NOTES	Six-month period ended June 30,		Three-month period ended June 30,	
		2014	2013	2014	2013
Revenue:					
1		2,982,353	3,373,750	1,516,270	1,649,050
<i>Sales of goods</i>		2,938,412	3,321,261	1,496,064	1,624,666
<i>Rendering of services</i>		43,941	52,489	20,206	24,384
Cost of sales	2	(2,416,388)	(2,649,683)	(1,231,632)	(1,294,428)
Gross profit		565,965	724,067	284,638	354,622
Selling and distribution expenses	3	(180,211)	(186,631)	(90,260)	(93,171)
Advertising and promotion expenses		(9,255)	(6,329)	(4,804)	(3,387)
General and administrative expenses	4	(149,620)	(164,083)	(72,898)	(83,494)
Research and development expenses	5	(7,787)	(6,078)	(4,030)	(3,375)
Other operating income	6	4,589	3,196	1,983	1,522
Other operating expenses	6	(21,149)	(22,694)	(13,762)	(10,962)
Foreign exchange (loss)/gain, net		(30,803)	(44,156)	32,051	(39,537)
Finance costs		(113,754)	(136,651)	(58,420)	(64,824)
Finance income		2,355	5,147	1,471	3,069
Gain/(loss) on changes in fair value of derivative financial instruments		1,613	5,101	(27)	300
Share of profit/(loss) of associates	9	(100)	22	127	240
Gain on disposal of subsidiary	8	–	1,862	–	–
Profit before tax		61,843	172,773	76,069	61,003
Income tax expense	7	(17,241)	(47,614)	(15,747)	(21,109)
Profit/(loss) for the period		44,602	125,159	60,322	39,894
Attributable to:					
Equity holders of the parent entity		45,737	124,298	61,380	41,069
Non-controlling interests		(1,135)	861	(1,058)	(1,175)
		44,602	125,159	60,322	39,894
Earnings per share attributable to the equity holders of the parent entity (in US dollars)					
Basic		0.05	0.14	0.07	0.05
Diluted		0.05	0.14	0.05	0.05

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

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Unaudited Interim Consolidated Statement of Comprehensive Income

Six-month period ended June 30, 2014

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30,		Three-month period ended June 30,	
		2014	2013	2014	2013
Profit for the period		44,602	125,159	60,322	39,894
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation to presentation currency ^(a)		(13,129)	(66,515)	47,146	(36,735)
Foreign currency (loss)/gain on hedged net investment in foreign operations ^(b)	21 (iv)	(28,362)	(77,944)	64,494	(53,553)
Income tax ^(b)	21 (iv)	5,672	15,589	(12,899)	10,711
		(22,690)	(62,355)	51,595	(42,842)
Movement on cash flow hedges ^(a)	21 (v)	419	1,590	(8)	1,528
Income tax ^(a)	21 (v)	(102)	(370)	(1)	(353)
		317	1,220	(9)	1,175
Other comprehensive income/(loss) for the period, net of tax		(35,502)	(127,650)	98,732	(78,402)
Total comprehensive income/(loss) for the period, net of tax		9,100	(2,491)	159,054	(38,508)
Attributable to:					
Equity holders of the parent entity		12,189	1,931	156,384	(33,889)
Non-controlling interests		(3,089)	(4,422)	2,670	(4,619)
		9,100	(2,491)	159,054	(38,508)

- (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,		Three-month period ended June 30,	
	2014	2013	2014	2013
Exchange differences on translation to presentation currency attributable to:				
Equity holders of the parent entity	(11,175)	(61,230)	43,418	(33,291)
Non-controlling interests	(1,954)	(5,285)	3,728	(3,444)
	(13,129)	(66,515)	47,146	(36,735)
Movement on cash flow hedges attributable to:				
Equity holders of the parent entity	317	1,218	(9)	1,175
Non-controlling interests	–	2	–	–
	317	1,220	(9)	1,175

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

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

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Unaudited Interim Consolidated Statement of Financial Position

At June 30, 2014

(All amounts in thousands of US dollars)

	NOTES	June 30, 2014	December 31, 2013
ASSETS			
Current assets			
Cash and cash equivalents	10	122,108	93,298
Trade and other receivables		934,557	995,371
Inventories	11	1,346,465	1,324,475
Prepayments and input VAT		131,926	136,630
Prepaid income taxes		11,994	11,276
Other financial assets		289	155
		2,547,339	2,561,205
Non-current assets			
Investments in associates	9	1,655	1,900
Property, plant and equipment	12	3,813,974	3,845,355
Goodwill	13	582,997	584,904
Intangible assets	13	293,746	311,428
Deferred tax asset		33,693	63,624
Other non-current assets		34,510	50,252
		4,760,575	4,857,463
TOTAL ASSETS		7,307,914	7,418,668
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	845,804	944,165
Advances from customers		41,754	59,936
Accounts payable to related parties	19	102,888	101,151
Provisions and accruals	15	42,402	51,184
Interest-bearing loans and borrowings	16	735,496	393,941
Finance lease liability		5,690	3,796
Derivative financial instruments	18	467	2,080
Dividends payable		8,937	5,863
Income tax payable		6,872	8,504
		1,790,310	1,570,620
Non-current liabilities			
Interest-bearing loans and borrowings	16	2,960,290	3,248,077
Finance lease liability		51,974	47,969
Deferred tax liability		257,993	297,874
Provisions and accruals	15	37,726	33,327
Employee benefits liability		45,726	45,067
Other liabilities		44,906	46,115
		3,398,615	3,718,429
Total liabilities		5,188,925	5,289,049
Equity			
Parent shareholders' equity			
Issued capital		326,417	326,417
Treasury shares		(319,149)	(319,149)
Additional paid-in capital		391,192	391,192
Reserve capital		16,390	16,390
Retained earnings		1,762,862	1,737,098
Foreign currency translation reserve		(154,332)	(120,467)
Other reserves		2,628	2,311
Non-controlling interests		92,981	95,827
		2,026,008	2,033,792
Total equity		2,118,989	2,129,619
TOTAL LIABILITIES AND EQUITY		7,307,914	7,418,668

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

Six-month period ended June 30, 2014

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Total	Non-controlling interests	TOTAL
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			
At January 1, 2014	326,417	(319,149)	391,192	16,390	1,737,098	(120,467)	2,311	2,033,792	95,827	2,129,619
Profit/(loss) for the period	–	–	–	–	45,737	–	–	45,737	(1,135)	44,602
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(33,865)	317	(33,548)	(1,954)	(35,502)
Total comprehensive income/(loss) for the period, net of tax	–	–	–	–	45,737	(33,865)	317	12,189	(3,089)	9,100
Dividends declared by the parent entity to its shareholders (Note 21 ii)	–	–	–	–	(19,376)	–	–	(19,376)	–	(19,376)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 21 iii)	–	–	–	–	–	–	–	–	(1,367)	(1,367)
Contribution from non-controlling interest owners (Note 19)	–	–	–	–	–	–	–	–	1,013	1,013
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 21 vi)	–	–	–	–	(597)	–	–	(597)	597	–
At June 30, 2014	326,417	(319,149)	391,192	16,390	1,762,862	(154,332)	2,628	2,026,008	92,981	2,118,989

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

Six-month period ended June 30, 2014 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent							Total	Non-controlling interests	TOTAL
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Other reserves			
At January 1, 2013 (as restated)	326,417	(319,149)	391,192	16,390	1,581,001	(9,796)	(1,297)	1,984,758	98,868	2,083,626
Profit for the period	–	–	–	–	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	–	–	–	–	(22,079)	–	–	(22,079)	–	(22,079)
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	–	–	–	–	–	–	–	–	(1,554)	(1,554)
Contribution from non-controlling interest owners	–	–	–	–	–	–	–	–	2,525	2,525
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	–	–	(155)	–	–	(155)	155	–
At June 30, 2013	326,417	(319,149)	391,192	16,390	1,683,065	(133,381)	(79)	1,964,455	95,572	2,060,027

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
Six-month period ended June 30, 2014

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30,	
		2014	2013
Operating activities			
Profit before tax		61,843	172,773
Adjustments to reconcile profit before tax to operating cash flows:			
Depreciation of property, plant and equipment		136,881	137,567
Amortisation of intangible assets	13	18,660	24,494
Loss on disposal of property, plant and equipment	6	748	3,184
Foreign exchange loss, net		30,803	44,156
Finance costs		113,754	136,651
Finance income		(2,355)	(5,147)
Gain on disposal of subsidiary	8	–	(1,862)
Gain on changes in fair value of derivative financial instruments		(1,613)	(5,101)
Share of (profit)/loss of associates	9	100	(22)
Allowance for net realisable value of inventory		2,255	(252)
Allowance for doubtful debts		2,009	7,105
Movement in provisions		(1,026)	(13,043)
Operating cash flows before working capital changes		362,059	500,503
Working capital changes:			
(Increase)/decrease in inventories		(46,286)	78,319
(Increase)/decrease in trade and other receivables		33,699	(147,410)
Decrease in prepayments		3,003	41,765
Increase/(decrease) in trade and other payables		(71,954)	20,387
Decrease in advances from customers		(15,967)	(153,112)
Cash generated from operations		264,554	340,452
Income taxes paid		(20,617)	(54,147)
Net cash flows from operating activities		243,937	286,305
Investing activities			
Purchase of property, plant and equipment and intangible assets		(152,781)	(166,446)
Proceeds from sale of property, plant and equipment		2,760	738
Acquisition of subsidiaries		–	(38,300)
Disposal of subsidiary		–	(1,906)
Issuance of loans		(77)	(391)
Proceeds from repayment of loans issued		1,059	1,175
Interest received		1,256	2,404
Dividends received		–	604
Net cash flows used in investing activities		(147,783)	(202,122)
Financing activities			
Proceeds from borrowings		941,763	880,172
Repayment of borrowings		(864,727)	(901,740)
Interest paid		(122,957)	(125,445)
Payment of finance lease liabilities		(3,526)	(2,557)
Contributions from non-controlling interest owners		1,013	2,525
Dividends paid to equity holders of the parent		(24,630)	(31,569)
Dividends paid to non-controlling interest shareholders		(31)	(152)
Net cash flows used in financing activities		(73,095)	(178,766)
Net increase/(decrease) in cash and cash equivalents		23,059	(94,583)
Net foreign exchange difference		5,751	3,114
Cash and cash equivalents at January 1		93,298	225,061
Cash and cash equivalents at June 30		122,108	133,592

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

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements Six-month period ended June 30, 2014

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

Corporate Information

These interim condensed consolidated financial statements of OAO TMK and its subsidiaries (the “Group”) for the six-month period ended June 30, 2014 were authorised for issue in accordance with a resolution of the General Director on August 22, 2014.

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

As at June 30, 2014, the Company’s controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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

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

Basis of Preparation

Basis of Preparation

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

Changes in Accounting Policies

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

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

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

Basis of Preparation (continued)

Changes in Accounting Policies (continued)

IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 Separate Financial Statements (amendments) – Investment Entities

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

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

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

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

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

IAS 39 Financial Instruments: Recognition and Measurement (amendments) – Novation of Derivatives and Continuation of Hedge Accounting

This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

IFRIC 21 Levies

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

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

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(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.

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

Six-month period ended June 30, 2014	Russia	Americas	Europe	TOTAL
Revenue	2,011,208	832,953	138,192	2,982,353
Cost of sales	(1,565,873)	(740,407)	(110,108)	(2,416,388)
GROSS PROFIT	445,335	92,546	28,084	565,965
Selling, general and administrative expenses	(254,866)	(72,385)	(19,622)	(346,873)
Other operating expenses, net	(12,743)	(1,817)	(2,000)	(16,560)
OPERATING PROFIT	177,726	18,344	6,462	202,532
ADD BACK				
Depreciation and amortisation	108,756	39,753	7,032	155,541
(Gain)/loss on disposal of property, plant and equipment	(621)	1,456	(87)	748
Allowance for net realisable value of inventory	1,556	148	551	2,255
Allowance for doubtful debts	3,765	(1,850)	94	2,009
Movement in other provisions	9,019	214	2,212	11,445
	122,475	39,721	9,802	171,998
ADJUSTED EBITDA	300,201	58,065	16,264	374,530

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

1) Segment Information (continued)

Six-month period ended June 30, 2014	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX				
Adjusted EBITDA	300,201	58,065	16,264	374,530
Reversal of adjustments from operating profit to EBITDA	(122,475)	(39,721)	(9,802)	(171,998)
OPERATING PROFIT	177,726	18,344	6,462	202,532
Foreign exchange gain/(loss), net	(31,944)	(183)	1,324	(30,803)
OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)	145,782	18,161	7,786	171,729
Finance costs				(113,754)
Finance income				2,355
Gain on changes in fair value of derivative financial instrument				1,613
Share of loss of associates				(100)
PROFIT BEFORE TAX				61,843
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 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
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 loss, net	(42,905)	(532)	(719)	(44,156)
OPERATING PROFIT AFTER FOREIGN EXCHANGE 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

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(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, 2014	4,919,539	1,926,976	461,399	7,307,914
At December 31, 2013	5,047,725	1,927,441	443,502	7,418,668

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

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Six-month period ended June 30, 2014	1,947,776	892,485	142,092	2,982,353
Six-month period ended June 30, 2013	2,109,868	1,120,439	143,443	3,373,750

2) Cost of Sales

Cost of sales was as follows:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2014	2013	2014	2013
Raw materials and consumables	1,512,296	1,706,606	760,299	826,320
Staff costs including social security	360,390	368,445	175,956	181,188
Energy and utilities	209,053	204,276	95,828	91,735
Depreciation and amortisation	131,196	133,155	66,510	66,798
Contracted manufacture	64,553	41,195	28,183	19,579
Repairs and maintenance	61,428	66,262	31,690	32,438
Freight	37,736	33,683	16,593	15,354
Taxes	20,821	24,311	10,197	10,793
Professional fees and services	19,377	16,947	9,906	8,512
Rent	7,430	6,041	3,878	3,070
Travel	1,443	1,621	686	890
Insurance	405	514	208	227
Communications	348	437	151	206
Other	1,841	5,327	447	475
Total production cost	2,428,317	2,608,820	1,200,532	1,257,585
Change in own finished goods and work in progress	(23,942)	27,626	26,642	32,853
Cost of sales of externally purchased goods	8,724	11,015	4,432	2,403
Obsolete stock, write-offs	3,289	2,222	26	1,587
Cost of sales	2,416,388	2,649,683	1,231,632	1,294,428

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

3) Selling and Distribution Expenses

Selling and distribution expenses were as follows:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2014	2013	2014	2013
Freight	92,826	94,153	43,415	45,802
Staff costs including social security	33,024	32,996	16,077	15,951
Depreciation and amortisation	17,693	21,702	8,877	10,853
Professional fees and services	12,660	8,656	6,896	3,931
Consumables	10,699	11,439	5,546	5,555
Bad debt expense	4,374	8,181	4,864	6,273
Rent	3,337	3,707	1,672	1,807
Travel	2,096	2,261	1,112	1,278
Utilities and maintenance	1,575	1,108	801	559
Insurance	655	592	370	315
Communications	643	661	334	326
Other	629	1,175	296	521
	180,211	186,631	90,260	93,171

4) General and Administrative Expenses

General and administrative expenses were as follows:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2014	2013	2014	2013
Staff costs including social security	87,947	93,691	41,547	45,231
Professional fees and services	24,230	33,194	13,035	19,499
Utilities and maintenance	6,824	5,367	3,342	2,753
Depreciation and amortisation	6,257	8,091	3,065	4,018
Insurance	3,931	3,502	2,012	1,771
Transportation	3,854	3,405	2,295	1,715
Travel	3,840	5,717	2,101	3,125
Communications	3,358	3,611	1,471	1,789
Rent	2,306	2,607	1,103	1,184
Consumables	2,015	2,365	1,142	1,287
Taxes	1,858	1,266	884	551
Other	3,200	1,267	901	571
	149,620	164,083	72,898	83,494

5) Research and Development Expenses

Research and development expenses were as follows:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2014	2013	2014	2013
Staff costs including social security	3,582	3,069	1,776	1,484
Depreciation and amortisation	2,115	125	1,072	69
Professional fees and services	1,018	1,403	650	1,170
Travel	548	621	314	352
Utilities and maintenance	193	253	101	7
Consumables	187	269	47	153
Other	144	338	70	140
	7,787	6,078	4,030	3,375

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

6) Other Operating Income and Expenses

Other operating income was as follows:

	Six-month period ended June 30,	
	2014	2013
Gain from penalties and fines	1,683	1,309
Gain on disposal of property, plant and equipment	122	–
Other	2,784	1,887
	4,589	3,196

Other operating expenses were as follows:

	Six-month period ended June 30,	
	2014	2013
Social and social infrastructure maintenance expenses	7,576	8,552
Penalties, fines and claims	5,628	3,967
Sponsorship and charitable donations	4,072	6,341
Loss on disposal of property, plant and equipment	870	3,184
Other	3,003	650
	21,149	22,694

7) Income Tax

Income tax expense was as follows:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2014	2013	2014	2013
Current income tax expense	18,046	32,391	14,075	18,691
Adjustments in respect of income tax of previous periods	375	214	11	(285)
Deferred tax expense/(benefit) related to origination and reversal of temporary differences	(1,180)	15,009	1,661	2,703
Total income tax expense	17,241	47,614	15,747	21,109

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

8) Disposal of Subsidiaries

Disposal of OOO “Skladskoy Kompleks TMK”

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

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

9) Investments in Associates

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

	2014
Balance at January 1	1,900
Share of loss of associates	(100)
Dividend income	(87)
Currency translation adjustment	(58)
Balance at June 30	1,655

10) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2014	December 31, 2013
Russian rouble	89,860	62,838
US dollar	26,382	22,490
Euro	4,431	6,609
Romanian lei	587	165
Other currencies	848	1,196
	122,108	93,298

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

As at June 30, 2014, the restricted cash amounted to 3,556 (December 31, 2013: 7,452).

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

11) Inventories

Inventories consisted of the following:

	June 30, 2014	December 31, 2013
Finished goods and work in process	858,786	843,443
Raw materials and supplies	512,419	503,928
Gross inventories	1,371,205	1,347,371
Allowance for net realisable value of inventory	(24,740)	(22,896)
Net inventories	1,346,465	1,324,475

12) Property, Plant and Equipment

Movement in property, plant and equipment in the six-month period ended June 31, 2014 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improve- ments	Construc- tion in progress	TOTAL
<u>COST</u>							
Balance at January 1, 2014	1,442,677	3,220,619	67,389	76,175	25,262	677,754	5,509,876
Additions	–	–	–	–	–	188,185	188,185
Assets put into operation	18,434	111,034	16,554	2,564	1,456	(150,042)	–
Disposals	(1,887)	(53,759)	(886)	(1,003)	–	(1,045)	(58,580)
Reclassification	(492)	455	(1)	(836)	874	–	–
Currency translation adjustments	(30,344)	(60,509)	(502)	(1,427)	(104)	(14,753)	(107,639)
BALANCE AT JUNE 30, 2014	1,428,388	3,217,840	82,554	75,473	27,488	700,099	5,531,842
<u>ACCUMULATED DEPRECIATION AND IMPAIRMENT</u>							
Balance at January 1, 2014	(287,005)	(1,290,127)	(33,684)	(48,138)	(5,567)	–	(1,664,521)
Depreciation charge	(19,480)	(112,008)	(2,488)	(4,683)	(645)	–	(139,304)
Disposals	462	51,428	696	939	–	–	53,525
Reclassification	2	(488)	–	500	(14)	–	–
Currency translation adjustments	5,495	25,487	528	918	4	–	32,432
BALANCE AT JUNE 30, 2014	(300,526)	(1,325,708)	(34,948)	(50,464)	(6,222)	–	(1,717,868)
NET BOOK VALUE AT JUNE 30, 2014	1,127,862	1,892,132	47,606	25,009	21,266	700,099	3,813,974
NET BOOK VALUE AT JANUARY 1, 2014	1,155,672	1,930,492	33,705	28,037	19,695	677,754	3,845,355

Capitalised Borrowing Costs

The Group has the combination of borrowings, that are specific to the acquisition and construction of a particular qualifying asset, and general borrowings. The amount of borrowing costs capitalised during the six-month period ended June 30, 2014 was 12,370. The rate of the specific borrowings used to determine the amount of capitalized borrowing costs was 5.19%, the annualised capitalisation rate relating to general borrowings was 7.79%.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

13) Goodwill and Other Intangible Assets

Movement in intangible assets in the six-month period ended June 30, 2014 was as follows:

	Patents and trademarks	Goodwill	Software	Customer relationships	Proprietary technology	Other	TOTAL
<u>COST</u>							
Balance at January 1, 2014	211,881	601,341	21,858	472,300	14,100	8,599	1,330,079
Additions	457	–	2	–	–	974	1,433
Disposals	(3)	–	–	–	–	(543)	(546)
Currency translation adjustments	(18)	(2,348)	(578)	–	–	(212)	(3,156)
BALANCE AT JUNE 30, 2014	212,317	598,993	21,282	472,300	14,100	8,818	1,327,810
<u>ACCUMULATED AMORTISATION AND IMPAIRMENT</u>							
Balance at January 1, 2014	(456)	(16,437)	(20,773)	(382,718)	(9,786)	(3,577)	(433,747)
Amortisation charge	(75)	–	(253)	(16,699)	(881)	(752)	(18,660)
Disposals	3	–	–	–	–	275	278
Currency translation adjustments	6	441	541	–	–	74	1,062
BALANCE AT JUNE 30, 2014	(522)	(15,996)	(20,485)	(399,417)	(10,667)	(3,980)	(451,067)
NET BOOK VALUE AT JUNE 30, 2014	211,795	582,997	797	72,883	3,433	4,838	876,743
NET BOOK VALUE AT JANUARY 1, 2014	211,425	584,904	1,085	89,582	4,314	5,022	896,332

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

	June 30, 2014		December 31, 2013	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
American division	472,968	210,306	472,968	208,700
Middle East division	36,241	–	36,241	–
Oilfield division	28,679	–	29,468	–
European division	6,511	–	6,566	–
Other cash-generating units	38,598	–	39,661	–
	582,997	210,306	584,904	208,700

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. At June 30, 2014, there were indicators of impairment of certain cash generating units, therefore, the Group performed impairment tests in respect of these units. As a result of the tests, the Group determined that the carrying values of these cash-generating units do not exceed their recoverable amounts. Consequently, no impairment losses were recognised in the six-months period ended June 30, 2014. Should the Group performance and market conditions continue (other than temporary) to deviate from management plans assumed in the impairment estimates, the carrying values of certain cash-generating units may become higher than their recoverable amounts. For details on sensitivity of the assumptions used in the impairment tests refer to the annual financial statements.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

14) Trade and Other Payables

Trade and other payables consisted of the following:

	June 30, 2014	December 31, 2013
Trade payables	603,162	708,350
Accounts payable for property, plant and equipment	64,533	64,763
Liabilities for VAT	49,639	32,880
Payroll liabilities	29,297	31,685
Accrued and withheld taxes on payroll	17,102	16,123
Liabilities for property tax	12,543	16,898
Sales rebate payable	5,619	8,601
Liabilities under put options of non-controlling interest shareholders in subsidiaries	6,567	9,323
Notes issued to third parties	2,464	5,353
Liabilities for other taxes	1,288	1,840
Other payables	53,590	48,349
	845,804	944,165

15) Provisions and Accruals

Provisions and accruals consisted of the following:

	June 30, 2014	December 31, 2013
<i>Current</i>		
Provision for bonuses	10,775	16,816
Accrual for long-service bonuses	8,036	15,286
Accrual for unused annual leaves, current portion	6,519	4,213
Current portion of employee benefits liability	5,169	6,215
Environmental provision, current portion	787	1,510
Other provisions	11,116	7,144
	42,402	51,184
<i>Non-current</i>		
Accrual for unused annual leaves	26,994	22,515
Environmental provision	4,234	3,887
Provision for bonuses	2,179	2,532
Other provisions	4,319	4,393
	37,726	33,327

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

16) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	June 30, 2014	December 31, 2013
Current		
Bank loans	133,600	69,647
Interest payable	31,673	32,735
Current portion of non-current borrowings	242,728	292,522
Current portion of bearer coupon debt securities	328,400	–
Unamortised debt issue costs	(905)	(963)
Total short-term loans and borrowings	735,496	393,941
Non-current		
Bank loans	2,213,337	2,139,397
Bearer coupon debt securities	1,328,400	1,412,500
Unamortised debt issue costs	(10,319)	(11,298)
Less: current portion of non-current borrowings	(242,728)	(292,522)
Less: current portion of bearer coupon debt securities	(328,400)	–
Total long-term loans and borrowings	2,960,290	3,248,077

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

	Interest rates	June 30, 2014	Interest rates	December 31, 2013
Russian rouble	Fixed 7.99%-11.5%	1,373,240	Fixed 7.35%-9.6%	1,183,323
US dollar	Fixed 5.25%	330,789	Fixed 5.25%	415,508
	Fixed 6.75%	505,007	Fixed 6.75%	504,693
	Fixed 7.75%	514,231	Fixed 7.75%	513,951
	Fixed 4.99%-5.8%	406,666	Fixed 4.99%-5.8%	407,578
	Variable: Libor (1m) + 2.25%-3.5% Libor (3m) + 2.65%-4.5%	457,889	Variable: Libor (1m) + 2.25%-3% Libor (3m-12m) + 1.4%-4.5%	484,711
Euro	Fixed 5.19%	26,040	Fixed 5.19%	38,157
	Variable: Euribor (1m) + 1.9%-3.5% Euribor (3m) + 1.7%-3%	81,924	Variable: Euribor (1m) + 1.9%-4% Euribor (3m) + 1.7%-3% Euribor (6m) + 0.9%	93,989
Romanian lei	–	–	Robor (6m) + 3%	108
		3,695,786		3,642,018

Unutilised Borrowing Facilities

As at June 30, 2014, the Group had unutilised borrowing facilities in the amount of 1,007,760 (December 31, 2013: 1,619,478).

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

17) Convertible Bonds

On February 11, 2010, TMK Bonds S.A., the Group's structured entity, completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAo TMK. The bonds are listed on the London Stock Exchange. The bonds have nominal value of 100,000 US dollars each and were issued at 100% of their principal amount. The convertible bonds carry a coupon of 5.25% per annum, payable on a quarterly basis. As at June 30, 2014, the bonds were convertible into GDRs at conversion price of 22.137 US dollars per GDR (December 31, 2013: 22.137 US dollars per GDR).

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

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

The Embedded Conversion Option in foreign currency was classified as financial instrument at fair value through profit or loss. The Embedded Conversion Option was initially recognised at the fair value of 35,455. The Group used binomial options pricing model for initial and subsequent measurement of fair value of this embedded derivative. For the purposes of this model, the Group assessed that the credit spread comprised 593 bps and 410 bps as at June 30, 2014 and December 31, 2013, respectively. As at June 30, 2014, the fair value of the Embedded Conversion Option was 467 (December 31, 2013: 2,080). The change in the fair value of the embedded derivative has been recorded as gain/(loss) on changes in fair value of derivative financial instruments in the income statement.

The fair value of the host component at the initial recognition date has been determined as a residual amount after deducting the fair value of the Embedded Conversion Option from the issue price of the convertible bonds adjusted for transaction costs. The host component is subsequently carried at the amortised cost using the effective interest method. As at June 30, 2014, the carrying value of the host component was 330,789 (December 31, 2013: 415,508).

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

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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18) Fair Value of Financial Instruments

Fair Value of Financial Instruments Carried at Fair Value

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

- Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;
- Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

	June 30, 2014	December 31, 2013
Embedded Conversion Option (Note 17)	(467)	(2,080)
Total current derivative financial instruments	(467)	(2,080)
Interest rate swaps	(3,460)	(3,501)
Total non-current derivative financial instruments	(3,460)	(3,501)

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

The Group provided the disclosure of the valuation technique used for the fair value measurement of the Embedded Conversion Option in Note 17.

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

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

Fair Value of Financial Instruments not Carried at Fair Value

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

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

18) Fair Value of Financial Instruments (continued)

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

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

	June 30, 2014		December 31, 2013	
	Par value	Fair value	Par value	Fair value
Financial liabilities				
Fixed rate long-term bank loans	1,711,424	1,722,039	1,489,452	1,489,888
Variable rate long-term bank loans	479,965	478,855	497,756	480,429
5.25 per cent convertible bonds	328,400	330,668	412,500	415,993
6.75 per cent loan participation notes due 2020	500,000	488,090	500,000	506,755
7.75 per cent loan participation notes due 2018	500,000	519,230	500,000	523,315

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

19) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

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

The compensation to key management personnel comprised of:

- Wages, salaries, social security contributions and other short-term benefits in the amount of 8,558 (six-month period ended June 30, 2013: 10,866).
- Provision for performance bonuses in the amount of 2,711 (six-month period ended June 30, 2013: 2,968).

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

The balance of loans issued to key management personnel amounted to 886 as at June 30, 2014 (December 31, 2013: 1,055). The Group guaranteed debts of key management personnel outstanding as at June 30, 2014 in the amount of 243 with maturity in 2016 (December 31, 2013: 2,323).

Transactions with the Parent of the Company

In June 2014, the Group approved the distribution of final dividends in respect of 2013, from which 524,184 thousand Russian roubles (15,053 at the exchange rate at the date of approval) related to the parent of the Company. As at June 30, 2014, no final dividends were paid.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

19) Related Parties Disclosures (continued)

Transactions with the Parent of the Company (continued)

In November 2013, the Group approved interim dividends in respect of six months 2013, from which 698,912 thousand Russian roubles (21,473 at the exchange rate at the date of approval) related to the parent of the Company. In January 2014, these dividends were paid in full amount.

On June 11, 2014, the Group increased share capital of the subsidiary, OFS Development S.a r.l. The share capital increase was partially financed by the parent of the Company, an owner of non-controlling interest in OFS Development S.a r.l. Contribution received from the parent of the Company amounted to 1,013.

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

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

	June 30, 2014	December 31, 2013
Accounts receivable	3,528	4,576
Cash and cash equivalents	2,666	3,730
Prepayments	32	30
Accounts payable for raw materials	(86,300)	(79,154)
Advances received	(4,979)	(6)
Other accounts payable	(1,001)	(643)

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

	Six-month period ended June 30,		Three-month period ended June 30,	
	2014	2013	2014	2013
Purchases of raw materials	282,191	300,268	159,440	159,676
Sales revenue	4,977	5,165	2,696	2,436
Purchase of property, plant and equipment	3,850	–	–	–
Purchases of other goods and services	3,588	4,657	1,935	2,646
Other income	93	83	77	5

Notes to the Unaudited Interim Condensed Consolidated Financial Statements
(continued)

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

20) Contingencies and Commitments

Operating Environment of the Group

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

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

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

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

Taxation

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

Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 127,719 thousand Russian roubles (3,798 at the exchange rate as at June 30, 2014). Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in material losses for the Group. Consequently, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the six-month period ended June 30, 2014.

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

20) Contingencies and Commitments (continued)

Contractual Commitments

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amounts of 164,997 and 199,567 as at June 30, 2014 and December 31, 2013, respectively (contractual commitments were expressed net of VAT). As at June 30, 2014, the Group had advances of 22,756 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2013: 34,987). These advances were included in other non-current assets.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 20,584 (December 31, 2013: 28,777).

Insurance Policies

The Group maintains insurance against losses that may arise in case of property damage, accidents, transportation of goods. The Group also maintains corporate product liability and directors and officers liability insurance policies. Nevertheless, any recoveries under maintained insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

Legal Claims

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. Management believes there are no current legal proceedings or other claims outstanding, which could have a material effect on the results of operations or financial position of the Group.

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding at June 30, 2014 in the amount of 668 (December 31, 2013: 2,805).

21) Equity

i) Share Capital

	June 30, 2014	December 31, 2013
Number of shares		
<i>Authorised</i>		
Ordinary shares of 10 Russian roubles each	937,586,094	937,586,094
<i>Issued and fully paid</i>		
Ordinary shares of 10 Russian roubles each	937,586,094	937,586,094

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

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Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

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

21) Equity (continued)

ii) Dividends Declared by the Parent Entity to its Shareholders

On June 19, 2014, the annual shareholder meeting approved final dividends in respect of 2013 in the amount 731,317 thousand Russian roubles (21,001 at the exchange rate at the date of approval) or 0.78 Russian roubles per share (0.02 US dollars per share), from which 56,597 thousand Russian roubles (1,625 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

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

During the six-months periods ended June 30, 2014 and 2013, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 1,367 and 1,554, respectively.

iv) Hedges of Net Investment in Foreign Operations

As at June 30, 2014, a proportion of the Group's US dollar-denominated borrowings in the amount of 1,197,710 (December 31, 2013: 1,197,710) was designated as hedges of net investments in the Group's foreign subsidiaries.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar / Russian rouble spot rates on the hedging instrument and on the hedged item. In the six-month period ended June 30, 2014, the effective portion of net losses from spot rate changes in the amount of 988,861 thousand Russian roubles (28,362 at historical exchange rates), net of income tax of 197,772 thousand Russian roubles (5,672 at historical exchange rates), was recognised in other comprehensive income.

v) Movement on Cash Flow Hedges

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

	Interest rate swap contracts
Loss arising during the period	(789)
Recognition of realised results in the income statement	1,208
Movement on cash flow hedges	419
Income tax	(102)
Movement on cash flow hedges, net of tax	317

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

In the six-month period ended June 30, 2014, the non-controlling interest's share of loss in OOO "TMK-INOX" amounted to 597. This amount was charged to retained earnings.