ANNUAL REPORT
TMK
2013

TMK Profile

TMK is one of the world's leading producers and suppliers of steel pipe for the oil and gas industry

TMK is one of the world's leading producers and suppliers of steel pipe for the oil and gas industry. The company's shares are traded on the London Stock Exchange, the OTCQX International Premier trading platform in the United States, and on the Moscow Exchange.

The company was founded in 2001 and currently integrates 28 production assets in Russia, the United States, Canada, Oman, the UAE, Romania and Kazakhstan. TMK's core operations are production and distribution of seamless and welded pipe, including pipe with premium connections, combined with an extensive package of services in heat treating, protective coating, premium connections threading, warehousing and pipe repairing.

TMK consists of four Russian production sites: the Volzhsky Pipe Plant, Seversky Tube Works, Sinarsky Pipe Plant and Taganrog Metallurgical Works; twelve production facilities in the United States and Canada, owned by TMK IPSCO; TMK-ARTROM and TMK-RESITA in Romania; and TMK GIPI in Oman. The company also includes four oilfield services assets in Russia, incorporated in TMK Oilfield Services division, TMK-Kaztrubprom (Kazakhstan), and Threading and Mechanical Key Premium (Abu Dhabi, UAE).

In early 2013, TMK acquired pipe products services assets and assets for accessory manufacturing for oil and gas industry in the United States and integrated them into OFS International (Houston, USA).

TMK's two research centres, the Russian Research Institute for the Tube and Pipe Industries (RosNITI) in Chelyabinsk (Russia) and R&D centre in Houston (USA), are involved in new product design and development, experimental and validation testing, and advanced metallurgical research. To foster innovation and boost its R&D potential, in 2013 the company decided to create a new R&D facility in the Skolkovo Innovation Centre (Russia).

In 2013, TMK's pipe shipments totalled 4.31 mln tonnes allowing the company to confirm its position as the world's leader in shipments for the fifth year in a row. The largest share of TMK's sales belongs to higher margin oil country tubular goods (OCTG) supplied to customers in over 80 countries.

Consolidation of production assets across the globe, scientific and engineering innovations, and a geographically diversified sales network have allowed the company to create a modern vertically integrated entity manufacturing and supplying high-tech and competitive pipe products. TMK's unique production and service capacities satisfy the demand of a wide range of customers and offer effective solutions to their operational challenges.

Letter to Shareholders

Chairman of the Board of Directors of TMK, Dmitry Pumpyanskiy

TMK CEO, Alexander Shiryaev

Dear Shareholders!

In 2013, for the fifth year running, TMK managed to retain its leadership as the world's largest manufacturer of tubular products. Our enterprises produced approximately 4.3 mln tonnes of pipe, setting a new production record. We continued to build up shipments of TMK's key products, such as OCTG and line pipe.

It is of particular significance that we set this record despite the challenges facing the industry in the shape of overproduction. Steel companies from all over the world have been struggling to deal with slumping prices, waning demand and financial problems for the last several years. We have also seen growing competition in the pipe markets. Yet, even in this difficult environment, we have managed to maintain our margins, seeing only a slight dip in revenue and EBITDA.

Our key priority for 2013 was to improve operational efficiency and product quality. Summing up our annual performance, we are pleased to say that we have made notable achievements in organising our production processes. Our Russian division has performed relatively well, playing a central role in the operational success of the company by driving the financials up. A number of our enterprises set new records in terms of total output in 2013.

The impact various factors had on our sales markets sometimes went in opposite directions. The North American market saw substantial growth, driven by shale oil production. TMK's American division reported the best output results in its entire history. Increasing imports, however, put pressure on prices, which in turn affected the American division's financial results. We are confident that TMK's American enterprises have the potential to improve efficiency in 2014.

The European market is still in a state of stagnation. Despite this troubling backdrop, TMK's European division managed to keep its production volumes on track – an impressive achievement, given the current environment. In 2013, for the first time, the Middle East division operated as a part of TMK. The division focused on optimising production processes and developing partnerships with customers. We expect to see further growth in TMK's Middle East enterprises and also an increase in pipe shipments.

A larger share of premium products in our sales is key to securing higher margins. In 2013, the company set a record for shipments of premium connections. TMK supplied 774 thous. connections, up one third year on year. We are set to increase premium product output even further in 2014. We witnessed another landmark development in 2013: TMK brought two of its premium connections families together under a single brand – TMK Ultra Premium (TMK UP). We believe that this brand will earn recognition, bolster demand for TMK's premium products, and help to promote them in international markets.

TMK has marked itself out as a player in the oil and gas services market. We have been active in promoting this line of business in Russia, the USA and the Middle East

Given the increasingly difficult oil and gas drilling and production conditions, our customers' requirements are becoming more technically demanding. We are now expected to supply products which are tailor-made for a specific field, project, or well in due time and complemented by the required services. We need to tap existing potential and utilise new technology to enable us to manufacture the line of products the market demands. We see the role of our new technical sales function as crucial in completing this task. Set up last year to tailor the company's offering to customers' demands, this initiative not only allows us to manage sales efficiently, but also to plan our relationship with each client on the basis of its prospective midterm needs.

To put this approach into practice, we have signed two three-year contracts to provide both OCTG and line pipe to Shell for use onshore and offshore. The company's American division has already proceeded with the implementation.

Over the past few years, the company has marked itself out as a player in the oil and gas services market. We have been active in promoting this line of business in Russia, the USA and the Middle East. OFSi, purchased in April 2013, has successfully integrated itself into the Group and appears to have good development prospects in the American market. TMK has also overhauled its Russian production facilities within TMK Oilfield Services. Threading and Mechanical Key Premium, a UAE-based service provider, has seen a positive result too.

The company has ambitious plans for service development. We are committed to the consistent realisation of these plans, in certain areas jointly with leading international companies. For instance, we have reached an agreement with Baker Hughes, a top 3 leader in the global oilfield services market, to provide integrated well-completion solutions together. By providing the supply, installation, and maintenance of down-hole equipment and tubular products for oil and gas companies, we will be able to drive servicing costs down and reduce drilling risks for our customers.

In 2013, we continued our strategic investment programme. One of the highlights at the final stage of its realisation was the launch of a new electric arc furnace at the TAGMET plant, which allowed us to abandon outdated open-hearth production, improve efficiency of TAGMET steelmaking facilities, and greatly reduce negative environmental impacts. One of the company's longest-established plants became the launchpad for a brand new state-of-the-art production facility, one of the most technologically advanced projects in the world. This year, we are planning to complete our large-scale investment programme by launching a FQM seamless pipe mandrel mill at the Seversky Pipe Plant.

We have declared 2014 as the year of rational human resources usage and boosting TMK's human capital

2013 was also successful in terms of the company's efforts in R&D. Our Russian and American R&D centres continued a daily exchange of knowledge and achievements, and stepped up collaborative efforts to introduce new products and create new technologies. In 2014, we are planning to develop the project of a corporate innovation centre at Skolkovo (Moscow, Russia). This R&D centre will offer a platform for the scientific research and development of new tubular products, new materials and technology.

That said, no matter how advanced production-related technologies and equipment become, it is the human factor which remains of utmost importance. We should focus even more heavily on HR management. While it is true that we have extensive experience in this area, there are still untapped reserves here.

The knowledge, expertise and skills of TMK's employees are the company's major asset. This is why we have declared 2014 as the year of rational human resources usage and boosting TMK's human capital. It is essential that all our employees know that the company cares for them and that they understand what is expected from them. This means that when they join TMK, they are joining us for the long term. The quality of human capital and the company's overall efficiency greatly depend on TMK's reputation as an employer. Progressive professional development programmes for staff categories ranging from regular workers to highly-qualified specialists and engineers, experience sharing among divisions and their joint efforts in tackling common issues should become routine events for the company. We should develop our employees and consistently create the conditions and incentives required for their professional growth.

For our industry, the year of 2014 is going to be as tough as the previous one. All of TMK enterprises have challenging tasks, related to both operational and financial performance. We hope to maintain current shipment volumes for the company's key products and retain our leadership in domestic markets by committing to efficient teamwork. TMK has a long and successful track record of delivering on challenging projects and manufacturing world-class products. We are known as a financially robust business which cares for shareholder values. We have no doubts that we will prove it again. To do so, we have all the resources in place, including a strong technological platform, a state-of-the-art equipment, highly-skilled personnel, a clear vision of the company's growth strategy and confidence in our potential to perform.

Chairman of the Board of Directors of TMK, Dmitry Pumpyanskiy
TMK CEO, Alexander Shiryaev

Key Events

January

- TMK ran its casing pipe with TMK PF premium connections in the horizontal well that goes under the bed of the Karsk Sea at NOVATEK's Yurkharovskoye field. TMK was the casing pipe column supplier, providing its run in to the well.

March

- TMK shipped the first pilot batch of vacuum insulated tubing (VIT) made of 13 Cr steel (super-chrome steel) for Gazprom's Bovanenkovskoye oil and gas condensate field on the Yamal peninsula.
- TMK Gulf International Pipe Industry LLC (TMK GIPI), TMK's Middle East division, received a recognition award from Petroleum Development of Oman LLC (PDO) for the successful production and delivery of the 158 km South Oman Gas Line project.
- TMK IPSCO, the American division of TMK, opened a new pipe threading and service facility in Edmonton (Alberta, Canada) that will supply the full line of ULTRA premium connections on pipe and accessories to TMK IPSCO's growing oil and gas customer base in Alberta and neighbouring British Columbia.

April

- The company acquired pipe services and precision manufacturing assets located in the United States. The facility has the capacity to produce more than 700 thous. joints of threaded pipe and around 250 thous. couplings. In addition, the facility provides pipe inspection services and manufactures down-hole tools and accessories for a wide range of oil and gas applications. The assets were integrated into OFS International LLC (Houston, USA), a TMK subsidiary.
- TMK signed an agreement with the Skolkovo Fund to open its R&D facility in the Skolkovo Innovation Centre. It will focus on developing efficient technologies in the areas of oil and gas exploration and production, transportation of hydrocarbons, and on finding new solutions to improve energy efficiency in the iron and steel industry.
- TMK completed a 500 mln USD Eurobond offering maturing in 2020 with a coupon rate of 6.75% p.a.

June

- TMK and Gazprom Neft approved an R&D cooperation programme for 2013–2015 covering the launch of new types of casing, tubing and line pipe with improved performance characteristics, along with technical support and supervision from theTMK side.
- TMK NGS-Nizhnevartovsk launched an inner coating line with annual capacity of 32 mln tonnes of 73–168 mm pipe.

July

- TMK supplied a batch of large diameter pipe to Transneft to upgrade the Druzhba trunk oil pipeline stretching for 8,900 km, of which 3,900 km run on the Russian territory.
- TMK shipped tubular products for Kura Valley Operating company for Padar field (Azerbaijan) infrastructure development including casing pipe with couplings and TMK CWB / TMK PF premium connections, extreme-line casing with ULTRA-FJ and ULTRA-SF premium connections, and conductor large diameter pipe from a third-party supplier.

August

- TMK supplied tubing with TMK FMT premium connections and provided related services for the hydraulic fracturing project at the Davydovskoye oilfield operated by Orenburgneft, a Rosneft subsidiary.
- The company installed a new electric arc furnace at TAGMET, completing the replacement of obsolete open-hearth furnaces at TMK facilities and increasing the steel output to 950 thous. tonnes p.a.
- TMK shipped a batch of pipe for the construction of offshore pipelines at the fields of Oil and Natural Gas Corporation Limited (ONGC), India’s state oil and gas company.
- TMK was officially notified by Abu Dhabi Company for Offshore Oil Operations (ADCO) that the Volzhsky Pipe Plant was acknowledged as an approved vendor of threaded pipe with TMK PF premium connections.

September

- TMK-INOX, a joint venture of TMK and RUSNANO, acquired Arinoi Group of Companies electric welded stainless steel pipe business. In this way, TMK-INOX became Russia's largest producer of stainless steel and alloy steel welded tubular products.

October

- TMK implemented a new technology of lubricant-free coating for threaded connections – Green Well. Casing pipe with TMK PF premium connections and the innovative coating were used for assembling casing columns run into the wells at Rosneft's Vankorskoye field.
- TMK completed shipments of large diameter pipe for the Central Asia – China international natural gas pipeline. The company shipped over 100 thous. tonnes of longitudinal welded pipe with external and inner coating.
- TMK completed shipments of tubular products for the construction of deep water pipelines at the Filanovsky oil and gas condensate field in the North Caspian Sea, under development by Lukoil. TMK has supplied 70,300 tonnes of pipe with external three-layer polyethylene coating.

November

- TMK united its two premium connections families, TMK Premium and ULTRA, under a single brand – TMK Ultra Premium (TMK UP) to expand bidding opportunities for the company's premium tubular products worldwide, unify its portfolio of global packaged product offerings, and raise global awareness of TMK's premium solutions.

January 2014

- TMK IPSCO, the American division of TMK, signed and proceeded to implement two three-year contracts to provide both OCTG and line pipe to Shell for onshore and offshore applications.

February 2014

- Threading and Mechanical Key Premium LLC, TMK's service and support centre in Abu Dhabi (UAE), was certified by Abu Dhabi Company for Offshore Oil Operations (ADCO) to provide oilfield services. This will enable the company to participate in ADCO's bids as a contractor for threading of premium connections and pipe repair (both on a standalone basis and as part of tubular product supply).

- TMK received an official confirmation that the pipe made of the company's Russian-produced billets are eligible for use by Iraq's South Oil Company (SOC), which enjoys the exclusive right to develop oilfields in the south of the country.

March 2014

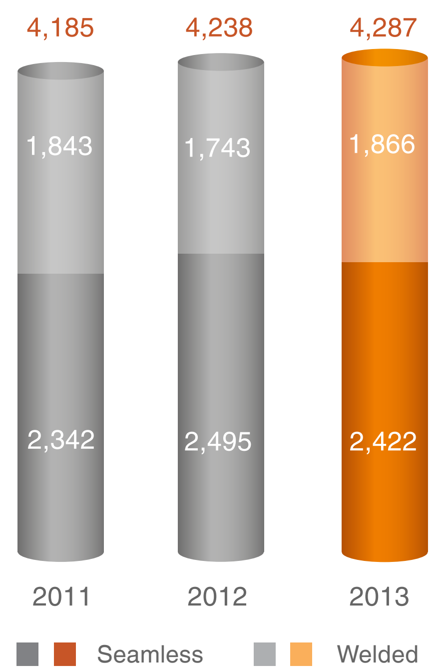
- TMK was qualified by Kuwait Oil Company (KOC), one of the Middle East oil majors, as an approved supplier of TMK UP PF and TMK UP PF ET premium connections.

We confirmed our leadership on the global pipe market, having sold 4,313 thous. tonnes in 2013

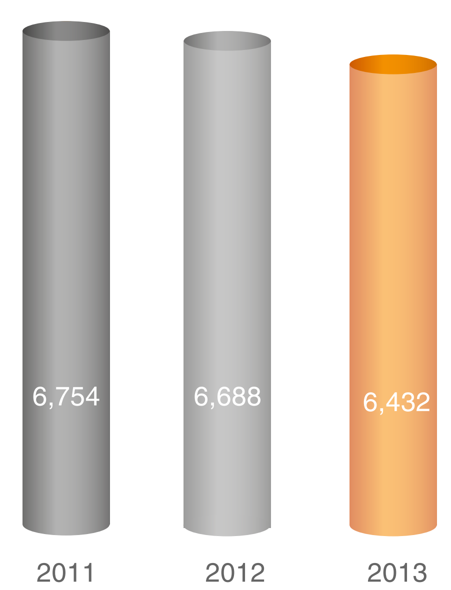
Company Overview

Key Indicators

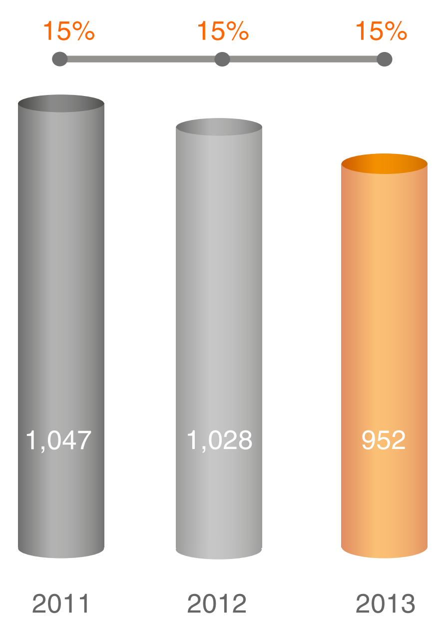
Sales, thous. tonnes



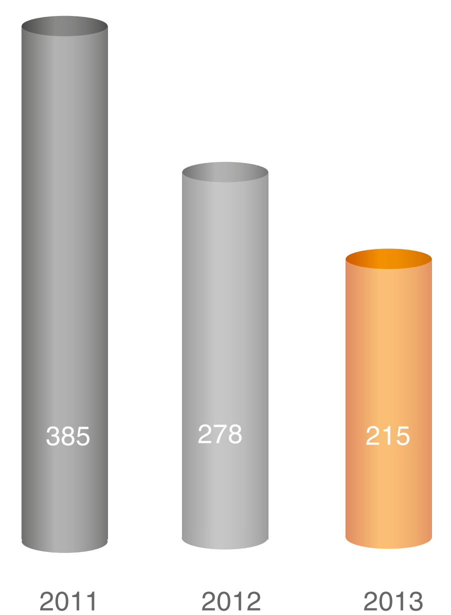
Revenue, mln USD



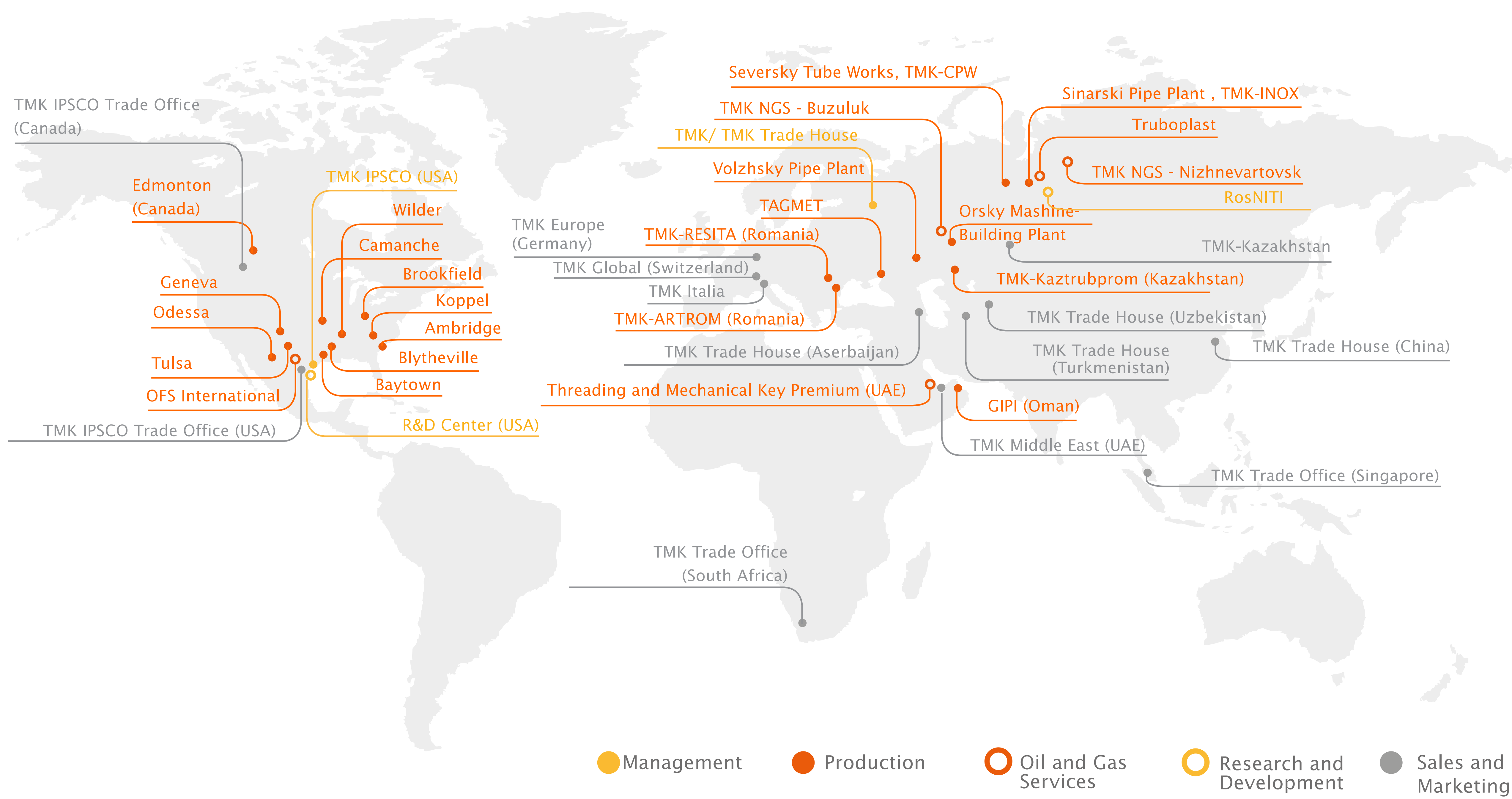
EBITDA, mln USD and EBITDA margin, %



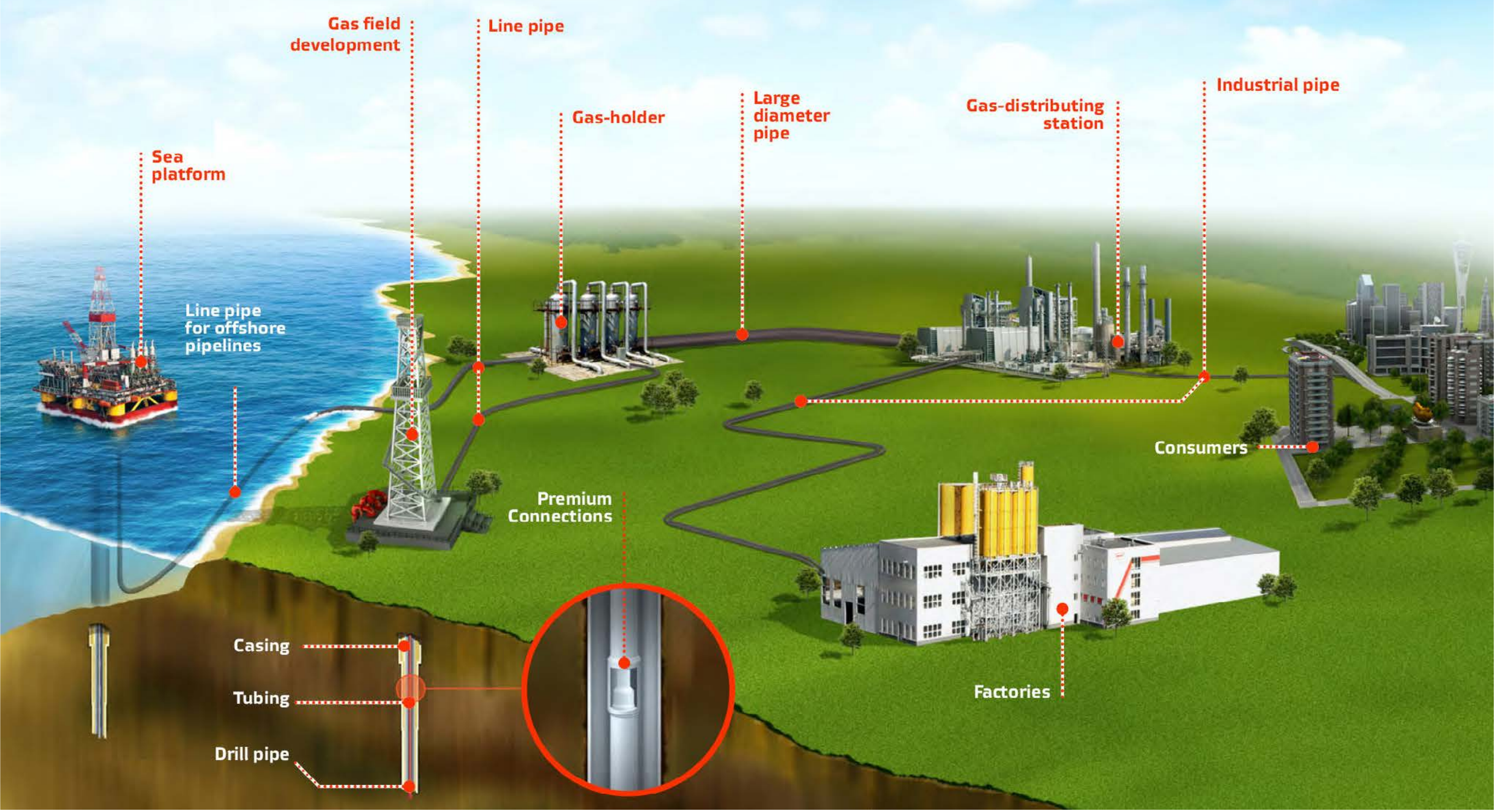
Net income, mln USD



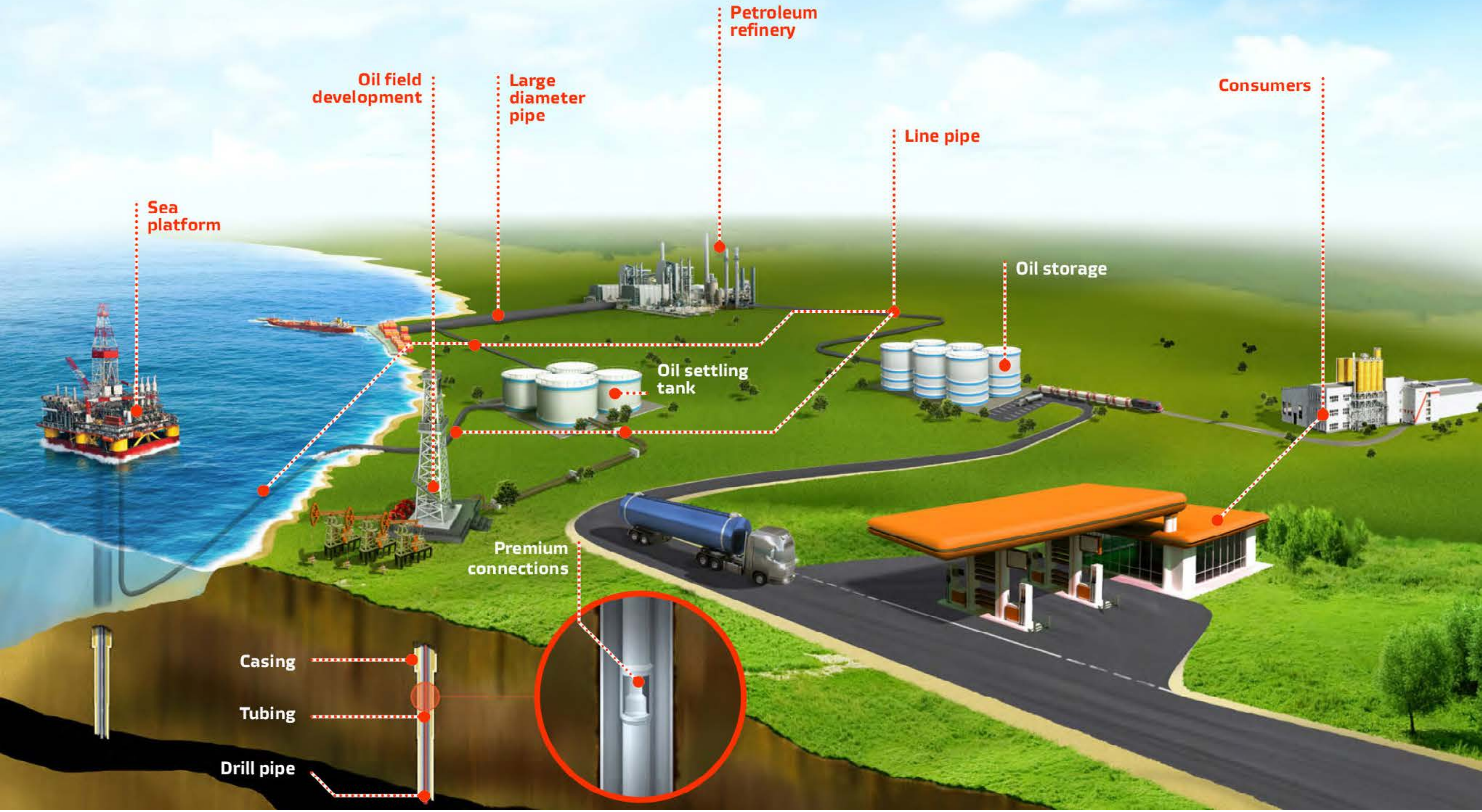
Global Footprint



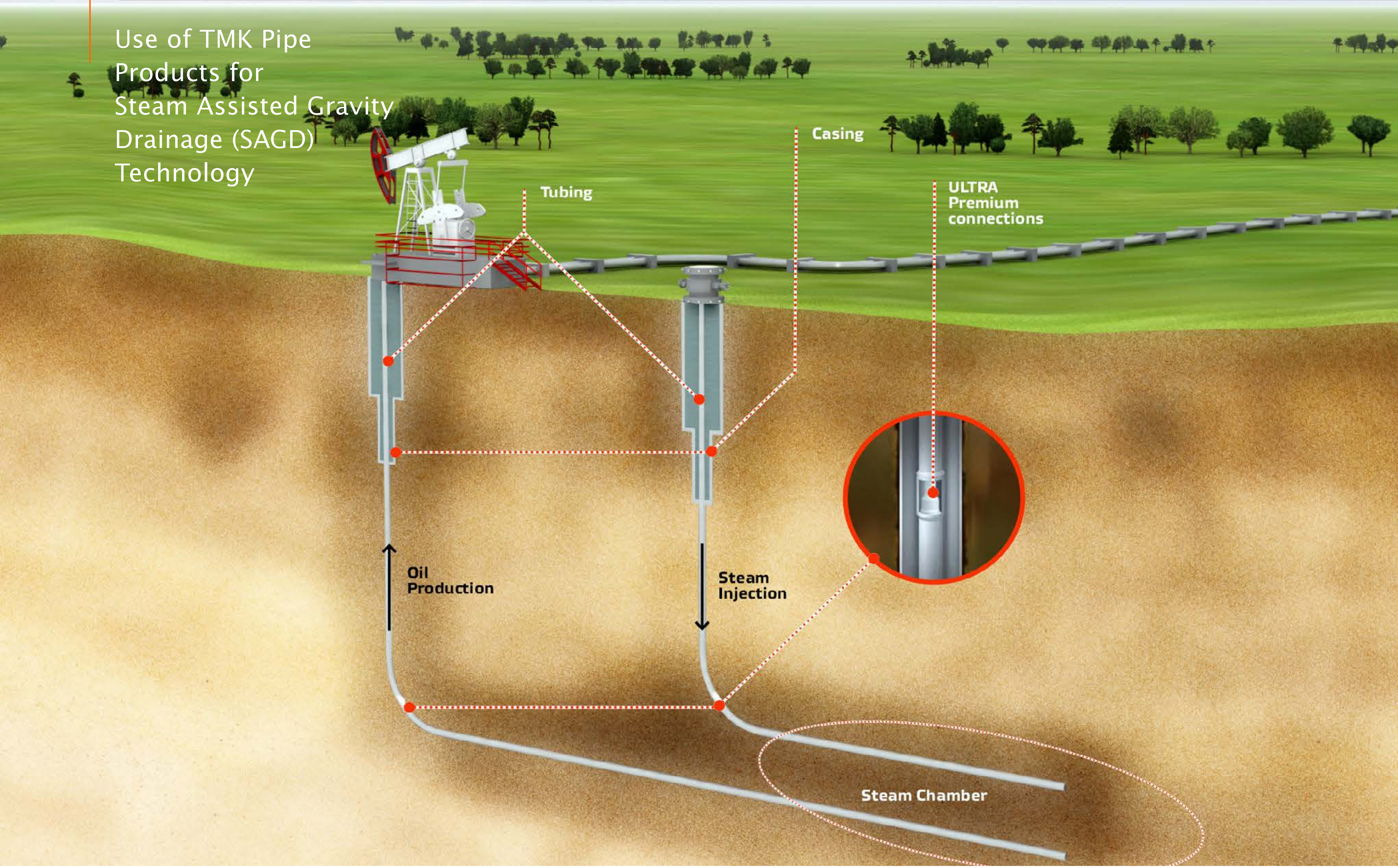
Use Of TMK Pipe Products For Gas Production And Transportation



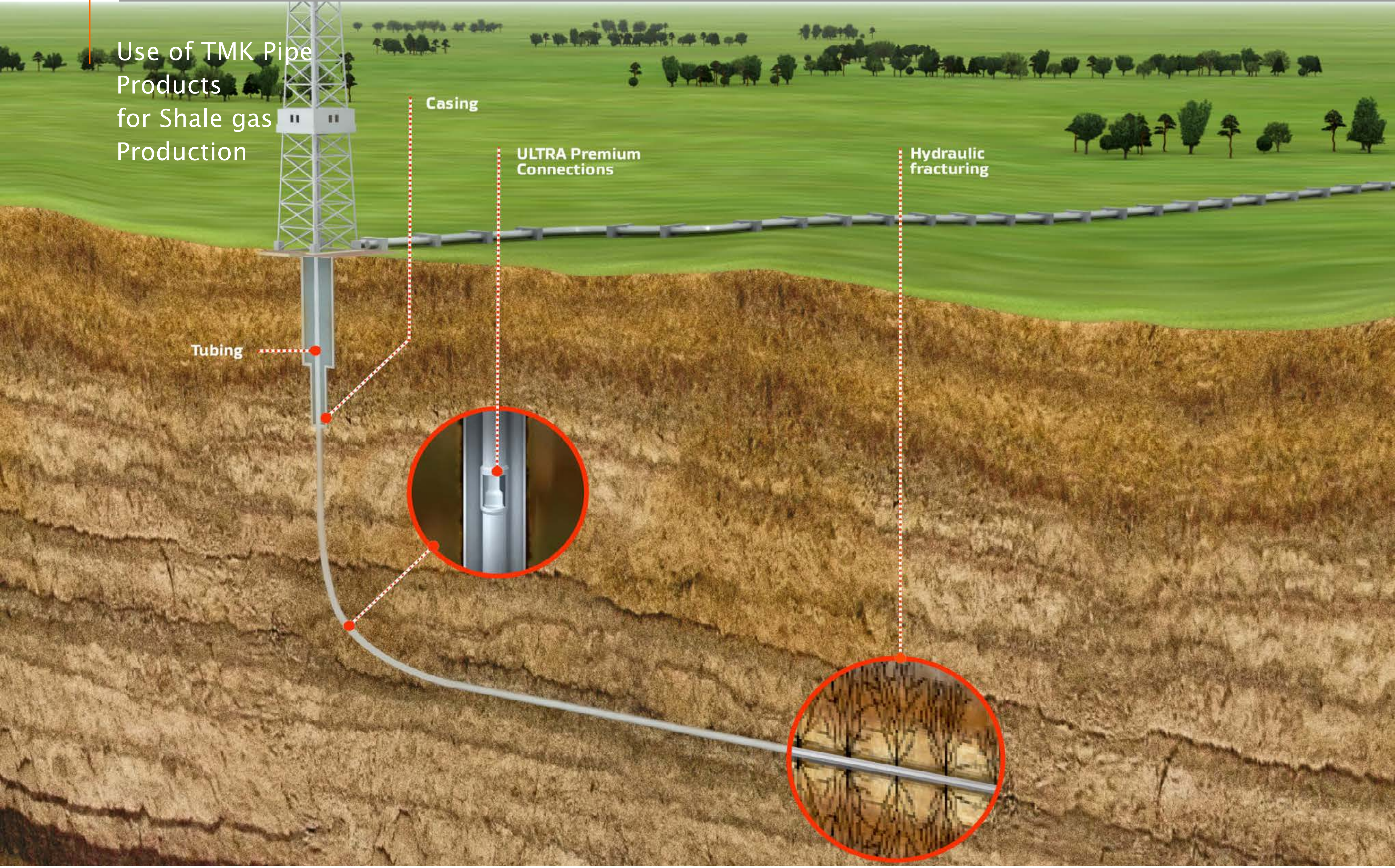
Use Of TMK Pipe Products For Oil Production And Transportation



Use of TMK Pipe Products for Steam Assisted Gravity Drainage (SAGD) Technology



Use of TMK Pipe Products for Shale gas Production



Market Position

In 2013, we confirmed our leadership on the global pipe market: for the fifth time, the company was the largest global steel pipe producer, having sold 4,313 thous. tonnes, up 2.2% year-on-year.

TMK produces the following pipe types:

- *seamless oil country tubular goods (OCTG)* used for drilling, operation and maintenance of oil and gas wells;
- *seamless line pipe* used for the construction of oil and gas pipelines;
- *seamless industrial pipe* used in the chemical, petrochemical, food and nuclear industries, as well as for the production of steam boilers, bearings and various machine parts and components;
- *welded oil country tubular goods (OCTG)* used for drilling, operation and maintenance of oil and gas wells;
- *welded line pipe* used for the construction of oil and gas trunk pipelines and low pressure steam lines;
- *welded large diameter pipe (LDP)* used for the construction of oil and gas trunk pipelines, oil field pipelines, general purpose pipelines, and pipelines for heat supply networks and nuclear power stations;
- *welded industrial pipe* used in engineering, construction, housing and utilities sector and in a wide range of other applications.

Our main focus is the production of goods for the oil and gas industry. TMK's sales to the oil and gas industry account for 76% of our total sales.

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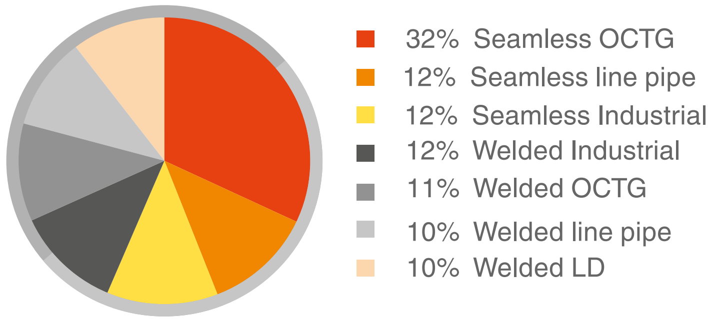
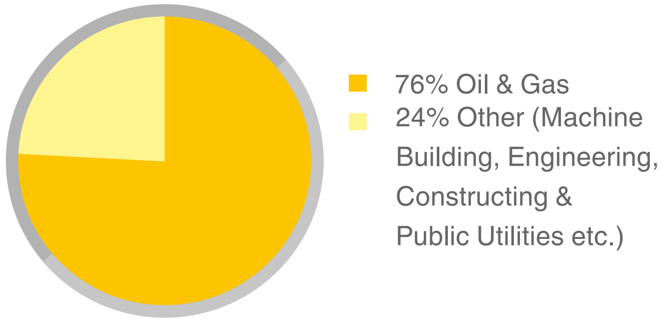
2013 product portfolio

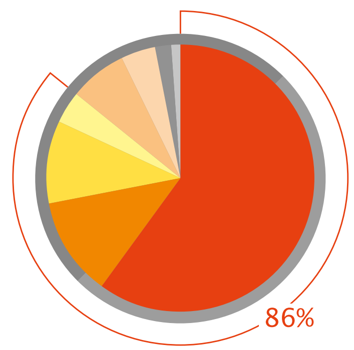


2013 sales by industry



Our production capacities are located in regions that account for 86% of total global drilling: in Russia, the United States, Canada and the Middle East. As of 2013 year-end, our sales represented 10.5% of the global OCTG market and 9% of the line pipe market (both seamless and welded).

2013 global drilling geography (by rig count)

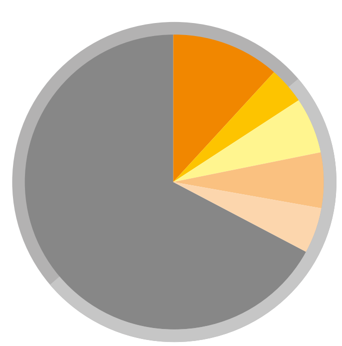


US + Russia + Canada + Middle East = 86%

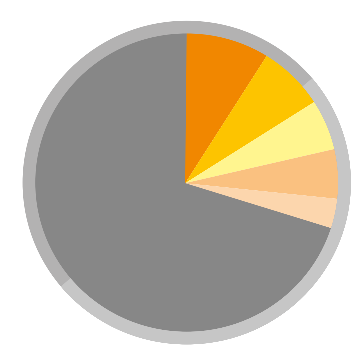
Note: Excluding China and Central Asia.
Onshore and offshore drilling.
Source: Spears & Associates

Our top five customers continued to account for 30% of TMK's total sales since 2012, and in 2013 included four Russian companies (Rosneft, Gazprom, Surgutneftegaz and Lukoil) and Bourland & Leverich, one of the leading American OCTG vendors.

2012 sales by customer



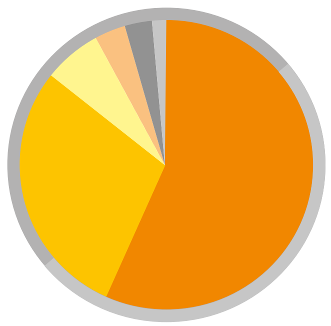
2013 sales by customer



As of 2013 year-end, our sales represented 10.5% of the global OCTG market and 9% of the line pipe market (both seamless and welded)

We supply our products to over 80 countries. In 2013, the Russian market represented 57% of our total revenue, the American market – 29%, the European market - 7%, and 3% for Central Asia, the Caspian region, Asia and the Far East each. Geographic diversification ensures our strong position, offsetting the negative impact of falling markets in one region by rising markets in another.

2013 sales geography (by revenue)



Pipe sales by division, thous. tonnes

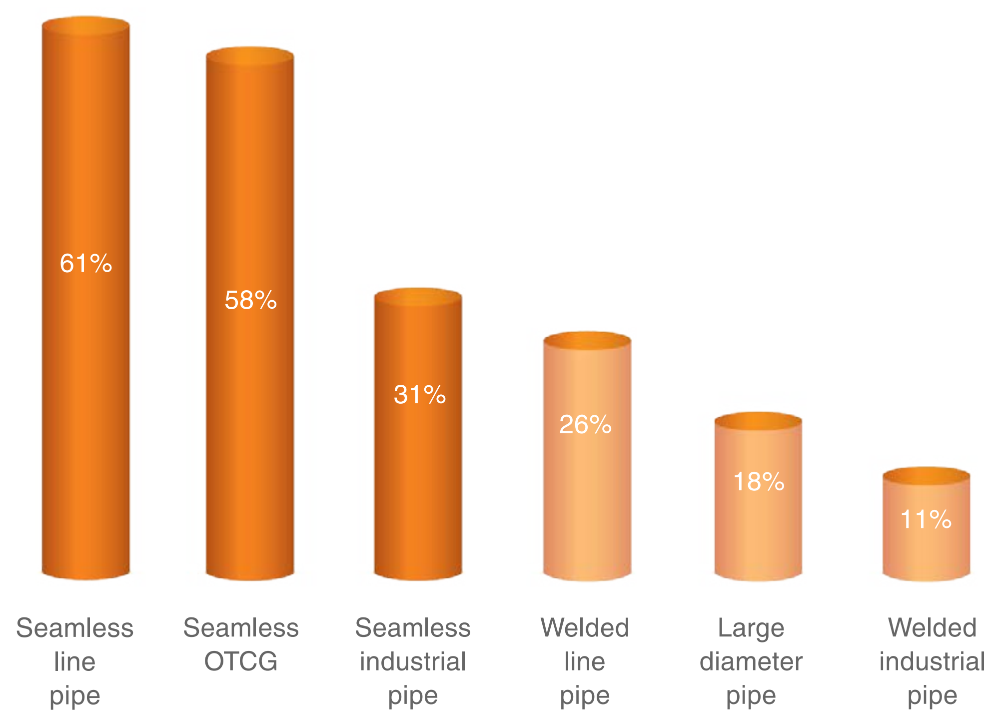
	Russian division			American division			European division		
	2013	2012	Change, %	2013	2012	Change, %	2013	2012	Change, %
Seamless pipe									
OCTG	1,079	1,104	-2%	279	243	15%	1	0	-
Line pipe	485	573	-15%	23	13	74%	23	25	-8%
Industrial pipe	363	374	-3%	17	12	43%	152	151	0%
Welded pipe									
OCTG	8	0	-	457	375	22%			
Line pipe	338	309	10%	108	115	-6%			
Industrial pipe	370	391	-5%	143	145	-1%			
Large diameter pipe	442	408	8%	0	0	-			
Total	3,085	3,159	-2%	1,027	903	14%	175	176	-0.3%

We supply our products to over 80 countries

Russian Market

In 2013, the Russian pipe market was 4% up year-on-year mainly driven by the growing demand from oil and gas companies. We maintained our leadership position on the Russian steel pipe market with a share of 25.2% at 2013 year-end.

TMK's share of the Russian pipe market in 2013 by product type, %



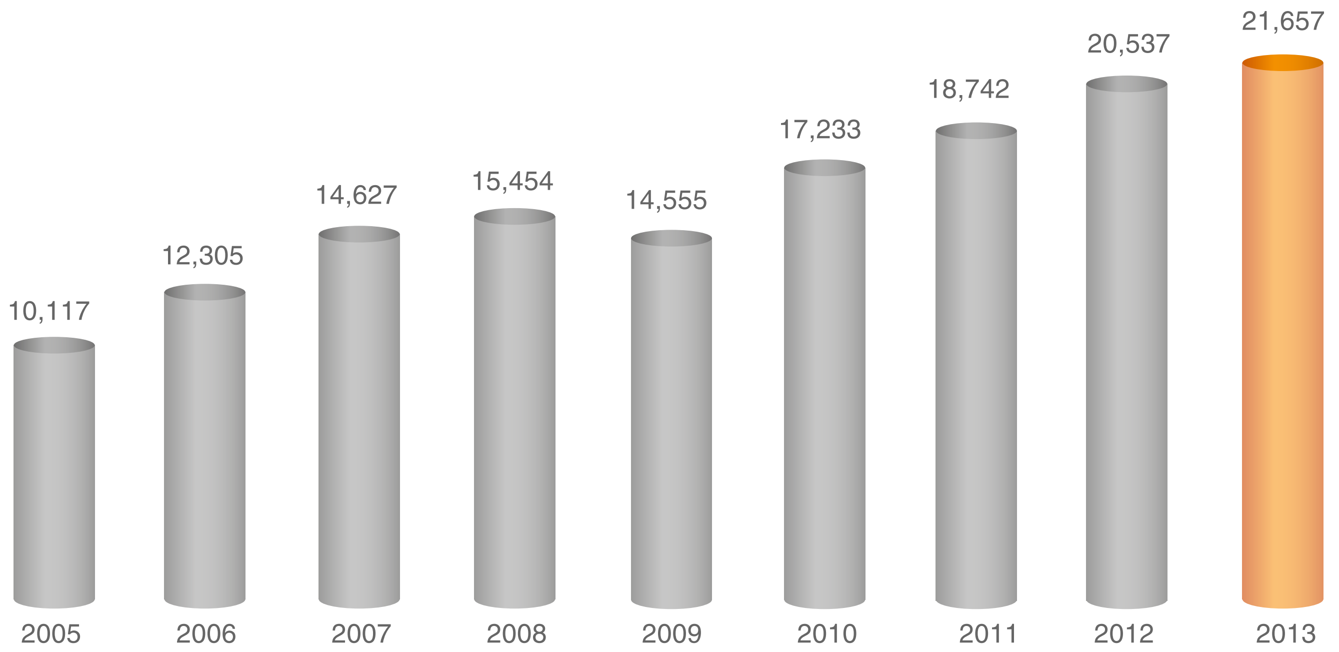
Our priority remains to produce and sell high-tech and high value-added products, mostly seamless OCTG, which made up 35% in the total sales of our Russian entities in 2013.

We maintained our leadership position on the Russian steel pipe market with a share of 25.2% at 2013 year-end

Oil and gas pipe and premium products

In 2013, Russia increased the production of oil with gas condensate by 1% year-on-year to over 523 mln tonnes. Drilling grew by 5.5% to 21,657 km over the same period.

Drilling in Russia (exploration and development), km

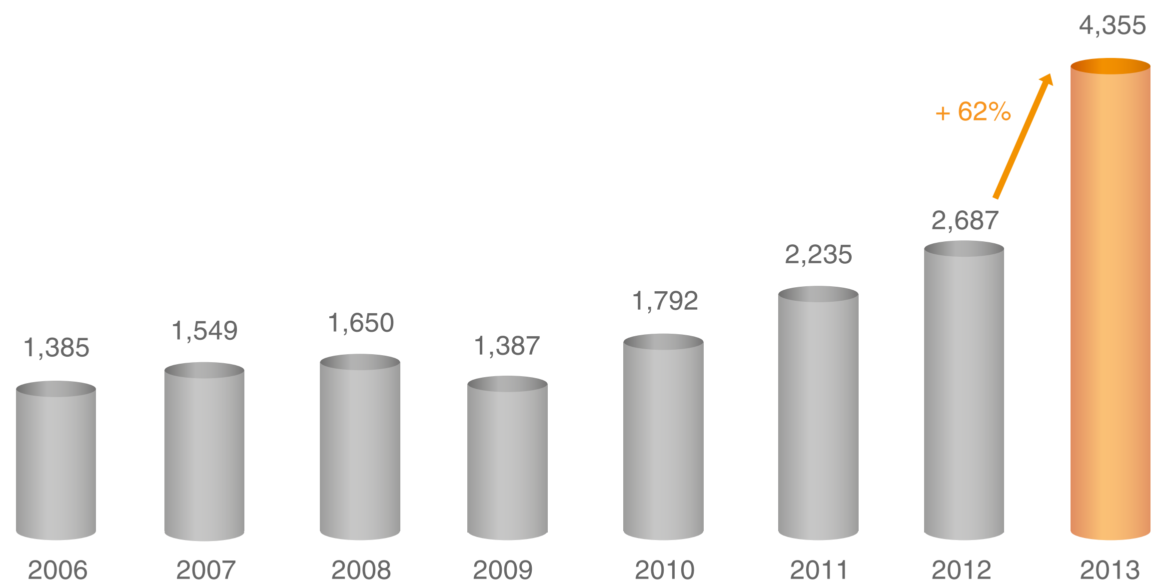


Source: NGV, CDU TEK, Citi Research

In 2013 **drilling grew** by **5.5%** to **21,657 km**

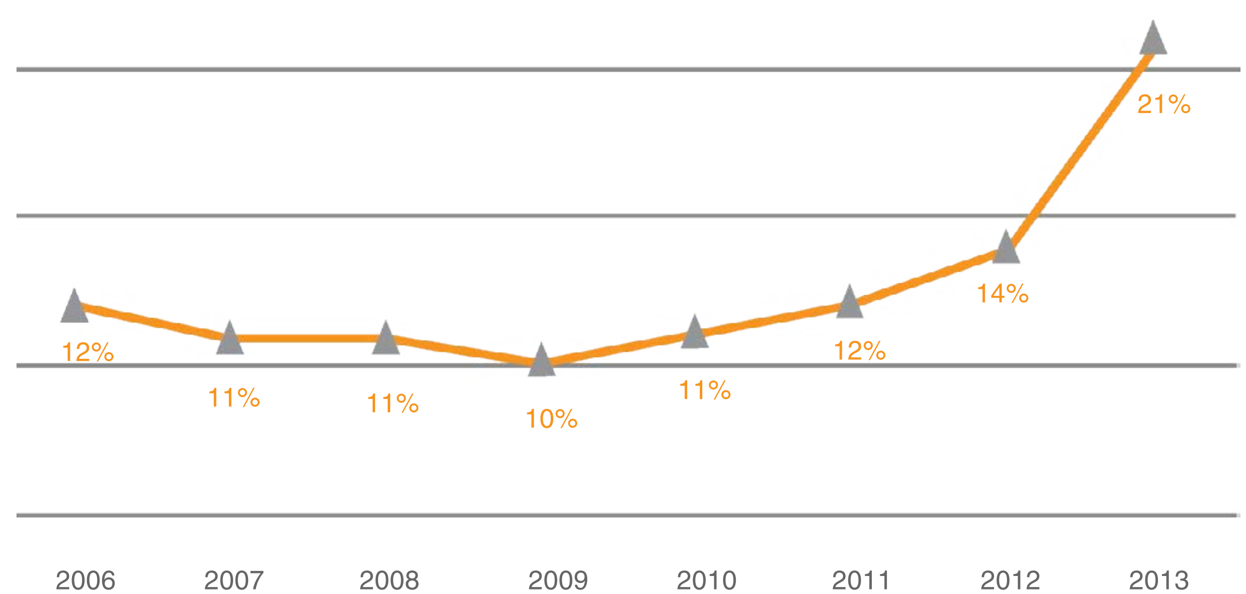
The depletion of conventional oil and gas fields has boosted horizontal and directional drilling at the expense of vertical wells. In 2013, horizontal drilling increased dramatically by 62% year-on-year. Horizontal drilling reached 21% of the total footage drilled at year-end and 26% in the last four months. Average well depth continued to grow as well: by 2% for horizontal wells and by 3.6% for both vertical and horizontal production wells.

Horizontal drilling in Russia, km



Source: NGV, CDU TEK, Citi Research

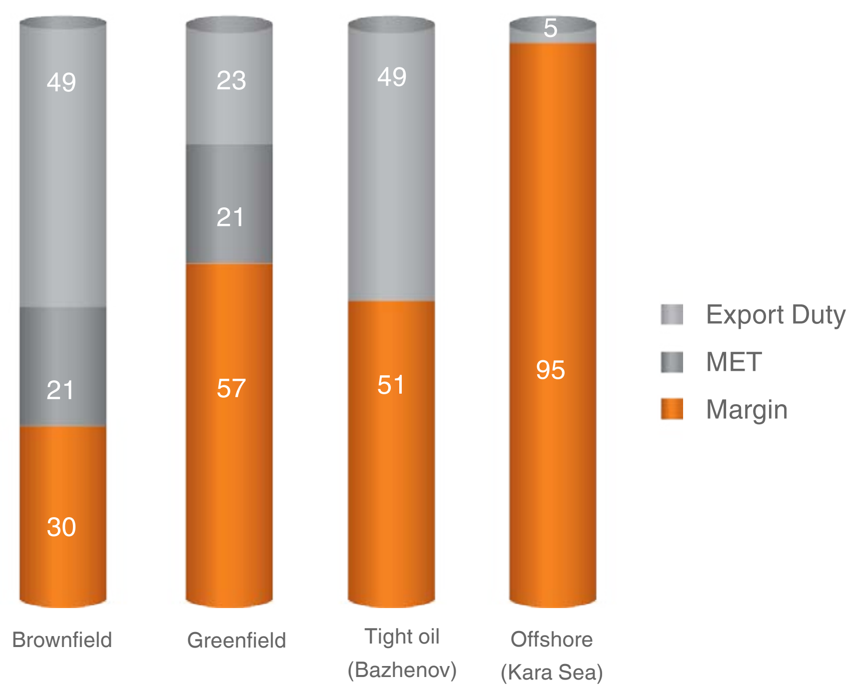
Share of horizontal drilling in Russia, %



Source: NGV, CDU TEK, Citi Research

Oil and gas production is shifting to regions with adverse climate and geological conditions. In late 2012 and during 2013, the Russian government took steps to promote the production of hard-to-reach oil, along with the production of oil in Eastern Siberia, the Yamal-Nenets Autonomous Area, the Arctic shelf, the Sea of Okhotsk, the Caspian region, etc. The favourable tax regime, including export duty and mineral extraction tax benefits, is another driver behind the increased drilling.

Russian oil company taxation, %



Source: Bank of America Merrill Lynch

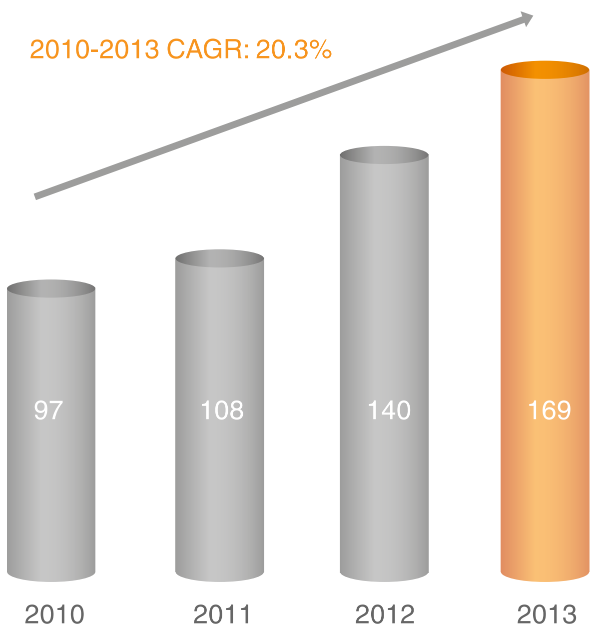
Extensive drilling ensured strong demand for oil country tubular goods and resulted in higher consumption of seamless OCTG in Russia (up 14% in 2013 vs 2012).

In 2013, TMK's **shipments** of premium connection **pipe gained 20.7%** year-on-year

To meet the demand of oil and gas companies which have to deal with permafrost, aggressive environments and extreme depths to develop wells and produce hydrocarbons, we develop new types of premium products and boost their output.

In 2013, TMK's shipments of premium connection pipe gained 20.7% year-on-year with 2010–2013 compound annual growth rate of 20.3% p.a.

Shipments of premium connection pipe, thous. tonnes



In 2013, we carried out a number of important projects in the premium segment.

We ran casing pipe with TMK PF premium connections in the horizontal well that goes under the bed of the Karsk Sea at NOVATEK's Yurkharovskoye field. A column of casing pipe was run into the well. The total length of the run reached 7 thous. metres. This is at present the longest well made with TMK premium casing pipe. The Yurkharovskoye oil and gas condensate field is located in the Yamal-Nenets Autonomous Area in the south-eastern part of the Taz peninsula, going beyond the Arctic Circle, and satisfies about 10% of the demand for gas on the internal market of Russia.

We successfully implemented the technology of lubricant-free coating for threaded connections – Green Well

For the first time in Russia, our premium products were engaged in hydraulic fracturing activities. We provided tubing with TMK FMT threaded connections produced jointly by the Sinarsky Pipe Plant and TMK-Kaztrubprom to the Orenburg Region's fields and successfully run the tubing column in two wells of over 4 thous. metres deep. Our premium connections assure combined strength and tightness to ensure safe and smooth high-pressure hydraulic fracturing.

We successfully implemented the technology of lubricant-free coating for threaded connections – Green Well - which ensures pressure-tightness of the casing columns without using thread-sealing lubricants. This reduces the sinking preparation time by eliminating thread cleaning. The new polymer coating protects threaded connections against corrosion in storage and transit to fields. The Green Well technology complies with the strictest environmental standards and guarantees environmentally friendly well development and operation. The pilot batch of casing pipe with Green Well coating and TMK PF premium connections were run into two wells at Rosneft's Vankorskoye field. Sinking completed, the experts of TMK and Rosneft confirmed the high added value of Green Well.

In July 2013, we started to supply casing and tubing pipe, crossover subs, filters and fittings, as well as low-temperature premium connection pipe for production wells at Yamal LNG's Yuzhno-Tambeyskoe field.

We pioneered the development and industrial production of vacuum insulated and plain-end tubing made of 13 Cr super-chrome steel with gas-tight premium threaded connections in Russia. This pipe is used in the production of gas and gas condensate with high carbon dioxide content in the Far North. The pilot batch of vacuum insulated tubing of 13 Cr super-chrome steel was shipped to Gazprom's Bovanenkovskoye oil and gas condensate field on the Yamal peninsula. Previously, Russia had imported all such pipe.

Thanks to the high quality of our tubular products and comprehensive technical and service support, we are involved in complex projects calling for the use of advanced technologies and state-of-the-art equipment and services.

Our total LDP sales in 2013 went up by 8% to 442 thous. tonnes from 408 thous. tonnes in 2012

Large diameter pipe

In 2013, the Russian market for large diameter pipe (LDP) shrank by 1% year-on-year. However, our domestic LDP shipments grew by 17.2% and our share in Russia increased to 17.6% from 14.9% in 2012.

Our total LDP sales in 2013 went up by 8% to 442 thous. tonnes from 408 thous. tonnes in 2012.

In 2013, Gazprom remained TMK's largest LDP buyer accounting for 43% of our LDP sales. We provided Gazprom with products for the onshore part of the South Stream gas trunk pipeline, with a big part of supplies focused on repair and maintenance needs.

In 2013, we completed the shipment of tubular products for the construction of deep water pipelines for Lukoil's North Caspian project. Subject to the project requirements, all stages of the pipe production process, from steelmaking to finished goods shipment, were supervised by the Russian Maritime Register of Shipping.

In October 2013, we completed the LDP shipment for the Central Asia – China international natural gas pipeline. As stipulated by the contract, we shipped over 100 thous. tonnes of longitudinal welded pipe with 1,219 mm diameter and 17.5 mm pipe walls and external polyethylene coating, complying with API Spec standards. The Central Asia – China gas pipeline, stretching for 7 thous. km, links large natural gas fields of Central Asia with the Chinese gas transportation system. Success in such major projects underscores our professionalism in pipe production and reiterates our commitment to international quality standards.

In the reporting year, a large portion of TMK's LDP shipments was used to meet Transneft's repair and maintenance needs and to facilitate the construction of its Zapolyarye-Purpe and Kuyumba-Taishet oil pipelines.

At 2013 year-end, we held a 31% share of the Russian market for seamless industrial steel pipe

Industrial pipe

In 2013, the seamless industrial pipe market declined by 3% due to weak demand from the engineering sector after Russia joined the WTO, while the welded industrial pipe market grew by 4% year-on-year driven by the extended use of welded shaped pipe in construction and structural steel manufacturing. Large cross-section shaped pipe are an alternative to shaped steel, including structural beams.

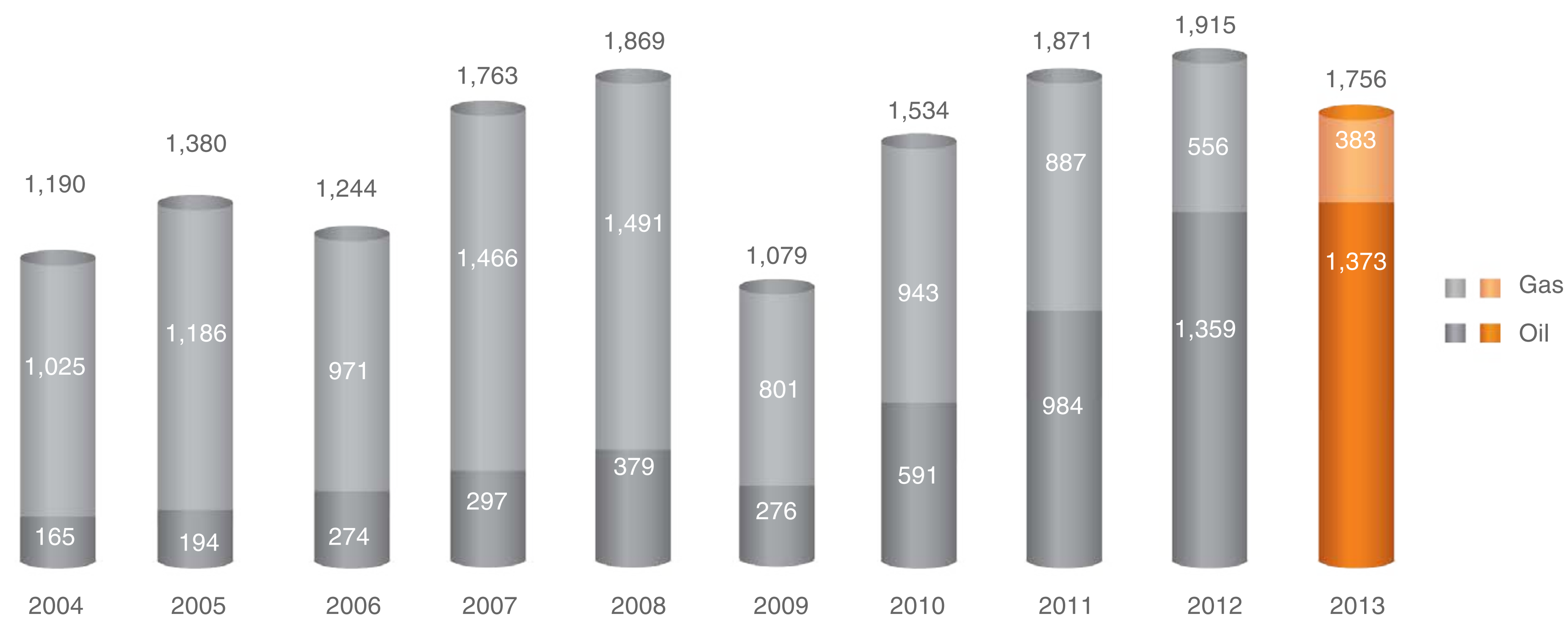
At 2013 year-end, we held a 31% share of the Russian market for seamless industrial steel pipe and had shipped 290.5 thous. tonnes of seamless industrial pipe (down 0.9% year-on-year), while our share of the welded industrial pipe market was 11%, with sales off by 5% to 264.5 thous. tonnes from 278 thous. tonnes year-on-year.

North American Market

In 2013, oil and gas prices went up year-on-year: by 4% for WTI crude oil and by 35% for natural gas.

Despite the price uptrend, the average rig count decreased by 8% to 1,761 from 1,919 year-on-year, driven by a steep decline in gas drilling, while oil drilling intensified. The average share of oil rigs went up to 77.9% in 2013 compared to 71% in 2012.

US gas and oil rigs



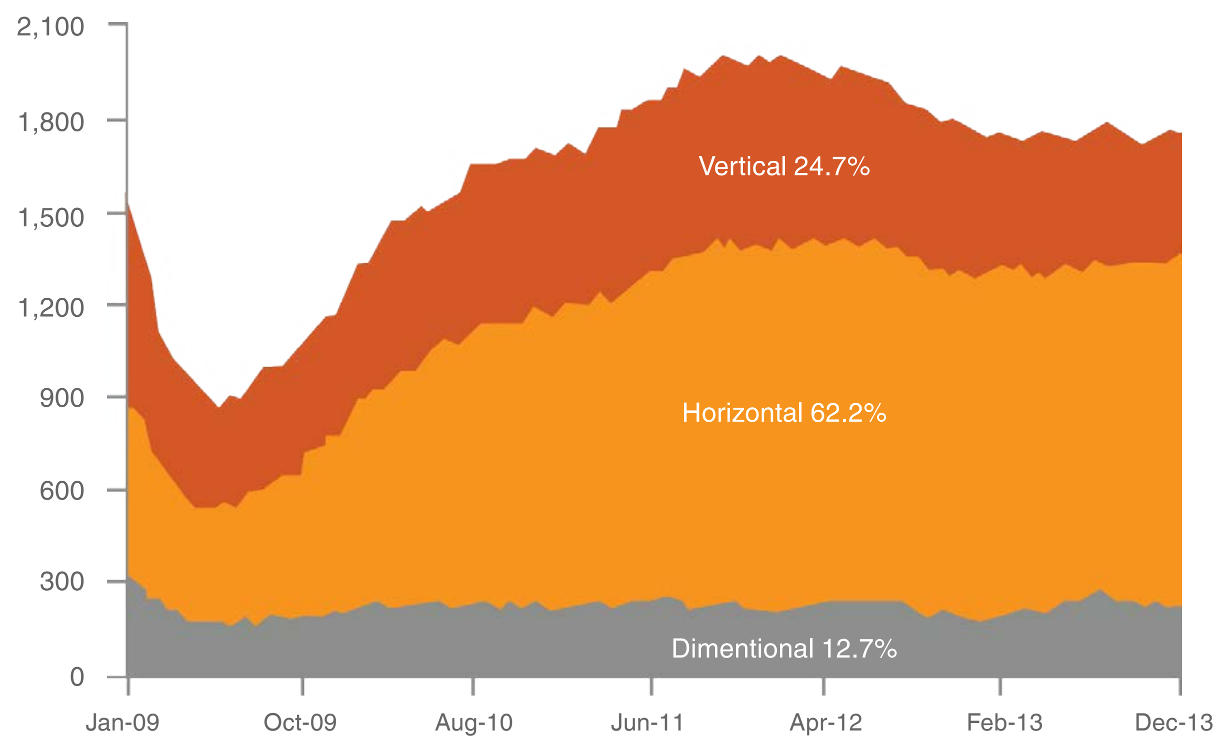
Source: Baker Hughes

The growing share of oil wells results in a declining demand for seamless pipe and hermetic premium connections widely used in gas field development.

The share of welded pipe sales is therefore rising with its accompanying lower margins. Moreover there was strong competitive pressure from Asian producers driving the prices down.

While rig count fell, the number of pipe per rig went up as operators continued to drill more horizontal and directional wells, with their average share in total wells increasing to 75% in 2013 from 71% in 2012.

US rigs by drilling method

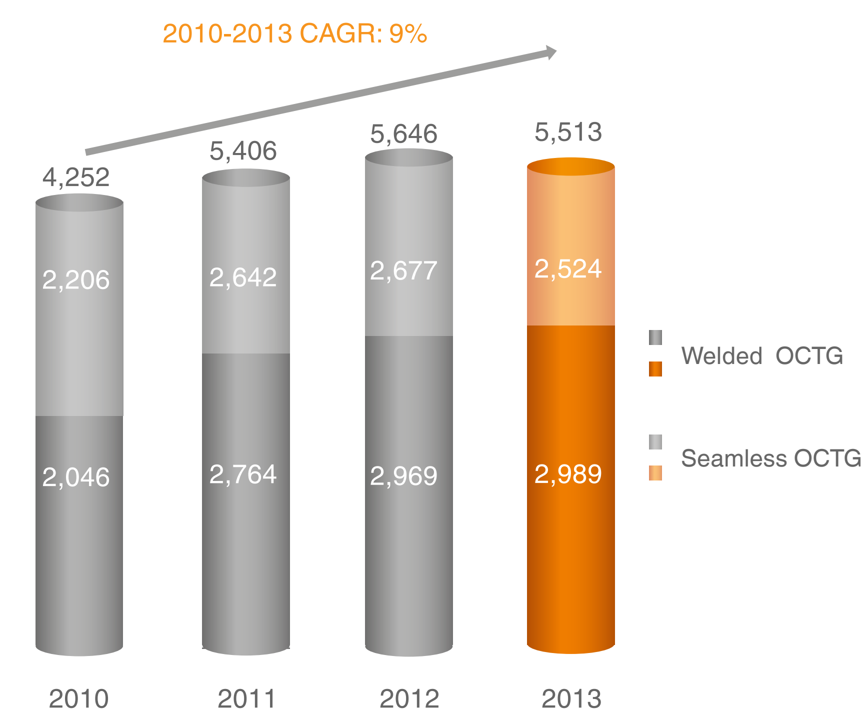


Source: Baker Hughes

In addition, the reduced rig count was partially offset by more efficient drilling. In 2013, the average number of wells per rig rose by 6.5% to 5.24 from 4.92 year-on-year.

The increasing share of horizontal and directional wells and higher drilling efficiency result in the growing demand for high-margin pipe and overall OCTG consumption, offsetting the premium market decline caused by oil drilling enhancement.

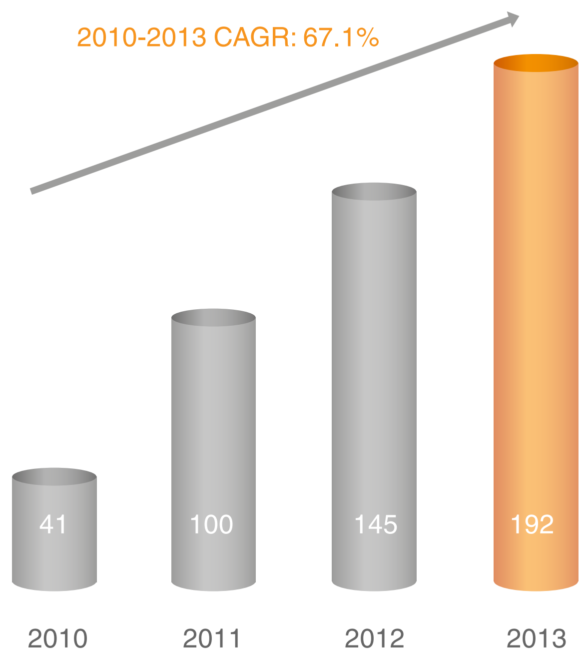
US OCTG consumption, thous. tonnes



Source: Preston Pipe Report, TMK estimate

In 2013, TMK's American facilities continued to promote pipe shipments to shale oil and gas fields, with sales of premium connections reaching 192 thous. tonnes.

Premium connection pipe shipments by American division, thous. tonnes



TMK IPSCO increased its sales of TMK UP products as well as all services associated with premium connections. Opening the new production facility in Edmonton (Canada) in March 2013 added to this trend. As such, the company's focus continues to be to participate in those segments where its value-added premium connections and services make a difference.

In 2013, TMK's American facilities continued to promote pipe shipments to shale oil and gas fields, with sales of premium connections reaching 192 thous. tonnes

In 2013, TMK IPSCO developed and launched various standard API products with improved chemistries for enhanced resistance to corrosion. The company also launched new combinations of pipe sizes, wall thicknesses and grades.

In addition, in April 2013, OFS International (USA), a TMK subsidiary, acquired pipe service and accessory manufacturing assets located in Houston (Texas). This acquisition marks another step in TMK's expansion in the U.S. and reinforces the company's focus on developing service and producing high value-added tools for the oil and gas industry.

European Market

In 2013, the European trend towards a decline in tubular product market capacity continued. The shrinking number of active projects coupled with investor pessimism resulted in lower consumption of tubular goods. In addition, European pipe producers were affected by increasing the raw material prices in countries where they located the production facilities. TMK-ARTROM was impacted by this and was reflected in the weaker financial results. Despite the adverse market conditions, TMK-ARTROM gained 2% in shipments year-on-year having supplied 155.2 thous. tonnes of pipe production.

TMK's share of the European seamless pipe market increased to 7.39% from 6.45% year-on-year.

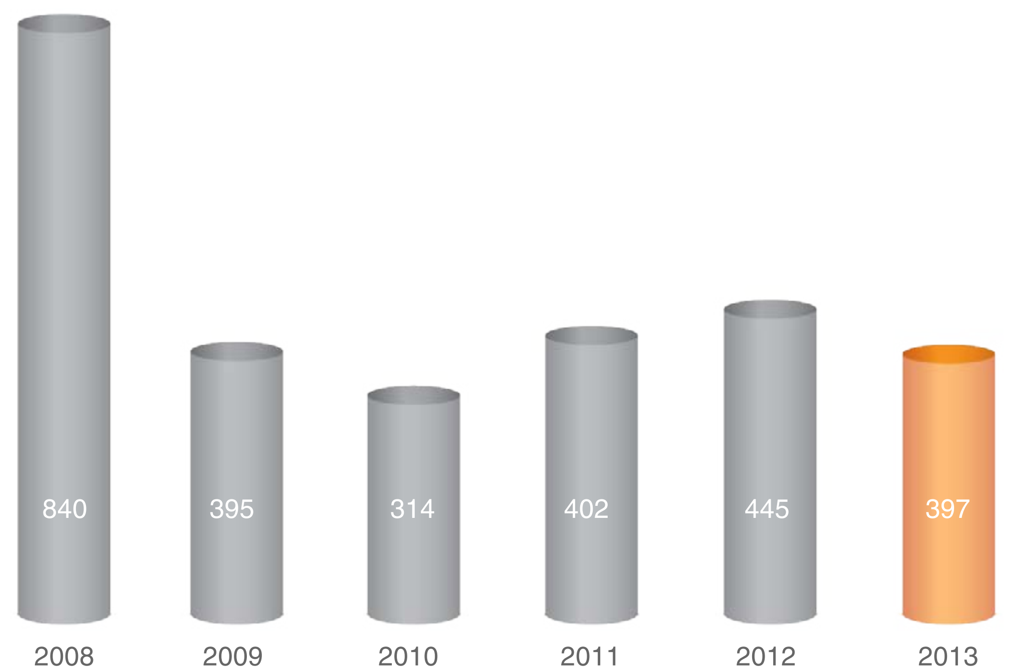
Taking into account the unfavourable market and the decline in domestic consumption in Europe of 11% year-on-year, we consider it as a good result.

TMK's share of the European seamless pipe market increased to 7.39% from 6.45% year-on-year

Capital Expenditures

In 2004, TMK launched the Strategic Investment Programme to upgrade production facilities and improve overall efficiency, with a total of 3 bln USD invested into development projects over 2004–2013.

Investments in production facilities, mln USD



For 2014–2016, our annual capital expenditures are planned at 300 mln USD to 400 mln USD, with overall three-year investments capped at 1.1 bln USD.

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In 2013, we were engaged in:

- **Steel making upgrade**

At TAGMET, we installed a new electric arc furnace (AEF-150). This installation, along with a vacuum degasser, ladle furnace and continuous caster in place since 2010, completed the upgrade of TAGMET's steelmaking facilities. As part of the project, we worked on the power supply, metal charge preparation, and supply of additional materials; we also had circulation and closed-circuit cooling systems installed. The ceremony of launching EAF-based commercial steel production was participated by Russian President Vladimir Putin.

The new EAF enabled TAGMET to increase billet production capacity by 350 thous. tonnes p.a. to 950 thous. tonnes p.a., to improve steel quality, to shut down the obsolete open-hearth furnaces, and to reduce emissions (suspended materials, nitrogen dioxides, carbon oxides) by 70%.

To support steel production and ensure steady scrap supplies, TMK-RESITA set up a scrap warehouse.

- **Development of seamless pipe production for the Fuel and Energy Sector**

At the Seversky Tube Works, the overall pipe-rolling production upgrade, launched in 2011, continued. As part of the project, a Fine Quality Mill (FQM), a retained mandrel mill featuring three-roll stands, is to be constructed and commissioned in 2014, along with the upgrade of the current finishing capacities and construction of a new heat treatment line by 2016.

The FQM will cut on production costs, improve quality and product mix, and increase the high-quality seamless pipe output for the oil and gas industry to 600 thous. tonnes p.a.

To ramp up the manufacturing of high value-added products, production capacity flexibility and cost effectiveness, the following projects were implemented during the reporting year:

- At the Sinarsky Pipe Plant, we installed and commissioned additional non-destructive testing devices, with a modern hydraulic press and threading equipment to be put into operation in 2014;
- At TAGMET, we completed the installation of a coupling machine, boosting our annual OCTG coupling capacity by 150 thous. units;
- TMK Oilfield Services launched an inner coating line, increasing the overall coating capacity of the existing lines to 60 thous. tonnes p.a.;
- TMK IPSCO is running a project to expand finishing and heat treatment capacities and install additional non-destructive testing equipment at the Koppel plant (Pennsylvania). The project is scheduled for completion in 2014.

- **Development of premium connections and oil and gas services businesses**

At the Volzhsky Pipe Plant, we continued to develop pipe rolling shop No. 3 to meet the highest quality control requirements of our customers and increase the share of premium connection OCTG. In 2013, we worked on installing non-destructive testing and new threading equipment and upgrading the established threading capacities. The project is to be completed in 2015.

To launch the production of a new product, vacuum insulated tubing, the Sinarsky Pipe Plant rolled out a specialised line with annual capacity of 35–40 thous. metres.

At the Orsky Machine Building Plant, a press for threaded connection hydraulic testing was installed within the production line of casing premium connection pipe, improving the product mix and ramping up sales.

To increase capacities and cut costs, TMK IPSCO completed the consolidation of threading facilities in Midland (Texas, USA).

- **Development of seamless industrial pipe production**

To extend the share of products for the power and nuclear industries, as well as energy and transport engineering, we are setting up a line to manufacture long pipe of carbon steel at the Sinarsky Pipe Plant.

At TMK-INOX, a joint venture of TMK and RUSNANO, we completed the upgrade of cold rolling mills, construction of a protective gas furnace and a slitting unit, marking key milestones of launching the production of stainless steel tubular products, including welded pipe, in Kamensk-Uralsky. In addition, TMK-INOX acquired a production facility embracing eight manufacturing lines for 8–76 mm stainless steel welded pipe with annual production capacity of 6 thous. tonnes. As a result,TMK-INOX became Russia's largest producer of stainless steel and alloy steel tubular products, including welded pipe.

TMK-ARTROM took further steps to increase production capacities and extend the share of high value-added product sales, launching a project to set up the production of pipe for hydraulic cylinders. The project is to be completed in 2015.

- **Environmental initiatives**

At the Volzhsky Pipe Plant, we completed the construction of an industrial waste landfill. The advanced waste isolation technology used rules out the very possibility of negative impact on the soil or underground water.

R&D Initiatives and Cooperation

We do extensive R&D to deliver state-of-the-art products and solutions for our customers. In 2013, our corporate R&D centres, the Russian Research Institute for the Tube and Pipe Industries (RosNITI) in Chelyabinsk (Russia) and R&D centre in Houston (USA), in collaboration with dedicated research institutions and universities in Russia and the United States, carried out over 200 projects related to new product and process development along with efficiency improvement.

The R&D centres cooperated systematically in the following key areas:

- the selection of steel grades, lean alloying, and heat treatment process development to provide specific properties and improve reliability of OCTG;
- product durability in operation and development of methodologies for steel testing and selection of materials to be used in extreme conditions;
- computer modelling for pipe piercing and rolling process development to streamline production, improve pipe surface quality and dimensions, and decrease machining time;
- pipe forming and welding processes development to manufacture products with higher strength and wall thickness.

To foster innovation and boost our R&D potential, in Spring 2013 we signed an agreement with the Skolkovo Fund to open the TMK R&D Centre, TMK's third R&D facility, in the Skolkovo Innovation Centre. The R&D Centre has already engaged in research for new solutions in materials, coatings, threaded connections and the design of casing, drill and tubing columns for unconventional hydrocarbon field development, in working out effective methods of large diameter pipe production and application for new-generation long-distance hydrocarbon transportation, in designing cutting-edge down-hole tools and accessories for unconventional hydrocarbon field development.

In 2013, our corporate R&D centres - RosNITI and R&D centre in Houston (USA), carried out over 200 projects related to new product and process development along with efficiency improvement

In June 2013, TMK and Gazprom Neft, which develops fields in adverse climactic and geological conditions, approved an R&D cooperation programme for 2013–2015 to provide the latter with highly efficient domestically manufactured products, including new types of high-performance low-temperature and corrosion-resistant casing and tubing pipe and tubular products for oil and gas pipelines with inner coating.

As part of the programme, we develop production processes and perform pilot testing of oil-well tubing in the presence of corrosion, salts, abrasion, or paraffin deposits, and introduce in-house automated systems to monitor tubing life cycle. The use of weldless connection of pipelines, lubricant-free threaded connections, and epoxy-based surface coatings to protect inner pipeline joints gives our partner an opportunity to obtain import-substituting products contributing to the competitive advantages of their projects.

In addition to new product shipments, Gazprom Neft will also benefit from our oilfield services and technical support.

The most important R&D projects implemented in 2013 included:

- development of a new composite material and a technology for its application on threaded connections, successful piloting of Green Well solid lubricants and coatings for threaded connections;
- development of a production technology for sheet and large diameter pipe with improved strain capacity, allowing pipelines to be laid in highly seismic regions and active tectonic zones, and mitigating the risk of pipeline failure in case of an earthquake;
- extension of the vacuum insulated tubing range, which prevents permafrost thawing and wellhead failure. We deliver vacuum insulated tubing of a wide variety of sizes and materials. Vacuum insulated tubing is also used for thermal activation of formations and high-viscosity oil production through pumping an appropriate heat-transfer medium, as well as superheated steam of up to 450 degrees Centigrade, down the well. Highly effective thermal insulation minimises heat losses;
- development and introduction of a technology for extended transition zone of a drill pipe upset, cutting the number of operations and ensuring higher reliability and durability of drill pipe in adverse conditions.

Premium Connections and Oilfield Services

TMK is recognised among the world's leading premium threaded connection producers and as the absolute leader in the Russian market. Pipe with premium threaded connections is used for oil and gas wells operating in adverse climactic and geological conditions, including offshore, deep-sea and Far North locations, horizontal and directional wells, and unconventional hydrocarbon (shale gas and oil sand) field development. The products offer high strength, tightness, excellent bending moment capacity and good resistance to other stresses and negative external factors.

In 2013, shipments of OCTG with premium threaded connections developed by our Russian and American facilities amounted to 360 thous. tonnes, up 27% year-on-year

TMK Ultra Premium (TMK UP) connections

TMK UP 1
2004

TMK UP FMC
2005 CAL II

TMK UP CS
2005

TMK UP TTL 01
2005

TMK UP GF
2005

TMK UP PF
2007 CAL IV

TMK UP FMT
2008 CAL II

TMK UP PF ET
2008 CAL IV

TMK UP TDS
2010

TMK UP CWB
2011

TMK UP SF
2003 CAL IV

TMK UP FJ
2003 CAL IV

TMK UP FX
2003 CAL II

TMK UP CX
2008

TMK UP QX
2009 CAL IV

TMK UP DQX
2011 CAL II

By way of uniting premium connections families under a single brand, we will raise global awareness of our premium solutions

In 2013, demand for premium connections continued to grow; shipments of OCTG with premium threaded connections developed by our Russian and American facilities amounted to 360 thous. tonnes, up 27% year-on-year.

In the reporting year, TMK united its two premium connections families, TMK Premium (Russia) and ULTRA (USA), under a single brand – TMK Ultra Premium (TMK UP).

By way of uniting premium connections families under a single brand, we will raise global awareness of our premium solutions and expand our oil and gas bidding opportunities worldwide.

In 2013, TMK's premium connections were successfully qualified by ADCO (Abu Dhabi, UAE), one of the largest oil companies in the Middle East, and ONGC, India's state oil and gas company.

One of our business priorities is to deliver premium OCTG complete with related services. Our oilfield services facilities along with technical and service support centres make virtually the whole range of threading connections, provide heat treatment, protective coating, pipe repairing and warehousing services. TMK experts are involved in the supplying, assembling and sinking of pipe columns in wells, and in the training of our customers' technical personnel.

The Russian oilfield services division is headed by TMK Oilfield Services (Moscow) and includes the Orsky Machine Building Plant (Orsk, Orenburg Region), Truboplast (Yekaterinburg, Sverdlovsk Region), TMK NGS-Buzuluk (Orenburg Region), TMK NGS-Nizhnevartovsk (Khanty-Mansi Autonomous Area), with the latter two located in the centre of major oil and gas regions and providing well construction, repair and completion services to both large and mid-sized oil and gas companies and oilfield service providers.

In June 2013, TMK NGS-Nizhnevartovsk launched an inner coating line with an annual design capacity of 32 thous. tonnes of 73–168 mm pipe with protective corrosion-resistant coating. The event was attended by representatives of Lukoil, Rosneft, Tatneft, oilfield services companies and local oil producers. The installation of additional finishing capacities was a major step toward establishing partnerships in Russia's largest oil production region.

In spring 2013, our North American subsidiaries expanded their capacities for premium connection pipe production and service: TMK IPSCO opened a new facility in Edmonton (Alberta, Canada), while OFS International (USA) acquired pipe service and accessory manufacturing assets located in Houston (Texas, USA) with annual production capacity of over 700 thous. joints and around 250 thous. couplings. In addition, the facilities provide pipe inspection services and manufacture down-hole tools and accessories for a wide range of oil and gas applications.

In 2013, Threading and Mechanical Key Premium LLC, TMK's service and support centre in Abu Dhabi (UAE), was opened. It focuses on pipe and down-hole equipment repair and makes threaded connections on pipe strings for oil and gas companies operating in the Arabian Gulf region. The centre was certified by ADCO to provide oilfield services.

TMK's shares and GDRs are listed on Stock Exchanges in Moscow and London

Company's Securities

Share capital and dividends

As of 31 December 2013, the share capital of TMK was comprised of 937,586,094 fully paid ordinary shares, each with a nominal value of 10 RUB. TMK does not have any preferred shares, neither outstanding nor authorised.

Number of shares as of 31 December 2013

	Number of shares	%
TMK Steel Ltd, incl. affiliates*	672,030,999	71.68%
TMK subsidiaries	53,577	0.006%
TMK Bonds S.A. **	71,505,956	7.63%
Rockarrow Investments Limited	1,014,095	0.108%
Free float	192,981,467	20.57%
Total	**937,586,094**	**100.00%**

*The ultimate beneficiary is Dmitry Pumpyanskiy.

** TMK Bonds S.A. owns 17,876,489 global depositary receipts (GDR) of TMK, representing 71,505,956 TMK shares, or 7.63% of the share capital, securing obligations to convert into TMK GDR's the bonds issued by TMK Bonds S.A. in February 2010, totalling 412.5 mln USD and maturing in 2015. The bonds may be converted at 22.308 USD per GDR.

As of 31 December 2013, 20.57% of TMK shares were in free float, with approximately 90% of them traded as GDR on the London Stock Exchange. TMK Board of Directors and the Management owned a total of 543,309 shares, or 0.058% of the share capital.

TMK securities are listed on Russian and international stock exchanges:

- Shares are listed on Moscow Exchange under the TRMK ticker (Bloomberg: TRMK: RM / Reuters: TRMK.MM).
- Global depositary receipts (GDRs) are listed on the London Stock Exchange under the TMKS ticker (Bloomberg: TMKS:LI / Reuters: TRMKq.L).
- American depository receipts (ADRs) are traded on the OTC platform (OTCQX) under the TMKXY ticker (Bloomberg: TMKXY: US / Reuters: TMKXY.PK).

	REG.S	144A
CUSIP:	87260R201	87260R102
SEDOL:	B1FY0V4	B1G3K21
ISIN:	US87260R2013	US87260R1023

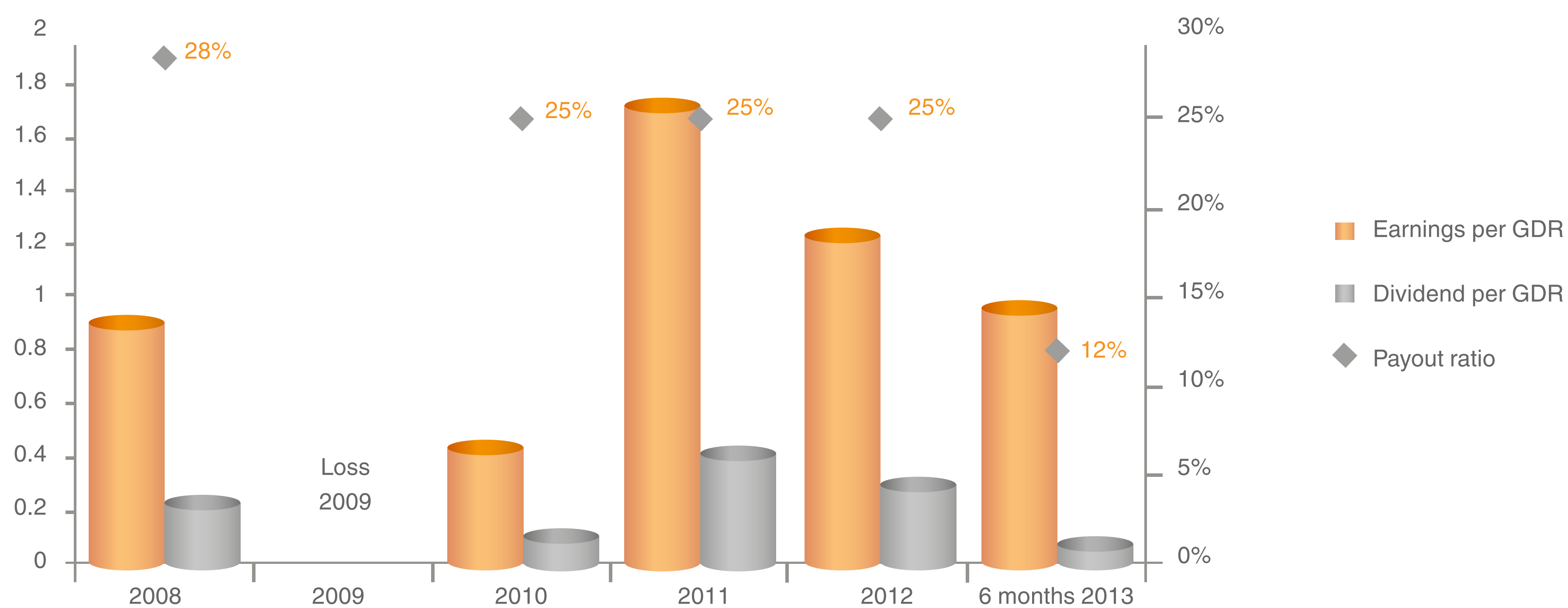
CUSIP:	87260R300
ISIN:	US87260R3003

Dividend history

Period	Dividends declared per share, RUB	Total declared dividends, RUB	Dividends paid versus total dividends declared, %
2008	1.75	1,527,751,750.00	99.99%*
2009	-	-	
2010	0.85	796,978,180.00	99.98%*
2011	3.63	3,403,437,521.22	99.98%*
2012	2.34	2,193,951,459.96	99.98%*
1H 2013	1.04	975,089,537.76	99.98%*

* dividends were not fully paid because of the failure of certain shareholders to provide accurate banking details or failure to reach shareholders at the addresses attached to their accounts.

Payment of dividends on GDR, USD:



As of 31 December 2013, TMK market capitalisation totalled 2.5 bln USD.

We monitor initiatives and trends in corporate governance and strive to adapt and introduce the best corporate governance practices in TMK

Report on Corporate Governance

Report on Corporate Governance

TMK's Board of Directors is building up and perfecting its corporate governance framework aware of the company's being highly public: its securities are listed on the Russian and global exchange markets. In addition to strictly complying with applicable laws and listing requirements, we monitor initiatives and trends in corporate governance and strive to adapt and introduce the best corporate governance practices in the company.

In 2013, Russian corporate governance practices underwent major changes resulting in a significant convergence with the best foreign practices at both the legislative level and that of stock exchange regulation and self-regulation. TMK was closely involved in public discussions of the drafts of a new Russian Corporate Governance Code, regulations on the admission of securities to the official market and a listing reform.

On 31 December 2013, new Listing Rules were approved by Moscow Exchange. Principal changes in the Rules refer to corporate governance matters and introduce tougher criteria with respect to director independence, increased quota of independent directors in the Board, refined functions of the Board of Directors' committees and requirements to the corporate secretary and internal audit, and documents defining the dividend policy, internal audit policy and timeframe for disclosing information to a list of the people entitled to attend a General Meeting.

TMK is listed in the highest listing category on the Moscow Exchange and makes every endeavour to ensure full compliance with the new requirements. We are upgrading the status of the documents governing the activities of the corporate secretary unit and defining internal audit policies. These documents are to be approved by the Board of Directors.

TMK's Board of Directors is structured to ensure the balance of experience, qualifications and independence of directors and consists of eleven directors. **As of the Annual Report date, five out of eleven directors were independent** and did not depend on the company's officials or affiliates who could influence their impartiality. The directors are independent in accordance with both criteria set by TMK's Corporate Governance Code and the new Listing Rules. Their independent status is to be confirmed each time they are elected to the Board.

The Board of Directors of TMK is heterogeneous in terms of nationality, age and gender. In 2013, Elena Blagova, Deputy CEO for Special and New Projects, was elected to the Board of Directors after heading Volzhsky Pipe Plant, the largest TMK entity, for five years. Independent Director Ruben Aganbegyan left the Board of Directors.

Board of Directors

Following the Annual General Meeting of Shareholders of 25 June 2013, the Board of Directors of TMK was composed as follows:

Dmitry Pumpyanskiy

Chairman of the Board of Directors, non-executive director.

Born in 1964. Graduated from Kirov Urals Polytechnic Institute in 1986. PhD in Technical Sciences, Doctor of Economics. Founder and beneficial owner of TMK. Has been with TMK since 2002, Chairman of TMK's Board of Directors since 2004. Mr. Pumpyanskiy was awarded a second class Medal of the Order for Merit to the Fatherland, is a Russian Government prize winner in Science and Technology, was conferred a Honorary Metallurgist title and pronounced the winner of the 6th Director of the Year National Award in "The Chairman of the Board: Contribution to the Development of Corporate Governance" nomination in 2011.

Relevant experience: Chairman of the Board of Trustees of the Russian Ski-Jumping and Nordic Combined Federation, Chairman of the Supervisory Board of the Ural Federal University, member of the Board of Directors of Non-profit Organisation Foundation for Development of the Centre for Elaboration and Commercialisation of New Technologies, member of the Board of Trustees of the ISTOKI Endowment Fund, President of the Sverdlovsk Regional Manufacturers and Entrepreneurs Association, member of the Board of Directors of SKB-Bank, President and Chairman of the Board of Directors of Sinara Group, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, and formerly, Board member at various industrial and financial companies, CEO at TMK, top executive at Russian metallurgical and pipe companies.

Holds 0.007% in the authorised capital of TMK.

Mikhail Alekseev

Independent director, Chairman of the Nomination and Remuneration Committee, member of the Audit Committee. Member of the Board of Directors since 2011.

Born in 1964. Graduated from the Moscow Finance Institute in 1986. Doctor of Economics.

Relevant experience: Member of the boards of the Association of Russian Banks and Association of Regional Banks of Russia, Chairman of the Supervisory Board of UniCredit Leasing, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, Chairman of the Management Board of UniCredit Bank. Formerly, member of the Board of Directors of MICEX, a number of financial companies, Chairman of the Board and CEO of Rosprombank, Senior Vice President and Deputy Chairman of the Management Board of Rosbank, Deputy Chairman of the Management Board of ONEXIM Bank, Board member at Intersectoral Commercial Bank (Mezhkombank), Deputy Head of the General Directorate of the Ministry of Finance of the USSR.

Holds no shares in TMK.

Elena Blagova

Executive Director, member of the Board of Directors since 2013.

Born in 1959. Graduated from the Chelyabinsk Lenin Komsomol Polytechnic Institute in 1982 and the Moscow State Open University in 1993, was awarded a second class Medal of the Order for Merit to the Fatherland and the Honorary Metallurgist title.

Relevant experience: Deputy CEO for Special and New Projects at TMK, and formerly, member of the Board of Directors of the Volzhsky Pipe Plant, Managing Director of the Volzhsky Pipe Plant.

Holds 0.003% in the authorised capital of TMK.

Andrey Kaplunov

Executive Director. Has been with TMK since 2001.

Born in 1960. Graduated from the Moscow Finance Institute in 1982, PhD in Economics. Commended by the Ministry of Industry and Trade of the Russian Federation.

Relevant experience: First Deputy CEO and member of the Management Board of TMK, Board Chairman at TMK's Russian pipe plants and TMK Trade House, member of the Board of Directors of Sinara Group, Deputy Chairman of the Board of Directors of OAO SKB-Bank, Board member at the Bolshoy Pensionny Fond, member of the Board of Trustees of the Sinara Mini-Football Club (Sverdlovsk Regional Sports Non-Governmental Fund). Formerly, Director of the HR and Development at Inkombank and Rosbank, Vice President of Guta-Bank, Deputy Head of the Currency and Finance Department at Zarubezhneft, Associate Professor at the Economic Theory Department of the Moscow Finance Institute.

Holds 0.0116% in the authorised capital of TMK.

Peter O'Brien

Independent Director, Chairman of the Audit Committee. Member of the Board of Directors since 2012.

Born in 1969. Graduated from Duke University (USA) in 1991 and obtained an MBA from Columbia University Business School in 2000. Took a course in AMP (Advanced Management Program) at Harvard Business School in 2011. In 2007, Mr. O'Brien won the National Award of the Independent Directors Association as "Director of the Year".

Relevant experience: Member of the Board of Directors and Chairman of the Audit Committee at IGSS, Chairman of the Board of Directors at RusRailLeasing, member of the Board of Directors and Chairman of the Audit Committee at HRT Partipacoes, Member of the Supervisory Board of the European Pension Fund. Formerly, member of the Management Board, Vice President, Head of the Group of Financial Advisors to the President of Rosneft, Co-Head of Investment Banking, Executive Director of Morgan Stanley in Russia, Vice President at Troika Dialog Investment Company, officer at the Press Centre of the US Department of the Treasury.

Holds no shares in TMK.

Sergey Papin

Non-executive director. Member of the Nomination and Remuneration Committee. Has been with TMK since 2002.

Born in 1955. Graduated from the Donetsk Polytechnic Institute in 1977. Mr. Papin was awarded a Badge of Honour and a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation.

Relevant experience: Vice President, member of the Board of Directors of Sinara Group, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, member of the Boards of Directors of Ural Locomotives, Burgas Resort, Arkhyz – Sinara, Sinara – Transport Machines. Formerly, Deputy CEO for External and Special Projects at TMK, Vice President of Inkombank and Guta-Bank.

Holds 0.008% in the authorised capital of TMK.

Robert Mark Foresman

Independent director, member of the Nomination and Remuneration Committee. Member of the Board of Directors since 2012.

Born in 1968. Graduated from Bucknell University (USA) in 1990 and Harvard University Graduate School of Arts and Sciences in 1993. Obtained a certificate from the Moscow Power Engineering Institute in 1989.

Relevant experience: Head of Barclays Capital in Russia, formerly, member of the Supervisory Board of Vnesheconombank's VEB Capital, Deputy Chairman of the Management Board at Renaissance Capital, member of the Supervisory Board of Evrofinance Mosnarbank, Chairman of the Management Committee for Russia and CIS at Dresdner Kleinwort Wasserstein, Head of Investment Banking for Russia and CIS at ING Barings. Worked for the International Finance Corporation on private equity transactions and project financing.

Holds no shares in TMK.

Igor Khmelevskiy

Non-executive director, Member of the Audit Committee. Has been with TMK since 2003.

Born in 1972. Graduated from the Ural State Law Academy in 1995, awarded a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation.

Relevant experience: Vice President and member of the Board of Directors of Sinara Group, Director of Bravecorp Limited, Tirelli Holdings Limited, TMK Steel Limited and Sinara Capital Management. Formerly, Director of Fudberg Holding Ltd and TMK Global AG, Member of the Administrative Board of TMK–ARTROM S.A., Head of the Legal Department at Sinara Group, Deputy CEO for Legal Practice at TMK.

Holds no shares in TMK.

Oleg Schegolev

Independent director, member of the Strategy Committee. Member of the Board of Directors since 2012.

Born in 1962. Graduated from the Moscow Finance Institute in 1984.

Relevant experience: First Vice President at Russneft, First Deputy Chairman of the Management Board and First Deputy CEO at Itera, Executive Director at Slavneft, Chairman and Board member at various oil & gas companies, Deputy Head of the Department for Long-term Planning of the Fuel and Energy Complex at the Ministry of Energy of the Russian Federation, chief expert, deputy head, head of department at Sibneft.

Holds no shares in TMK.

Alexander Shiryaev

Executive director. Member of the Strategy Committee. Has been with TMK since 2003.

Born in 1952. Graduated from the Sverdlovsk Institute of National Economy in 1991. Mr. Shiryaev was awarded by the Sverdlovsk Region with a second class Badge of Merit to the Sverdlovsk Region and an Honorary Metallurgist title.

Relevant experience: CEO, Chairman of the Management Board of TMK, Board member at TMK's Russian pipe plants, Chairman of the Board of TMK Trade House and Orsky Machine Building Plant, Member of the Board of Sinara Group. Formerly, Deputy CEO for Development, CEO at Sinara Group, Deputy Chief Financial Officer at TMK, CEO at Uralshina.

Holds 0.017% in the authorised capital of TMK.

Alexander Shokhin
Independent director, Chairman of the Strategy Committee. Member of the Board of Directors since 2008.

Born in 1951.Graduated from Lomonosov Moscow State University in 1974. PhD, Doctor of Economics, Professor. Mr Shokhin was awarded with a fourth class Order for Merit to the Fatherland, Order of Honour, second class Order of Holy Prince Daniel of Moscow as well as a medal in commemoration of the 850th Anniversary of Moscow.

Relevant experience: President of the Russian Union of Industrialists and Entrepreneurs, President of the Higher School of Economics, Board member at Russian Railways, Baltika Breweries, Fortum. Formerly, member of the Board of Directors of TNK-BP Limited, Lukoil, Burovaya Kompaniya Eurasia, member of the Public Chamber of the Russian Federation, Chairman of the Supervisory Board at Renaissance Capital Investment Group, deputy of the State Duma (three convocations), Minister of Labour and Employment and Minister of Economy, Head of the Russian Agency for International Cooperation and Development, worked as Deputy Head of the Russian Government twice, formerly Russia's representative to the IMF and World Bank.

Holds no shares in TMK.

As of 31 December 2013, the members of the Board of Directors held no interests in affiliated companies.

Secretary of the Board of Directors - Maxim Kurbatov

Born in 1967. Graduated from Kirov Urals Polytechnic Institute, the Academy of National Economy under the Government of the Russian Federation and the Moscow State Law Academy. Has been with TMK since 2002. Headed the CEO's Executive Office and the Corporate Governance function at TMK. Has been the Secretary of the Board of Directors since 2005.

TMK's corporate governance structure

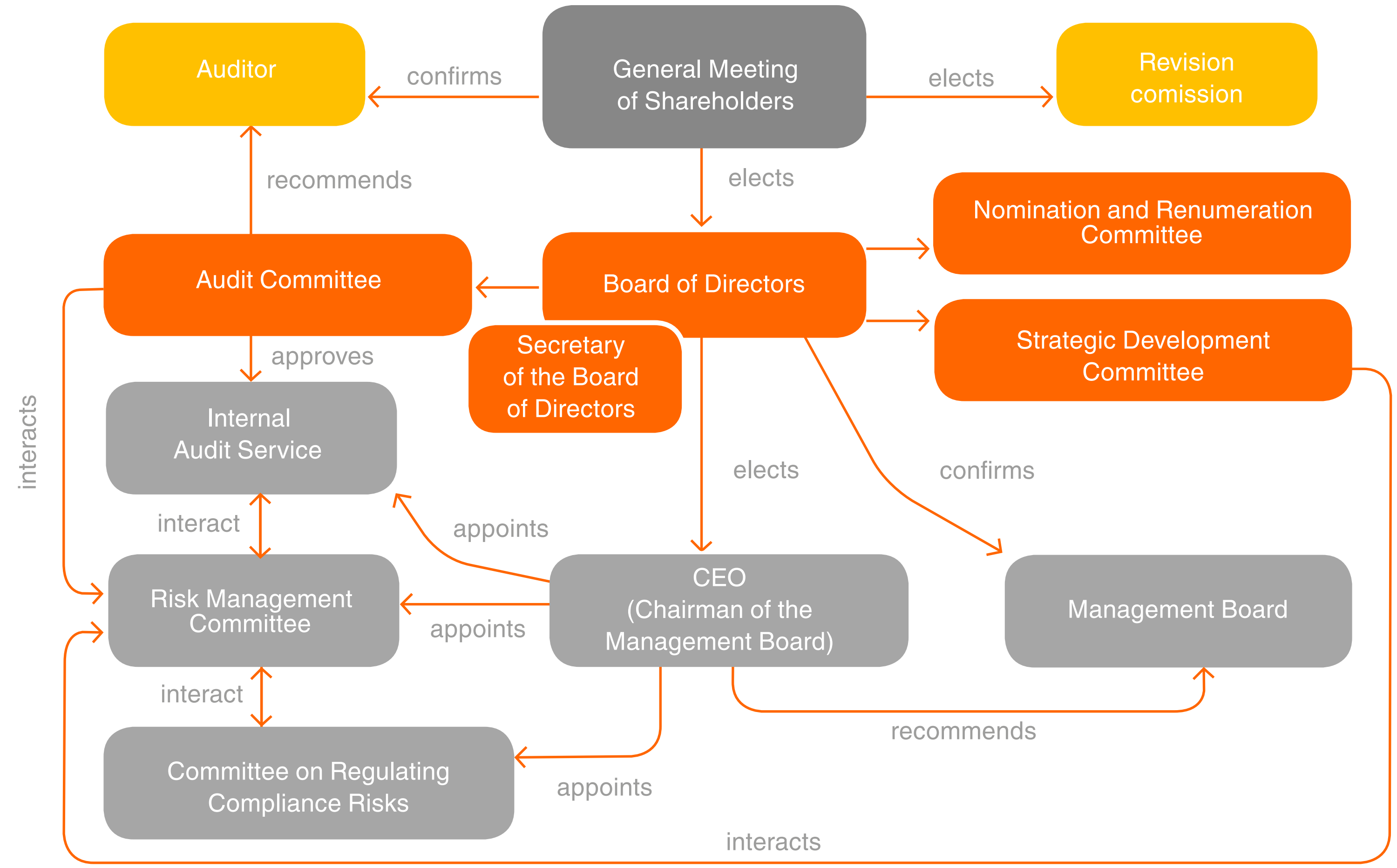
We have built a cutting-edge corporate governance system which is regulated by the company's internal policies available on TMK's web site (http://www.tmk-group.com/company_documents.php), and generally described in the Corporate Governance Code of TMK (http://www.tmk-group.com/files/corp_gov_code_en.pdf). In 2013, TMK's corporate governance practices were in full compliance with the company's Corporate Governance Code.

The General Meeting of Shareholders is TMK's highest governing body, with the primary governance powers being delegated by shareholders to the Board of Directors. In order to ensure the company's day-to-day management, the Board of Directors elects the CEO and approves the members of the Management Board as advised by the CEO. The Board of Directors also establishes committees whose resolutions are of an advisory nature.

To ensure efficient control over the company's financial and economic activities, as well as compliance with Russian laws and regulations, the General Meeting of Shareholders elects the Revision Commission and approves the company's auditor.

In 2013, TMK's corporate governance practices were in full compliance with the company's Corporate Governance Code

TMK's Corporate Governance Structure



Our company keeps its accounting practices and prepares financial and accounting statements in compliance with the Russian (RAS) and international (IFRS) standards. Since 2011, we have been publishing quarterly consolidated IFRS financial statements (http://ir.tmk-group.com/financials/results-center/), posting press releases on key financial highlights and their changes on the website and conducting conference calls attended by the company's senior executives. We have dedicated business units to monitor the development and pursuance of a uniform information policy and control compliance with insider dealing laws and regulations.

General Meeting of Shareholders

Shareholders may exercise their rights set forth in the company's Articles of Association primarily by participating in the General Meeting. Holding the Annual General Meeting of Shareholders is mandatory. In addition, extraordinary meetings may be held if so resolved by the Board of Directors or requested by the Revision Commission, auditor or shareholder(s) holding at least 10% of shares.

Shareholders holding at least 2% of shares may put forward proposals as regards the agenda for the Annual General Meeting, propose candidates to the Board of Directors, the Revision Commission, and the Counting Commission, as well as convene Board of Directors meetings.

In 2013, the Annual General Meeting of Shareholders was held along with one extraordinary meeting. The meetings' agenda included, inter alia, approval of the company's annual report and annual financial statements, distribution of profits for 2012 and 1H 2013, election of the Board of Directors and the Revision Commission, auditor approval, and approval of related party transactions.

The Board of Directors and its Committees

Activity of the Board of Directors in 2013

In 2013, the Board of Directors held 29 meetings, including five meetings held in person. Key items considered by the Board of Directors included:

- TMK's investment programme for 2014;
- logistics management system of the company;
- TMK's target structure for 2014;
- market environment and development of TMK's sales platform;
- TMK's consolidated budget for 2014;
- TMK's management accounts;
- Internal Audit Department's activity in 2013.

Remuneration

In accordance with Russian laws (Article 64 of the Federal Law On Joint Stock Companies), members of the Board of Directors may be paid a remuneration if so resolved by the General Meeting of Shareholders. TMK shareholders have adopted the following principles and procedures outlined in the Regulations on the Board of Directors with respect to its remuneration:

- only directors who are not executives of TMK are entitled to remuneration and compensation of expenses related to the performance of their duties;
- the remuneration is to be fair and is to match long-term interests of the shareholders;
- the remuneration to be paid includes:
  - – a fixed base remuneration of the Chairman and the members of the Board payable on a monthly basis in the amount of 1/12 of the fixed annual amount;
  - – additional remuneration for the performance of the duties of the Chairman or the members of a Board Committee payable every six months in the amount of 1/2 of the approved annual additional remuneration;
- the amount of remuneration payable to a member of the Board of Directors is to be decided by the General Meeting of Shareholders on the basis of the Board of Director's recommendations.

Prior to the Annual General Meeting of Shareholders, the Board of Directors had 6 independent directors, 3 non-executive directors and 2 executive directors. Since 25 June 2013, the Board of Directors is comprised of 5 independent directors, 3 non-executive directors and 3 executive directors.

In 2013, the members of the Board of Directors received a total of 2.37 mln USD as remuneration.[1]

[1] Based on the average exchange rate of 31.848 RUB/USD in 2013

Committees of the Board of Directors

The Board of Directors has three standing committees: the Audit Committee, the Nomination and Remuneration Committee and the Strategy Committee. The committees have been formed in compliance with the Corporate Governance Code of TMK which specifically requires that the Audit Committee and the Nomination and Remuneration Committee include independent directors only or, if reasonably impossible, independent directors and non-executive directors only.

Committee members remained unchanged in 2013.

Participation of Board members in Board and Committee Meetings in 2013

	Board of Directors *(29 meetings, incl. 11 after the Annual General Meeting of Shareholders)*	Audit Committee *(6 + 5 joint meetings)*	Nomination and Remuneration Committee *(5 + 1 joint meetings)*	Strategy Committee *(1 + 5 joint meetings)*
D. A. Pumpyanskiy (Chairman)	29			
R. A. Aganbegyan	14			
M. Yu. Alekseev	29	4	6	
A. Yu. Kaplunov	29			
Peter O'Brien	29	10		
S. T. Papin	29		6	
E. E. Blagova	11			
R. M. Foresman	28		4	
I. B. Khmelevskiy	29	11		
A. G. Shiryaev	29			6
A. N. Shokhin	29			6
O. A. Schegolev	29			6

The Board of Directors has **three** standing **committees**: the Audit Committee, the Nomination and Remuneration Committee and the Strategy Committee

Audit Committee

Committee members:

Peter O'Brien
Chairman of the Audit Committee, independent director

M. Yu. Alekseev
Member of the Audit Committee and Chairman of the Nomination and Remuneration Committee, independent director

I. B. Khmelevskiy
Member of the Audit Committee, non-executive director

In 2013 and from 1 January 2014 to 31 March 2014, the Audit Committee's principal duties included the following:

- review of the company's financial statements;
- review of the company's standards and procedures for internal control and risk management;
- review of plans and reports of the Internal Audit Department;
- cooperation with the Revision Commission;
- recommendations to the Board of Directors as regards the appointment and/or re-appointment of an external auditor;
- review of the audit plan and scope;
- active discussions with the external auditor of matters arising out of audit;
- assessment as regards independence of the external auditor;
- overseeing the appointment of independent appraisers and review of any independent appraisers' reports.

Committee Oversight of the External Audit of 2013 Financial Statements

The auditor has issued a qualified opinion on TMK's accounting (financial) statements prepared under the Russian accounting (financial reporting) standards.

The Audit Committee has reviewed TMK's financial statements prepared under the Russian accounting (financial reporting) standards as well as the auditor's opinion and has recommended that the Board of Directors submit the annual accounting (financial) statements for approval at the Annual General Meeting of Shareholders.

Nomination and Remuneration Committee

Committee members:

M. Yu. Alekseev
Chairman of the Nomination and Remuneration Committee and member of the Audit Committee, independent director

S. T. Papin
Member of the Audit Committee, non-executive director

Robert Mark Foresman
Member of the Nomination and Remuneration Committee, independent director

The Committee aims to create a favourable environment for the engagement of skilled personnel in the company's governance and incentives for their efficient performance as well as to streamline the corporate governance system and align it with the best international practices.

In 2013, the Committee reviewed and presented to the Board of Directors recommendations on the following key matters:

- key headcount and payroll indicators for TMK's 2014 budget;
- outcome of the Ninth Youth Scientific and Technical Conference of TMK;
- key performance indicators and incentive system for top executives and heads of TMK's main business units;
- changes to the company's organisational and staff structure;
- streamlining TMK's technical sales system;
- structure and members of corporate governance bodies at TMK entities.

Strategy Committee

Committee members:

A. N. Shokhin
Chairman of the Strategy Committee, independent director

O. A. Schegolev
Committee member, independent director

A. G. Shiryaev
Committee member, CEO, Chairman of the Management Board

The Committee's duties are to develop recommendations on the company's business priorities and its growth strategy and present these to the Board of Directors.

In 2013, the Committee reviewed and presented to the Board of Directors recommendations on the following key matters:

- implementation of TMK's 2020 Business Plan;
- analysis and monitoring of TMK's target markets through 2017;
- TMK's investment programme for 2014;
- TMK's technical sales system;
- TMK's budget for 2014;
- recommendations on M&A transactions, asset disposal and joint ventures;
- risks map for 2014 and measures to mitigate key risks in 2014.

Executive management

TMK's day-to-day operations are managed by the CEO and the Management Board. The CEO also acts as the Chairman of the Management Board. The Management Board focuses on key governance matters that require joint decision-making. For example, in 2013 the Management Board reviewed TMK's strategy and its influence on the company's capitalisation, as well as the assessment of the company's positioning according to the current Development Strategy and TMK brand.

On 25 June 2013, the following changes took place in the Management Board: Sergey Bilan was elected as a member of the Management Board to replace Konstantin Semerikov, who now heads OFS International LLC, TMK's US-based entity. As of 31 December 2013, the Management Board consisted of 8 members:

Alexander Shiryaev,
CEO of TMK, Chairman of the Management Board.

See the Board of Directors section for a detailed biography.

Sergey Bilan,
TMK Deputy CEO for Premium Products and Services.

Born in 1962. Graduated from the Rostov Institute of Railway Transport Engineers in 1984 and from the Budget and Treasury Academy of the Russian Finance Ministry in 2004. Has been conferred a Honorary Metallurgist title and was awarded with a Certificate of Merit from the Ministry of Industry, Science and Technologies of the Russian Federation.

Relevant experience: Deputy CEO of TMK Trade House for Premium Products and Services, CEO of TMK NGS and member of the Board of Directors of Orsky Machine Building Plant. Formerly, TMK Deputy CEO for Marketing.

Holds 0.005% in the authorised capital of TMK.

Andrey Kaplunov,
First Deputy CEO of TMK.

See the Board of Directors section for a detailed biography.

Alexander Klachkov,
Deputy CEO and Chief Engineer of TMK. Has been with TMK since 2002.

Born in 1957. Graduated from the Moscow Institute of Steel and Alloys in 1979. PhD in Technical Sciences. Mr. Klachkov is a Russian Government prize winner in Science and Technology and was also awarded a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation and conferred the Honorary Metallurgist title.

Relevant experience: Head of the Technological Development Directorate at TMK, member of the Board of Directors of the Institute for the Tube and Pipe Industries (RosNITI) and Seversky Tube Works.

Holds 0.003% in the authorised capital of TMK.

Alexander Lyalkov,
First Deputy CEO of TMK. Has been with TMK since 2003.

Born in 1961. Graduated from the Volgograd Polytechnic Institute in 1989. Mr. Lyalkov is a Russian Government prize winner in Science and Technology and was also awarded a medal for the construction of the Baikal–Amur Mainline and conferred a Honorary Metallurgist title.

Relevant experience: member of the Board of Directors of TAGMET and Sinarsky Pipe Plant. Formerly, Deputy CEO for Operations, Technology, and Quality at TMK, Managing Director and subsequently member of the Board of Directors at Volzhsky Pipe Plant where he has held various positions since 1990.

Holds 0.0037% in the authorised capital of TMK.

Vladimir Oborsky,
Deputy CEO for sales at TMK. Has been with TMK since incorporation.

Born in 1961. Graduated from the Frunze Higher Combined-Arms Command Academy in Kiev in 1982 and the Mikhail Frunze Military Academy in 1994. Obtained an MBA from the International University in Moscow in 2009. PhD in Economics. Was awarded the Order of Military Merit and a Certificate of Merit from the Ministry of Industry and Energy of the Russian Federation.

Relevant experience: CEO and member of the Board of Directors at TMK Trade House. Formerly, First Deputy CEO and Executive Director at TMK Trade House, Head of the Transneft and Gas Producers Customer Service Department at TMK Trade House, Head of VIP Customers and Tenders of the Sales Department and the Gas Producers Customer Service Directorate at TMK Trade House.

Holds 0.0008% in the authorised capital of TMK.

Tigran Petrosyan,
Chief Financial Officer at TMK. Has been with TMK since 2001.

Born in 1968. Graduated from Yerevan State University in 1993. Has been conferred a Certificate of Merit from the Ministry of Industry, Science and Technologies of the Russian Federation.

Relevant experience: Board member at TMK's Russian pipe plants, TMK-INOX and TMK Trade House. Formerly, Deputy CEO for Economy at TMK and TMK Trade House, Head of the Economic and Planning Directorate at TMK, Head of the Economic and Planning Department of Volzhsky Pipe Plant, Deputy CEO at Volzhsky Audit, officer at the Armenian Ministry of Economy.

Holds no shares in TMK.

Vladimir Shmatovich,
Deputy CEO for Strategy and Business Development at TMK. Has been with TMK since 2005.

Born in 1964. Graduated from the Moscow Finance Institute in 1989 and the University of Notre Dame USA (MBA) in 1993. Has been conferred a Certificate of Merit from the Ministry of Industry and Trade of the Russian Federation.

Relevant experience: Board Member of Lhoist – TMK B.V. and OFS Development SARL, SKB-bank, Chairman of the Board of Directors of TMK GIPI. Formerly, CFO of TMK, Deputy CEO, CFO at various companies (Udmurtneft, Sidanco, RusPromAvto), CEO of Interros.

Holds no shares in TMK.

As of 31 December 2013, the members of the Management Board held no interests in affiliated companies.

Remuneration

The remuneration paid to the CEO and the members of the Management Board consists of:

- fixed salaries determined in accordance with their employment contracts and payable on a monthly basis;
- variable part (bonuses), based on individually established KPIs (such as EBITDA, shipment volumes, etc.) and approved by the Board of Directors each year. Such bonus is paid to the CEO and the members of the Management Board if they achieve their KPIs, subject to the approval of their performance reports by the Board of Directors.

In 2013, the aggregate remuneration of the CEO and the members of the Management Board amounted to 8.19 mln USD, including insurance contributions.

Internal control

Internal control at TMK is a system of procedures implemented by the Board of Directors, executive and supervisory bodies, officers and employees of the company pursuing the efficiency of operations and investments across TMK, the reliability of all types of reporting, compliance with laws and internal regulations.

Control over financial and economic activities is exercised by the Board of Directors, Audit Committee, Revision Committee, Internal Audit Department, and the independent auditor of the company.

The Board of Directors defines the principles and approaches to building a risk management and internal control system and exercises control over the financial and economic activities at various management levels: by introducing and exercising the required operations control procedures at the operational level and by leading a function coordinating the company's activities within the risk management and internal control system at the organisational level.

Audit Committee assesses the efficiency of internal controls and risk management system and provides recommendations on its improving.

Revision Committee controls the financial and economic activities of the company on behalf of shareholders and reports to the General Meeting of Shareholders on the reliability of the reporting data and identified weaknesses or violations.

Ernst & Young was appointed as the company's Auditor for 2013

External auditor checks and confirms that the company's financial statements are in line with the applicable accounting rules and national and international financial reporting standards (RAS and IRFS) and expresses its opinion about the reliability of the financial statements following an audit in accordance with international auditing standards.

On 25 June 2013, TMK's Annual General Meeting of Shareholders resolved to appoint Ernst & Young, a member of the Audit Chamber of Russia Non-Profit Partnership, as the company's Auditor for 2013.

In selecting an auditor and assessing its performance, we adhere to the Policy on Selection of the TMK Group External Auditor of the Consolidated Financial Statements (http://www.tmk-group.com/files/external_auditor_policy_en.pdf), as approved by the Board of Directors.

In order to reduce the effects of long-term relationships on the external auditor's independence, members of audit teams and the lead partner responsible for the audit are rotated.

In 2013, the auditor's remuneration for auditing the annual financial statements and reviewing interim financials (including audit of separate financials at some TMK entities) was 3.28 mln USD, for other audit-related services – 0.02 mln USD, and for non-audit services – 0.67 mln USD.

The company seeks to ensure that all of its operations are adequately controlled to mitigate risks. Controls have been implemented at all management levels. Operational management at TMK ensures efficient functioning of internal control systems.

To minimise any risks in the activities of the company's entities and units, risk-focused internal control continued to be rolled out in 2013.

Key elements of risk-focused internal control system in TMK

Integrated control environment:

- clear uniform guidelines on division of responsibilities;
- focus of controls on key, real risks;
- reduced number of overlapping/other controls.

High-quality controls execution:

- timely improvement of controls;
- identification of areas for steady monitoring;
- prompt respond to deficiencies and failures in control mechanisms.

Full use of SAP functions:

- automated controls (minimisation of manual controls);
- access controls;
- controls settings;
- continuous improvement of controls;
- database analysis;
- preparation of reports with the help of SAP functions.

Internal audit focused on the key controls:

- focus on key business processes and risk-oriented controls;
- supervision of remedial actions and measures aimed to improve controls.

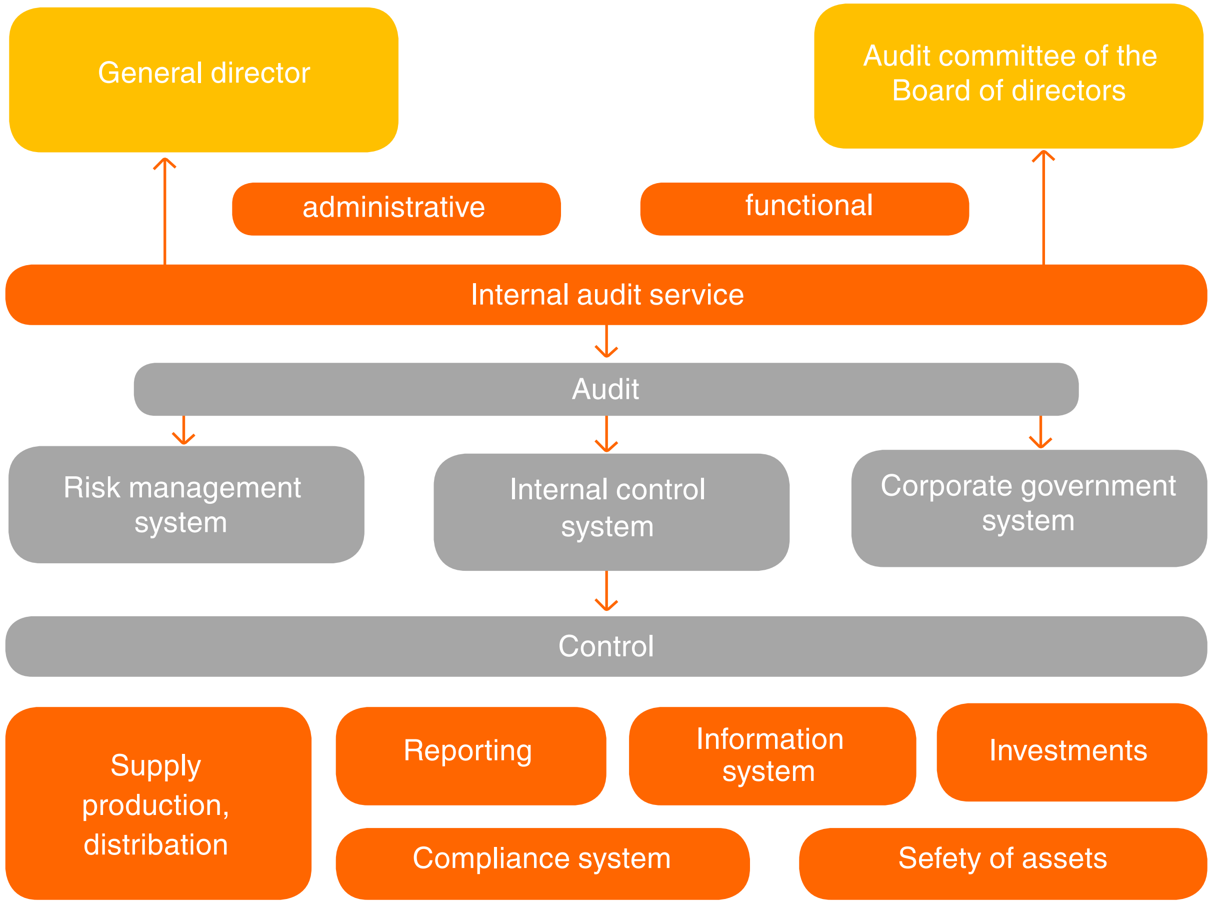
Internal audit serves to assess the adequacy and efficiency of risk controls pertaining to corporate governance, operations at TMK entities and units and their information systems.

The Internal Audit Department (IAD) operates on the basis of IAD Regulation approved by the Board of Directors (http://www.tmk-group.ru/files/pol_sva.pdf). The independence and impartiality of its activities are ensured by IAD reporting directly to the CEO and functionally to the Board of Directors via the Audit Committee. The IAD's annual audit plan is based on priority business processes and risks ranking (by probability and potential impact), discussed at the Audit Committee's meetings, approved by the Board of Directors and CEO of TMK. The IAD also controls compliance by the governing bodies, officers and employees of the company with insider information laws and regulations and regularly reports to the Audit Committee.

TMK has a two-tier centralised internal audit function – at the holding company and regionally – using a single planning and reporting system. Regional coverage of IAD's units ensures a prompt response to any changes in business processes and operations at TMK entities.

TMK management provides a timely response to any issues identified during the internal audit process. Based on audit findings, the management makes appropriate changes to the internal control system to manage the identified risks which helps to streamline the corporate governance processes and quality.

Internal audit system at TMK



The independence and impartiality of its activities are ensured by the Internal Audit Department (IAD) reporting directly to the CEO and functionally to the Board of Directors via the Audit Committee

In 2013, we continued with further integration of the compliance function into the overall system of risk management and internal control as well as of corporate governance and corporate security. This process is coordinated by the CEO's Committee on Regulating Compliance Risks established in 2011 and its regional subcommittees at TMK plants.

TMK operates a hotline as a public control instrument using a full range of communications channels such as telephone lines, fax, e-mail and mailboxes that can be used by the company's employees, investors, clients and other stakeholders to report any known abuse or violations.

Internal Control over Financial Reporting

TMK's management is responsible for implementing and maintaining adequate internal control over financial reporting to provide reasonable assurance as regards the reliability of financial reporting and its conformity with RAS and IFRS.

The company's internal control over financial reporting includes policies and procedures governing the maintenance of records that reflect transactions and available assets accurately, fairly and in reasonable detail; provide reasonable assurance that transactions are properly recorded to permit the preparation of financial statements in accordance with RAS and IFRS and that income and expenses are made only with the authorisation of the company's management; and provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposal of the company's assets that could have a material effect on our financial statements.

Throughout 2013 and to date, the company has had an operational system of internal control in place which provides reasonable assurance as regards the efficiency of operations covering all controls, including financial and operational controls, as well as compliance with laws and regulations.

Corporate Citizenship

In 2013, the wages and salaries at TMK grew by an average 12%

Human resources and social policy

The purpose of TMK's HR Strategy is to ensure that human capital of the Group matches its strategic objectives, and that professional competencies and incentive programmes are in place to achieve them.

In 2013, TMK's HR Strategy was implemented focusing on the following:

HR Management and Corporate Development

2013 saw implementation of a set of measures geared towards streamlining the management of business processes, corporate and staff structure, optimising the headcount and improving workforce productivity, such as:

- building a global organisational structure of 4 divisions (Russian, European, US and Middle East) with TMK as a common management centre;
- undertaking preliminary arrangements to unify organisational structure at TMK's Russian plants;
- introducing a product line–based production management system;
- issuing recommendations on how to improve the efficiency of personnel management at TMK-IPSCO based on an in-depth analysis of HR processes, including payroll, bonuses, professional development, terms and conditions of collective bargaining agreements;
- initiating and successfully implementing the reorganisation of the management system at the Orsky Machine Building Plant;
- completing a number of working time analysis projects at the company's trade departments and administrative function optimisation projects. These initiatives were implemented using up-to-date analysis techniques and methods helping to classify and re-allocate resources among divisions based on their priority.

In 2013, new production entities became part of the company. Nonetheless, due to the headcount optimisation efforts taken primarily at TMK's Russian plants, the average total headcount remained almost flat.

The purpose of TMK's HR Strategy is to ensure that human capital of the Group matches its strategic objectives, and that professional competencies and incentive programmes are in place to achieve them

TMK's average headcount

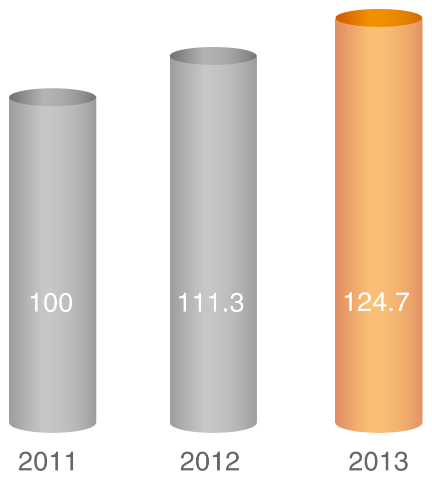
	2011	2012	2013
Average total headcount	**45,080**	**44,266**	**44,025**
incl.:			
Russian Division	40,554	39,569	38,968
European Division	1,974	1,998	2,019
US Division	2,552	2,699	2,909
Middle East Division			129

Employee Compensation and Incentives

In 2013, the wages and salaries at TMK grew by an average 12% y-o-y compensating for inflation losses in the regions and countries where we operate, thus helping the company to live up to its commitments provided for in the 2011–2013 Branch Tariff Agreement for the Mining and Metallurgical Industries of the Russian Federation.

TMK entities are attractive employers in the Russian, European and US job marketplaces, offering competitive remuneration and social benefits to their employees. We are working tirelessly on improving earnings structure and employee remuneration system. In 2013, we started to roll out a bonus system at TMK's plants based on the Management by Objectives (MBO) method. This system proved efficient at the Sinarsky Pipe Plant and TAGMET and will be applied at other plants of the company.

Average wages and salaries at TMK (2012–2013 vs 2011), %



In 2013, 172 TMK employees completed internships within the Corporate Internship Programme

Employee Development and Training

Continued improvement of professional and management competencies of our personnel is a pre-condition to sustainable growth and competitive performance of the company.

We address this issue holistically at each TMK division by providing high-quality, innovative and systematic employee trainings. In 2013, we increased financing of our corporate professional development programmes by almost 20%, spending approximately 5.5 mln USD on them. The funds were, inter alia, spent on long-term training programmes for the management of production entities and on the Six Sigma training programme designed to introduce quality management methods across the board.

Last year, we completed the Efficient Manager Programme of trainings for top managers at all production entities of the Russian Division. Overall, 840 managers were trained in 2012–2013, accounting for more than 30% of the total number of managers at these entities. Also, 120 employees of TMK and sales managers of the TMK Trade House took a corporate course in the Fundamentals and Basic Production Methods in the Pipe Business.

To attract university graduates to the company's entities and have highly-skilled personnel trained, in 2013 we continued rolling out our dedicated new talent programme, within which:

- 22 TMK employees were enrolled in the Ural Federal University named after the first President of Russia B. N. Yeltsin (UrFU). There are now 60 sponsored students from the company's entities in the UrFU.
- To support and encourage the most talented students of the National University of Science and Technology (MISiS) and attract them to TMK, the company introduced the A. D. Deineko scholarship for top students of the Piping Engineering and Equipment Department of the University. The first scholarship was awarded on 14 November 2013 at the MISiS career forum.
- The TMK Youth Scientific and Technical Conference was held for the ninth time, where recent graduates representing all Divisions of the company presented their inventions and unique solutions, most of which are ready for manufacturing implementation.
- Together with the Government of the Sverdlovsk Region, training grounds were built at the premises of the Seversky Tube Works and Sinarsky Pipe Plant for in-plant training of students. The investment made by the Government of the Sverdlovsk Region in this programme in 2012 –2013 totalled 33.1 mln RUB.

In 2013, 172 TMK employees completed internships within the Corporate Internship Programme. 2013 was the first year when Romania-based entities of TMK were used for internships.

Social partnership

Social activity is one of the cornerstones of our long-term development plans.

All TMK's plants of the Russian, European and, partially, US Divisions build up partnership with employees in close cooperation with trade unions based on collective bargaining agreements and meet all obligations as responsible employers.

In 2013, the cost of all socially-focused activities, including collective bargaining agreements, across all the plants of the Russian, European and US Divisions totalled over 120 mln USD.

To promote employee health, the company continues to co-finance employee recreation at the Burgas Resort and health resort treatment at the Westend Resort (Czech Republic). In 2013, above 2 thous. employees and their family members spent holidays in Sochi and above 250 employees in the Czech Republic.

It was the first year when Christmas shows were organised at TMK-ARTROM and TMK-RESITA in Romania for employees' children with theatrical performance staged in Slatina and Resita; this will become a tradition.

Conferral of the government, industry and corporate awards to the best employees is a key element of the non-financial incentive system. In 2013, 9 employees were conferred government awards, 90 employees with industry awards, including 24 Honorary Metallurgist titles; 320 employees were conferred corporate awards, including the title of Honorary TMK Employee conferred on 60 employees and a TMK badge of merit awarded to 24 employees.

The company rewarded the 50 best employees with a free trip to the Sochi Olympics. Another 150 TMK employees used their right of discounted stay at Burgas, TMK's corporate resort, during the Olympics and were able to take part in an unforgettable celebration of athletic excellence.

In 2013, above 2 thous. employees and their family members spent holidays in Sochi and above 250 employees in the Czech Republic

Occupational safety

Occupational health and safety is the focal area of our social policy. In 2013, 32 mln USD was allocated to create a favourable working environment and secure occupational health and safety at our entities. This resulted in better working conditions at 827 work stations and lower accident and disease incidence rates. For example, in 2013 TMK plants saw a 26% reduction in the accident severity rate, a 19% reduction in the frequency rate and 19.6% reduction in occupational diseases vs 2012.

All major TMK plants are certified for compliance with the Occupational Safety and Health Management System. Annual audits by leading global audit firms confirm the efficiency of the management systems currently run by the plants.

The following excellence in health and safety awards were given to TMK's Russian plants in 2013:

- Sinarsky Pipe Plant ranked first and Seversky Tube Works ranked second in industrial standards and occupational health and safety in the Sverdlovsk Region.
- TAGMET was awarded a certificate of merit from the Occupational Safety Research Institute for the Metals Industry for contributing to the occupational safety management system.

In 2013, a number of TMK IPSCO facilities were commended for best industrial safety performance in the cities where they operate:

- Blytheville was recognised as best in class, having logged 2 mln man hours without an accident;
- Catoosa recorded a more than 70% accident reduction combined with a 22% increase in workforce productivity;
- Geneva enjoyed seven years without reportable accidents;
- Houston Ultra saw a reduction in accidents by more than 70%;
- Koppel has been witnessing a decline in reportable accidents by more than 30% for three consecutive years.

Environmental management

TMK's strategic priority is to ensure transition to the best available technologies with the highest economic and environmental performance.

We are committed to building a sustainable, responsible and competitive business, mitigating negative environmental impact of rapidly developing production operations. In furtherance of TMK's environmental policy, our efforts during the year, as in the previous years, were focused primarily on improving environmental efficiency of production processes, reducing consumption of natural resources, and minimising waste disposal.

In its operations, TMK follows international environmental protection initiatives and agreements and complies with national environmental standards and regulations. Any large-scale upgrade, technical modernisation and production expansion are supported by systemic environmental activities. Eleven plants of the company have been certified for compliance with ISO 14001:2004 (Environmental Management System) international standard. Continuous improvement of environmental management was once again confirmed by international auditors in 2013. Three plants of the US Division are getting ready to be certified for compliance with ISO 14001:2004.

Environmental investments: transition to best available technologies. Environmental aspects are an essential component of all strategic documents of the company, including the effective Strategic Investment Programme. In 2013, TMK invested 28.5 mln USD in 31 measures designed to ensure legal compliance and environmental protection.

These activities focused on the following:

- reduction in pollutant emissions;
- construction of water recycling systems;
- waste water reduction;
- improvement of waste disposal and land reclamation operations.

TMK's strategic priority is to ensure transition to the best available technologies with the highest economic and environmental performance

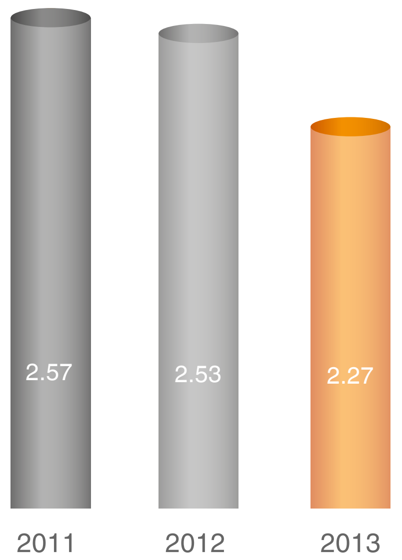
Emissions Control

In order to reduce negative impact on the atmosphere, TMK uses advanced technology with a high degree of industrial emissions treatment. Measures in this area are annual, including routine maintenance and overhaul of treatment facilities to improve the efficiency of gas cleaning, which helps in meeting the approved standards. Current atmospheric emissions control expenses amounted to 5.3 mln USD, including 3.7 mln USD for the Russian Division. In 2013, the treatment facilities of TMK's Russian Division plants captured and neutralised 23.5 thous. tonnes of pollutants and contributed to a 9% reduction in gross pollutant emissions and 10% reduction in specific emissions. Specific emissions by four Russian plants show a downward trend.

Key activities and results:

- open-hearth furnaces were closed at TAGMET with an electric arc furnace with modern efficient gas cleaning equipment built and put into operation. Pollutant emissions reduced by more than 1.3 thous. tonnes;
- TMK-ARTROM and TMK-RESITA met the designated emission quotas;
- mobile labs were put into operation resulting in broader scope and higher quality of environmental control at the Sinarsky Pipe Plant.

Specific pollutant emissions by Volzhsky Pipe Plant, Seversky Tube Works, Sinarsky Pipe Plant and TAGMET, kg/t



Water Management

TMK's strategic priority in reducing the impact on water bodies focuses on the transition to a recycling water supply. For TMK, water recycling is a prerequisite for the commissioning of new production capacities, upgrade and reconstruction of production facilities. TMK's plants are implementing an integrated approach to water resource management which, over time, results in optimised consumption, distribution and sustainable use of water and reduced sewage.

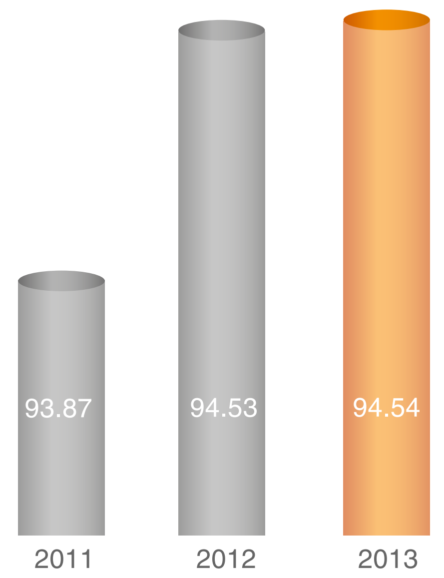
In 2013, TMK continued developing the recycling water supply system and improving performance of the existing treatment facilities. This resulted in a higher share of recycling water supply comprising 94.3% at TMK plants and 95.2% at the European Division.

Our 2013 water protection expenses amounted to 22.4 mln USD.

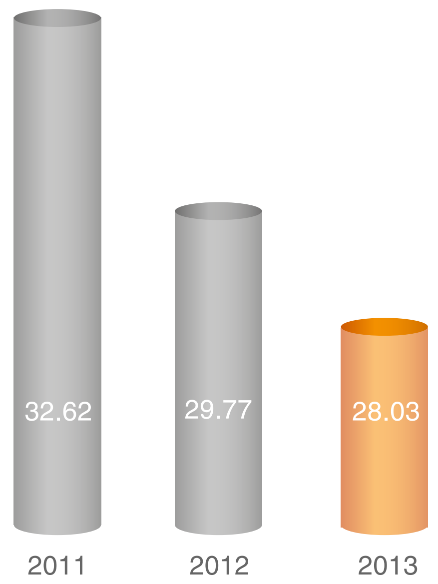
The development of the recycling water supply system and water discharge reduction activities undertaken by the company helped to significantly improve TMK's water consumption/disposal performance. In 2013 versus 2012, TMK reduced:

- industrial water consumption by 3.6%;
- water intake from surface water bodies by 5.8%;
- total waste water by 2.4%;
- waste water discharged to water bodies by 9.4%;
- concentration of pollutants in industrial effluents discharged to open water bodies by 16.1%.

Share of recycling water supply at TMK's Russian Division, %

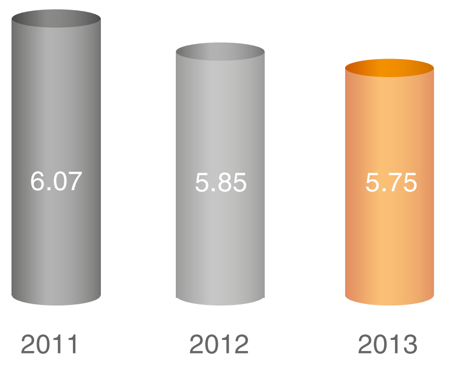


Water intake from surface water bodies at TMK, mln m3

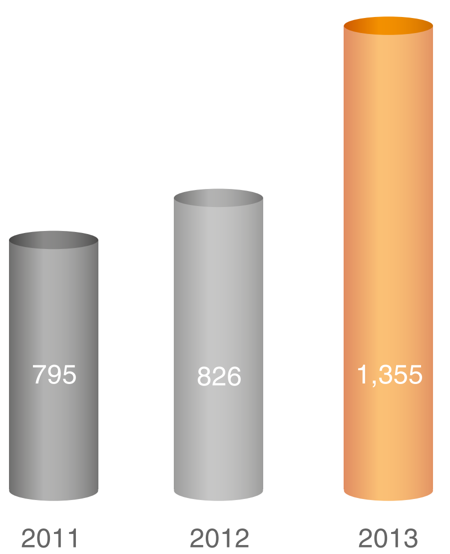


Waste Management

Share of waste released to the environment as a proportion of the waste generated (Russian Division), %



Reuse of industrial waste at TMK, thous. tonnes



In line with its environmental policy, TMK's plants implement initiatives to reduce waste generation, to recycle and reuse the waste, to neutralise waste and reduce disposal, as well as land reclamation initiatives.

7.1mln USD was spent to minimise the impact of waste on the environment, including: 5.2 mln USD by the Russian Division; 388 thosand USD by the European Division and 1.5 mln USD by the US Division.

In 2013 waste generation amount reduced by 2.3%.

In 2013, TMK continued working towards its commitment to use waste products as raw materials for in-house production as set forth by the company's Environmental Policy, with 67.5% of waste being reused. Sales of waste as a raw material for other industries increased 1.3 times.

TMK's land protection expenses, including land reclamation, amounted to 1.06 mln USD in 2013.

Activities and results:

- Seversky Tube Works brought an automated waste management systemon-stream;
- Sinarsky Pipe Plant completed the technical phase of land reclamation at two sludge storage facilities;
- Volzhsky Pipe Plant commissioned modern waste landfill to accommodate waste with a hazard rating of 3, 4, 5;
- TAGMET continued working upon an ash disposal site; 278 thous. tonnes of industrial waste was processed and removed; 342 thous. tonnes of waste was sold for further use; release of waste to the environment was reduced by 73%;
- generation of waste by the US Division reduced by 42%;
- TMK-ARTROM reduced waste generation by 71%.

Over the reporting year, supervisory authorities conducted 38 inspections at TMK plants, including 13 at Russian plants. In 2013, TMK complied with all applicable environmental reporting requirements.

Sponsorship and charity

Through sponsorship and charity, we seek to foster a favourable social climate and to create an environment for sustainable development of the regions where we operate.

Russia-based entities provide support to orphanages, educational and medical institutions and finance children's sport. They organise and are closely involved with charity events designed to support the underprivileged. For example, TAGMET is a permanent participant of a charitable action In the Name of Kindness in support of children with serious diseases; and Volzhsky Pipe Plant, as a partner of the Russian Children's Foundation, takes part in the All different, All equal project intended to provide public support to disabled children.

In the Urals Federal District accommodating two TMK entities, our charity programmes are run through the corporate charitable foundation Sinara, a professional operator. This facilitates partnership with civic institutions through grant competitions. In 2013, the Foundation provided charity support to 176 non-profit organisations and carried out ten large-scale cultural and educational projects in Russia and internationally. The Foundation is working in close cooperation with stakeholders to expand its charitable employee volunteering scheme (corporate citizenship programme).

To promote sports, TMK sponsors:

- the Russian Ski-Jumping and Nordic Combined Federation;
- a number of professional sports clubs, including: the Ural Football Club of the Russian Premier League; the Sinara mini-football club in Yekaterinburg, a two-time champion in Russia; the Dinamo Women's Handball Club in Volgograd, an eleven-time champion in Russia; TAGMET tennis club in Taganrog;
- amateur teams representing TMK entities competing in various sports, including children's and youth sports.

Entities provide support to orphanages, educational and medical institutions and finance children's sport

Our European Division acted as the main sponsor of Russian Culture Days 2013 in Bucharest dedicated to the 135th Anniversary of diplomatic relations between Russia and Romania.

TMK GIPI employees of the Middle East Division are regular participants in blood donation campaigns in support of cancer, heart diseases and HIV sufferers.

TMK's US Division acted as a leading corporate sponsor of the Age of Impressionism exhibition in the Museum of Fine Arts, Houston. The TMK-sponsored educational programme helped more than 50 thous. residents of Houston, including almost 1 thous. children, to see paintings from the Sterling and Francine Clark Art Institute. Support is also provided to charity organisations in the cities where the Division's entities operate, including the American Cancer Society and United Way.

Adjusted EBITDA equalled 952 mln USD in 2013

Management Discussion and Analysis of the financial position and results of operations

Forward-looking statement

The following review of our financial position and results of operations is based on, and should be read in conjunction with, our consolidated financial statements and related notes for the year ended 31 December 2013.

Certain information, including our forecasts and strategy, contains forward-looking statements and is subject to risks and uncertainties, domestically and internationally. In assessing these forward-looking statements, readers should consider various risk factors as the company's actual results may differ materially from the expected results discussed in this report.

Rounding

Certain monetary amounts, percentages and other figures included in this reportare subject to rounding adjustments. On occasion, therefore, amounts shown in tables may not be the arithmetic accumulation of the figures that precede them, and figures expressed as percentages in the text and in tables may not total 100 percent. Changes for periods between monetary amounts are calculated based on the amounts in thousands of U.S. dollars stated in our consolidated financial statements, and then rounded to the nearest million or percent.

Executive overview

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

The principal activities of our company are the production and distribution of seamless and welded pipe, including pipe with the entire range of premium connections backed by extensive technical support.

Our plants produce almost the entire range of existing pipe used in the oil-and-gas sector, the chemical and petrochemical industries, energy and machine-building, construction and municipal housing, shipbuilding, aviation and aerospace, and agriculture.

We created an up-to date technological complex based on advanced scientific research, manufacturing high-quality competitive products.

Our operations are geographically diversified with manufacturing facilities in Russia, the United States, Canada, Romania, Kazakhstan and the Sultanate of Oman. We operate R&D centers in Russia and the U.S. Our global market presence is supported by a wide distribution network. In 2013, we delivered 56% of our tubular products to our customers located in Russia and 27% in North America. We estimate our share on global market of seamless OCTG at 11%.

We are the largest exporter of pipe in Russia. Exports of pipe produced by our Russian plants accounted for 16% of our total sales in 2013 as compared to 19% in 2012.

In 2013, we sold 4,287 thous. tonnes of steel pipe. Seamless pipe comprised 56% of our sales volumes. Sales of seamless and welded OCTG reached 1,824 thous. tonnes, a 6% year-on-year increase, sales of LD pipe grew by 8% year-on-year to 442 thous. tonnes.

Our total consolidated revenue decreased by 4% to 6,432 mln USD as compared to 6,688 mln USD in 2012. Adjusted EBITDA[1] declined to 952 mln USD as compared to 1,028 mln USD in 2012. Adjusted EBITDA margin stayed almost flat at 15%.

[1] Adjusted EBITDA -See "Selected financial data"

Market conditions for 2013

Russia

For the full year 2013, the Russian pipe market increased by 4% year-on-year largely due to higher consumption of pipe for oil and gas industry.

Throughout 2013, consumption of seamless OCTG pipe continued to grow supported by a high level of E&P activity by oil and gas majors and increasing share of unconventional drilling. Share of horizontal drilling amounted to 21% of total drilling for the full year 2013 compared to 14% for the full year 2012.

In 2013, LD pipe market in Russia slightly declined by 1% year-on-year.

For the full year 2013, seamless industrial pipe market declined by 3% year-on-year due to weaker consumption in the machinery industry, while welded industrial pipe market increased by 4% compared to the full year 2012.

America

In 2013, energy commodity prices increased compared to 2012, with natural gas prices improving year-over-year largely due to demand growth resulting from colder than average winter conditions. WTI crude oil prices increased by 4% year-on-year.

According to Baker Hughes, the average rig count dropped by 8% year-on-year from 1,919 in 2012 to 1,761 in 2013 due to continued reduction in natural gas drilling activity. Though the rig count declined, more pipe per rig was used as operators continued to drill more horizontal and directional wells, for which horizontal and directional rigs increased from 71% in 2012 to 75% of total rigs in 2013. Additionally, the decrease in rig count was partially offset by the growth in drilling efficiencies. The average number of wells per rig increased by 6.5% year-on-year in 2013.

According to Pipe Logix, in 2013, average OCTG welded prices decreased by 10% compared to the full year 2012, and seamless prices decreased by 9% year-on-year.

Europe

In 2013, the European market's trend towards a decline in tubular product capacity continued. Additional challenges come from the stronger competition from cheaper imports made in Ukraine, China, India and other countries where the costs of raw materials and electric power as well as environmental charges are considerably below those in Europe. End-users continued to focus on spot orders anticipating more favorable payment terms. The shrinking number of active projects coupled with investor pessimism resulted in lower consumption of tubular goods.

Key events

Product development

In January, casing with TMK PF premium connections was run in the onshore and offshore parts of the well at NOVATEK's Yurkharovskoye field. TMK supplied the casing column and supervised its running in the well.

In March, we shipped the first pilot batch of vacuum insulated tubing (VIT) made of 13CrS steel (super-chrome steel) for Gazprom's Bovanenkovo oil and gas condensate field on the Yamal peninsula.

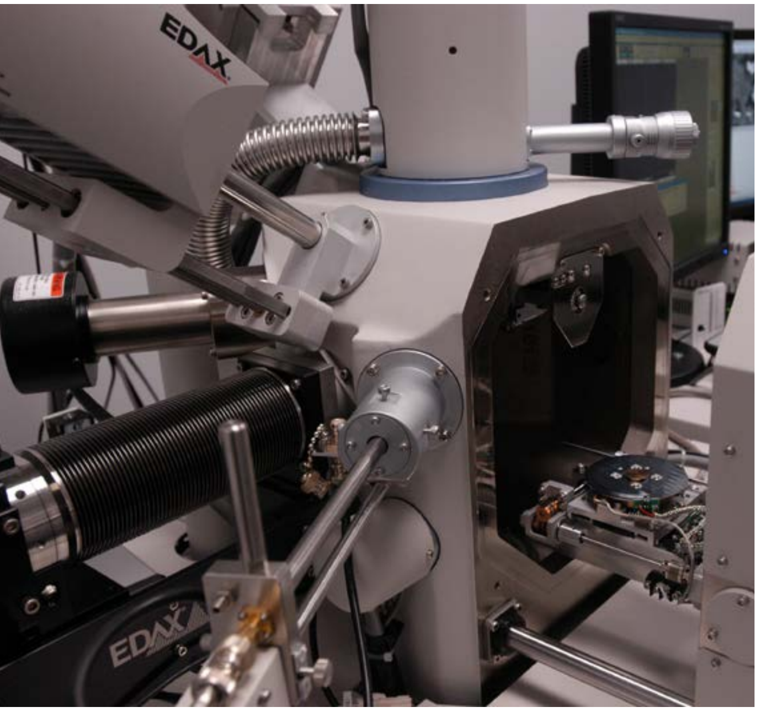
In October, we shipped tubular products for the construction of deep water pipelines at the Lukoil's Filanovsky oil and gas condensate field in the North Caspian Sea. In accordance with the requirements of the project, the production of pipe was conducted under the supervision of Russian Maritime Register of Shipping (RMRS) at all stages of production, from steelmaking and shipment of finished products.

In October, we completed our contracted shipments of LD pipe for the international pipeline Central Asia – China in the amount of more than 100 thous. tonnes of longitudinal LD pipe with external and inner coating.

In October, we implemented a new technology of lubricant-free coating for threaded connections – Green Well. Casing pipe with TMK PF premium connections and the innovative coating were used for assembling casing columns run into the wells at Rosneft's Vankorskoye field.

In November, we united our two premium connections families TMK Premium and ULTRA under a single brand – TMK Ultra Premium (TMK UP). Bringing the two premium connections lines under the single brand will help expand bidding opportunities for our premium tubular products worldwide, unify its portfolio of global packaged product offering, and raise global awareness of our company's premium solutions.

In January 2014, TMK IPSCO has been awarded two three-year contracts to provide both oil country tubular goods (OCTG) and line pipe to Shell for onshore and offshore applications. Five of TMK IPSCO's plants are currently providing pipe to Shell under the contract, two Russian plants will provide line pipe under Shell's specification.



Production capacity

In January, TMK IPSCO launched a new production facility for the production of pipe with a full range of premium connections ULTRA in Edmonton, Canada. Besides, customers will enjoy a number of related services, such as repair and accessories.

In June, TMK Oilfield Services division launched an inner coating line a one of its production facilities in Russia with an annual capacity of 32 thous. tonnes of pipe with a diameter of 73-168 mm.

In August, TMK launched its new state-of-the-art electric arc furnace at Tagmet. In November 2013, the company shut down its last open-hearth furnace.

In December, TMK-INOX launched new gas furnace with protective atmosphere on the basis of ultra-pure hydrogen. It allows to produce heat-treatment of pipe up to 30 metres long. The advantage of unique furnace is a new technology of heat-treatment in the protective atmosphere using ultra-pure hydrogen, which eliminates oxydation processes on the pipe surface from atmosphere.

Acquisitions and joint ventures

In April, we acquired a 100% stake in the pipe services and precision manufacturing assets. The facility is located on north-east of Houston and has the capacity to produce more than 700 thous. joints of threaded pipe and around 250 thous. couplings. In addition, the facility provides pipe inspection services and manufactures down-hole tools and accessories for a wide range of oil and gas applications.

In April, we signed an agreement with the Skolkovo Fund to open our research and development facility in the Skolkovo Innovation Centre. The Centre will focus on developing efficient technologies in the areas of oil and gas exploration and production, transportation of hydrocarbons, and on finding new solutions to improve energy efficiency in the iron and steel industry.

In June, we entered into scientific and technical cooperation program with Gazprom for 2013-2015. Program provides the development of new casing and tubing products and line pipelines with improved characteristics, as well as providing technical support and supervision in application of the products.

Borrowings

In April 2013, we completed a placement of 500 mln USD Eurobonds maturing in 2020 with a coupon rate 6,75% p.a. and interests payable twice a year. Bonds are listed on the Irish Stock Exchange. Proceeds were used to refinance certain credit facilities.

In October, we paid off БО-01 series bonds in the amount of 5 bln RUB. Obligations were paid on its due date and in full amount.

Dividends

In June, the annual shareholders' meeting approved payment of a final dividend for 2012 in the amount of 788 mln RUB (24 mln USD at the exchange rate on the date of approval) or 0.84 (0.03 USD) per one ordinary share. Thus total dividends amount for 2012 including the interim dividends made up 2,194 bln RUB (69 mln USD).

In November, the extraordinary general shareholders' meeting approved an interim dividend payment for the first six months of 2013 in the amount of 975 mln RUB (30 mln USD at the exchange rate on the date of approval) or 1.04 RUB (0,03 USD) per ordinary share (approximately 0.13 USD per GDR).

Business structure

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

- Russian division: manufacturing facilities located in the Russian Federation, Kazakhstan and the Sultanate of Oman, and oilfield service companies and trading companies in Russia, Kazakhstan, Switzerland, the United Arab Emirates and South Africa. The Russian division is engaged in the production and supply of seamless and welded pipe, premium products and the provision of related services to oil and gas companies;
- American division: manufacturing facilities and trading companies located in the United States and Canada. The American division is engaged in the production and supply of seamless and welded pipe and premium products, including ULTRA connections and the provision of related services to oil and gas companies;
- European division: manufacturing facilities located in Romania and trading companies located in Italy and Germany. The European division is engaged in the production and supply of seamless pipe and steel billets.

Year ended 31 December 2013 results

Results of operations

In 2013, our sales volumes slightly increased, however our main financial indicators decreased year-on-year. Our profitability ratios remained relatively flat.

	2013	2012	Change	Change
	in mln USD		in mln USD	in %
Sales volume (in thous. tonnes)	**4,287**	4,238	49	1%
Revenue	**6,432**	6,688	(256)	(4%)
Cost of sales	**(5,074)**	(5,209)	135	(3%)
GROSS PROFIT	**1,358**	1,479	(121)	(8%)
GROSS PROFIT MARGIN	**21%**	22%		
Net operating expenses [1]	**(754)**	(811)	57	(7%)
(Impairment) / Reversal of impairment of assets	**(5)**	(8)	3	(37)%
Foreign exchange gain/(loss), net	**(49)**	23	(72)	-
(Loss)/gain on changes in fair value of derivative financial instrument	**8**	(7)	16	-
Finance costs, net	**(245)**	(275)	30	(11)%
INCOME BEFORE TAX	**312**	400	(88)	(22)%
Income tax expense	**(98)**	(123)	25	(20)%
NET INCOME	**215**	278	(63)	(23)%
NET INCOME ADJUSTED FOR GAIN/(LOSS) ON CHANGES IN FAIR VALUE OF DERIVATIVE INSTRUMENT [2]	**206**	285	(79)	(28)%
ADJUSTED NET INCOME MARGIN[3]	**3%**	4%		
ADJUSTED EBITDA	**952**	1,028	(77)	(7)%
ADJUSTED EBITDA MARGIN	**15%**	15%		

[1] Net operating expenses include selling and distribution, general and administrative, advertising and promotion, research and development, share of profit in associate, gain on disposal of subsidiary and net other operating income/(expense)

[2] For the purposes of this report, net income has been adjusted for gain or loss on changes in fair value of the derivative financial instrument to reflect management's opinion in respect of the treatment of the conversion option (see "Change in fair value of derivative financial instrument"). We consider it an important supplemental measure of our performance

[3] Adjusted net income margin is calculated as the quotient of Net Income adjusted for gain or loss on changes in the fair value of derivative instrument divided by Revenue

Sales

In 2013, our consolidated revenue decreased by 4% or 256 mln USD mainly as a result of lower sales volumes of seamless pipe in the Russian division and a negative currency translation effect in the amount of 97 mln USD.

Sales by reporting segments are as follows

	2013	2012	Change	Change
	in mln USD		in mln USD	in %
Russia	**4,483**	4,714	(231)	(5)%
America	**1,665**	1,650	15	1%
Europe	**284**	324	(40)	(12)%
TOTAL PIPE	**6,432**	6,688	(256)	(4)%

	2013	2013	Change	Change
	in mln USD		in mln USD	in %
Russia	**3,085**	3,159	(74)	(2)%
America	**1,027**	903	124	14%
Europe	**175**	176	(1)	(0.3)%
TOTAL PIPE	**4,287**	4,238	49	1%

Sales by group of products are as follows

	2013	2012	Change	Change
	in mln USD		in mln USD	in %
Seamless pipe	**3,960**	4,134	(175)	(4)%
Welded pipe	**2,201**	2,257	(56)	(2)%
TOTAL PIPE	**6,160**	6,391	(231)	(4)%
Other operations	**272**	296	(25)	(8)%
TOTAL REVENUE	**6,432**	6,688	(256)	(4)%

	2013	2013	Change	Change
	in thous. tonnes		in thous. tonnes	in %
Seamless pipe	**2,422**	2,495	(73)	(3)%
Welded pipe	**1,866**	1,743	123	7%
TOTAL PIPE	**4,287**	4,238	49	1%

Russia

The division's revenue decreased by 5% or 231 mln USD year-on-year mostly as a result of lower *seamless* pipe sales and a negative currency translation effect in the amount of 109 mln USD.

Revenue from sales of *seamless* pipe decreased by 103 mln USD mainly due to lower sales volumes as we completed supplies for several large projects in the MENA region. This negative effect was not fully compensated by higher sales volumes in the Russian market and favourable sales mix.

Revenue from sales of *welded* pipe decreased by 6 mln USD. Unfavourable sales mix and lower prices for small diameter pipe were partially offset by higher sales volumes.

Revenue from other operations decreased by 13 mln USD.

America

In the American division, revenue increased by 1% or 15 mln USD year-on-year.

A decline in the amount of active rig count coupled with higher imports resulted in lower prices for *seamless* and *welded* pipe and negatively impacted American division revenue.

Despite unfavourable pricing environment revenue from sales of *seamless* pipe increased by 24 mln USD as a result of higher sales volumes and better product mix.

Revenue from sales of *welded* pipe fell by 18 mln USD mainly due to unfavourable sales mix, which was not fully compensated by sales volumes growth.

Revenue from other operations, mainly from field services and sales of fishing tools, increased by 8 mln USD.

Europe

In the European division revenue decreased by 12% or 40 mln USD year-on-year, primarily on weaker pricing and lower sales of *steel billets*. The favourable currency translation effect amounted to 11 mln USD.

Revenue from sales of *seamless* pipe decreased by 32 mln USD as compared to the last year as a result of an unfavourable pricing along with the stronger competition in the weak E.U. market.

Revenue from other operations, mostly from sales of *steel billets*, declined by 19 mln USD as compared to last year following lower sales volumes as a result of the worsening market environment.

Gross profit

In 2013, our consolidated gross profit amounted to 1,358 mln USD, an 8% decrease as compared to last year. The unfavourable currency translation effect was 24 mln USD. Gross profit margin decreased to 21% from 22% in the previous year due to lower profitability in the American and European divisions.

Gross profit results by reporting segments are as follows

	2013		2012		Change
	in mln USD	in % to revenue	in mln USD	in % to revenue	in mln USD
Russia	**1,092**	24%	1,119	24%	(27)
America	**212**	13%	285	17%	(74)
Europe	**54**	19%	75	23%	(21)
TOTAL GROSS PROFIT	**1,358**	21%	1,479	22%	(121)

Gross profit results by group of products are as follows

	2013		2012		Change
	in mln USD	in % to revenue	in mln USD	in % to revenue	in mln USD
Seamless pipe	**1,077**	27%	1,085	26%	(8)
Welded pipe	**246**	11%	342	15%	(96)
TOTAL PIPE	**1,323**	21%	1,426	22%	(104)
Other operations	**35**	13%	52	18%	(17)
TOTAL GROSS PROFIT	**1,358**	21%	1,479	22%	(121)

Russia

The division's gross profit decreased by 27 mln USD as a result of negative currency translation effect. Gross profit margin stayed almost flat at 24%.

Favourable sales mix resulted in a 48 mln USD increase in gross profit of *seamless* pipe despite lower sales volumes.

Gross profit of *welded* pipe decreased by 41 mln USD due to unfavourable sales mix that was not offset by higher sales volumes.

Gross profit from other operations decreased by 7 mln USD.

America

The American division's gross profit decreased by 74 mln USD as compared to 2012. Gross profit margin declined to 13% from 17%.

The negative effect of unfavorable pricing environment was partially offset by lower raw materials prices and higher sales volumes resulting in a 50 mln USD and a 17 mln USD decrease in gross profit from sales of *welded* and *seamless* pipe respectively.

Gross profit from other operations decreased by 7 mln USD.

Europe

Given the weak trends in the E.U. market, gross profit in the European division decreased by 21 mln USD. Gross profit margin decreased from 23% to 19%.

Net operating expenses

Net operating expenses were lower by 7% or 57 mln USD. The share of net operating expenses, expressed as a percentage of revenue, stayed almost flat at 12%.

The decrease in net operating expenses was primarily due to a 54 mln USD decline in freight costs in the Russian division as a result of lower share of sales with long distance delivery terms. Amortisation in the American division declined by 10 mln USD. Our staff costs rose by 19 mln USD.

The currency translation effect accounted for an 11 mln USD decrease in net operating expenses.

Adjusted EBITDA

In 2013, adjusted EBITDA margin remained almost flat at 15%.

	2013		2012		Change
	in mln USD	in % to revenue	in mln USD	in % to revenue	in mln USD
Russia	**776**	17%	759	16%	17
America	**145**	9%	218	13%	(73)
Europe	**31**	11%	52	16%	(21)
TOTAL ADJUSTED EBITDA	**952**	15%	1,028	15%	(77)

Russia

Adjusted EBITDA was higher by 2% or 17 mln USD. Gross profit decrease of 27 mln USD was fully compensated by decrease in selling, general and administrative expenses and other operating expenses. Adjusted EBITDA margin increased from 16% to 17%.

America

Adjusted EBITDA decreased by 34% or 73 mln USD as a result of lower gross profit. Adjusted EBITDA margin declined from 13% to 9%.

Europe

Adjusted EBITDA declined by 40% or 21 mln USD followinga gross profit decrease. Adjusted EBITDA margin dropped from 16% to 11%.

Impairment of assets

We tested our assets for impairment during the year. As of 31 December 2013, we determined in respect of certain property in Russian division that the carrying value of the property and goodwill exceeds its recoverable amount. As a result, we recognised the impairment loss in the amount of 4 mln USD and 1 mln USD in respect of property and goodwill respectively.

Foreign exchange movements

In 2013, we recorded a foreign exchange loss in the amount of 49 mln USD as compared to a 23 mln USD gain in 2012. In addition, we recognised a foreign exchange loss from exchange rate fluctuations in the amount of 65 mln USD (net of income tax) in 2013 as compared to a 48 mln USD gain (net of income tax) in 2012 in the statement of other comprehensive income. The amount in the statement of comprehensive income represents the effective portion of foreign exchange gains or losses on our hedging instruments.

Net finance costs

Finance costs decreased by 15% or 45 mln USD mainly following lower interest expenseas as a result of borrowing costs capitalization and improved credit portfolio structure. The weighted average nominal interest rate was 6.72% as of 31 December 2013 as compared to 6.99% as of 31 December 2012.

Finance income decreased by 15 mln USD due to a decrease in dividend income.

As a result, our net finance costs decreased by 11% or 30 mln USD year-on-year.

Income tax

TMK, as a global company with production facilities and trading companies located in Russia, the CIS, the United States, and Europe, is exposed to local taxes charged to businesses. In 2012 and 2013, the following corporate income tax rates were in force in the countries where our production facilities are located: 20% in Russia, 35% (federal rate) in the United States and 16% in Romania.

In 2013, a pre-tax income of 312 mln USD was reported as compared to 400 mln USD in 2012. Income tax expense of 98 mln USD was recognised as compared to 123 mln USD in 2012. Our effective income tax rate stayed almost flat at 31%.

Cash flows

The following table illustrates our cash flows.

	2013	2012	Change	Change
	in mln USD		in mln USD	in %
Net cash provided by operating activities	**703**	929	(225)	(24)%
Payments for property and equipment	**(397)**	(445)	49	(11)%
Acquisition of subsidiaries	**(38)**	(33)	(5)	16%
Dividends received	**3**	14	(12)	(81)%
Other investments	**9**	9	(0.1)	(1)%
Free Cash Flow	**280**	474	(194)	(41)%
Change in loans	**(93)**	(148)	54	(37)%
Interest paid	**(254)**	(263)	10	(4)%
Other financial activities	**(3)**	1	(4)	-
Free Cash Flow to Equity	**(70)**	64	(134)	(209)%
Dividends paid	**(57)**	(79)	22	(28)%
Effect of exchange rate changes	**(5)**	10	(15)	-
Cash and cash equivalents at the beginning of period	**225**	231	(6)	(2)%
Cash and cash equivalents at period end	**93**	225	(132)	(59)%

Net cash flows provided by operating activities decreased by 24% to 703 mln USD from 929 mln USD in 2012, mainly due to a decline in operating profit and higher increase in working capital in 2013 as compared to 2012. In 2013, working capital increased by 159 mln USD, while in 2012 it grew by 34 mln USD.

A net repayment of borrowings totalled 93 mln USD as compared to 148 mln USD of net repayment of borrowings last year.

Cash spent for acquisition of subsidiaries in 2013 relates primarily to the acquisition of Pipe Services and Precision Manufacturing Business in the U.S. and final payment for 55% of the voting shares of Gulf International Pipe Industry LLC, a company based in the Sultanate of Oman and specialising in the manufacturing of welded steel pipe.

In 2013, we paida full year dividend in respect of 2012 in the total amount of 53 mln USD to the shareholders of OAO TMK. In 2012, we paid a full year dividend in respect of 2011 and interim dividend in respect of the first half of 2012 in the total amount of 76 mln USD to the shareholders of OAO TMK. We paid dividends in the amount of 4 mln USD and 3 mln USD to our non-controlling interest owners in 2013 and 2012, respectively.

Indebtedness

The following table illustrates the maturity profile of our total financial debt, mln USD

	1 year or less	1 to 3 years	Over 3 years	Unamortised debt issue costs	Total debt
As of 31 December 2013	399	1,471	1,837	(12)	3,694
As of 31 December 2012	1,073	1,351	1,474	(14)	3,885

Our overall financial debt decreased from 3,885 mln USD as of 31 December 2012 to 3,694 mln USD as of 31 December 2013. The depreciation of the Rouble against the U.S. dollar resulted in a decrease of the U.S. dollar equivalent of the Rouble-denominated loans and borrowings as of 31 December, 2013. Net repayment in 2013 was 93 mln USD.

As of 31 December 2013, our debt portfolio comprised diversified debt instruments, including bank loans, bonds, convertible bonds and other credit facilities. As of 31 December 2013, the U.S. dollar-denominated portion of our debt represented 64%, Rouble-denominated portion of debt represented 32%, euro-denominated portion of debt represented 4% and other currencies represented less than 1% of our total debt.

In April 2013, we completed a placement of 500 mln USD Eurobonds maturing in 2020 to refinance Rouble-denominated debt. As a result the share of our short-term debt decreased to 11% as of 31 December 2013 compared to 27% as of 31 December 2012. Eurobonds placement also caused a growth of U.S. dollar-denominated portion of debt.

As of 31 December 2013, our debt portfolio comprised fixed and floating interest rate debt facilities. Borrowings with a floating interest rate represented 579 mln USD or 16% of total debt, and borrowings with a fixed interest rate represented 3,063 mln USD or 84% of our total debt.

As of 31 December of 2013, our weighted average nominal interest rate was 6.72%, which was a 27 basis point decrease compared to 31 December 2012.

Our most significant credit facilities as of 31 December 2013 were as follows

Type of borrowing	Bank	Original currency	Outstanding principal amount in mln USD	Maturity period
7.75% bonds		USD	500	January 2018
6.75% bonds		USD	500	April 2020
5.25% convertible bonds		USD	413	February 2015
Loan	Gazprombank	USD	400	June 2017
Loan	Gazprombank	RUB	274	March 2019
Loan	Nordea Bank	USD	200	January 2017
Loan	Sberbank of Russia	RUB	183	September 2015
Loan	Sberbank of Russia	RUB	178	September 2015
Loan	Gazprombank	RUB	153	October 2016
Loan	Wells Fargo	USD	145	August 2016
			2,946	
Other credit facilities			675	
TOTAL LOANS AND BORROWINGS			**3,622**	

Capital expenditure

Throughout the year, we continued our strategic capital expenditure projects, which are focused on increasing our share of high value-added products, enhancing our production capacity for premium products, and reducing unit costs.

	2013	2012	Change	Change
	in mln USD		in mln USD	in %
Russia	**450**	347	104	30%
America	**44**	95	(51)	(54)%
Europe	**22**	45	(24)	(52)%
CAPITAL EXPENDITURE	**516**	487	29	6%

The majority of the strategic capital projects are undertaken in the Russian division. Our key projects are the following:

- replacement of the open hearth furnaces with EAF steelmaking facilities at TAGMET aimed to reduce steel-making costs, increase annual billet-production capacity up to 950 thous. tonnes and significantly reduce air pollution;
- ongoing construction of a new Fine Quality Mill (“FQM”) at STZ. Commissioning is planned for 2014.

In order to increase sales volumes of higher value-added products and the share of premium threaded pipe, we implement several projects, the main of which are the following:

- implementation of complex Pipe Rolling Shop 3 development programme at VTZ to meet increasing customers’ requirements for product quality control and to increase the share of OCTG pipe with premium connections;
- installation of additional non-destructive testing equipment, the new hydro-press and pipe-threading facilities as a part of the programme to improve the quality of OCTG at SinTZ;
- reconstruction of cold rolling mills, construction of protective gas furnace and slitter, which is the finishing stage of stainless steel pipe production modernization at TMK-INOX;
- new coating line construction at TMK NGS-Nizhnevartovsk;
- installation of coupling threader at TAGMET;

- installation of hydro tester for threading connections at the casing pipe production line at OMZ;
- consolidation of threading operations at Midland, Texas;
- expanding finishing capacities at Koppel, PA, including heat treatment capacity increase and installation of additional non-destructive testing equipment.

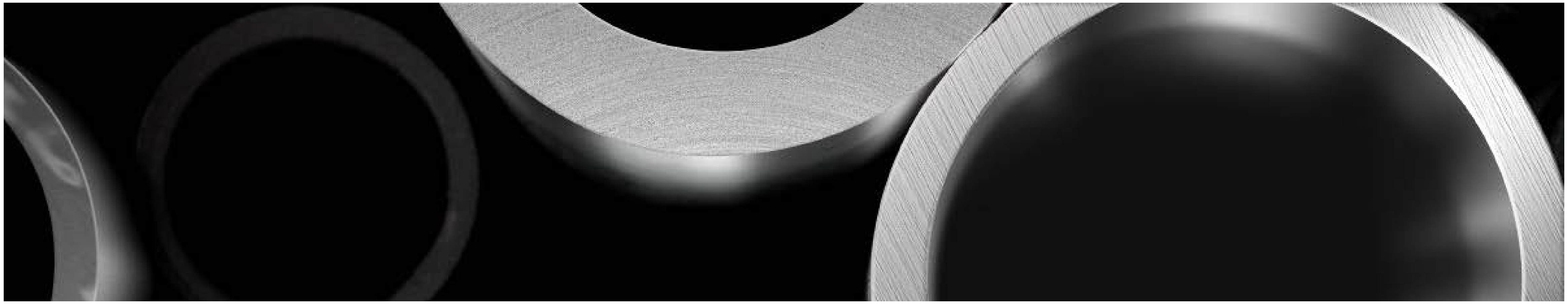
In order to develop steelmaking facility and provide stable scrap supply,TMK-RESITA has completed its scrap yard construction.

Development trends

For the full year 2014, we observe an increase in demand in the Russian pipe market mainly due to higher consumption of oil and gas pipe grades. In particular, as a result of horizontal drilling growth and further development of unconventional oil and gas reserves, we expect increasing demand for high quality TMK UP connections, uniquely designed to meet specific drilling applications.

In the U.S. we expect further improvements in drilling efficiencies throughout 2014, as well as in the percentage of horizontal and directional rigs relative to total rig count, which as of the end of 2013 amounted to 75% of total rig count. Both trends combined with the recent uptick in average rig count, point towards slight gains in OCTG consumption during 2014. Given the preliminary decision of the U.S. Department of Commerce concerning the OCTG trade case, we do not anticipate an improvement in OCTG prices during 2014.

The environment in the European pipe market, which is going through a lasting recession, will remain largely unchanged in 2014 compared to 2013.



Selected financial data

Adjusted EBITDA

Reconciliation of income before tax to Adjusted EBITDA for the twelve months ended, mln USD

	31 December 2013	30 September 2013	30 June 2013	31 March 2013	31 December 2012
Income before tax	**312**	280	320	365	405
Depreciation and amortisation	**326**	324	327	326	326
Finance costs, net	**245**	253	270	269	275
Impairment of assets/(Reversal of impairment of assets)	**5**	11	8	8	8
Loss/(gain) on changes in fair value of derivative financial instrument	**(8)**	3	0	(7)	7
Foreign exchange (gain)/loss, net	**49**	35	27	13	(23)
Loss/(gain) on disposal of property, plant and equipment	**6**	10	14	18	17
Movement in allowances and provisions (except for provisions for bonuses)	**19**	10	13	14	12
Other non-cash items	**(2)**	(2)	(2)	(2)	0
Adjusted EBITDA	**952**	924	976	1,007	1,028

Adjusted EBITDA is not a measure of our operating performance under IFRS and should not be considered as an alternative to gross profit, net profit or any other performance measures derived in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of our liquidity. In particular, Adjusted EBITDA should not be considered to be a measure of discretionary cash available to invest in our growth. Adjusted EBITDA has limitations as an analytical tool, and potential investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS.

Starting from the interim condensed consolidated financial statements for the three months ended 31 March, 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 following limitations of Adjusted EBITDA as an analytical tool should be considered:

- Adjusted EBITDA does not reflect the impact of financing or finance costs on our operating performance, which can be significant and could further increase if we were to incur more debt;
- Adjusted EBITDA does not reflect the impact of income taxes on our operating performance;
- Adjusted EBITDA does not reflect the impact of depreciation and amortisation on our operating performance. The assets that are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA, it does not reflect our future cash requirements for these replacements; and
- Adjusted EBITDA does not reflect the impact of other non-cash items on our operating performance, such as foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions, (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associate and other non-cash items. Other companies in the pipe industry may calculate Adjusted EBITDA differently or may use it for other purposes, limiting its usefulness as comparative measure.We compensate for these limitations by relying primarily on our IFRS operating results and using Adjusted EBITDA only supplementally.

Net Debt

Net debt has been calculated as of the dates indicated, mln USD

	31 December 2013	30 September 2013	30 June 2013	31 March 2013	31 December 2012
Loans and borrowings	**3,642**	3,723	3,717	3,798	3,833
Liability under finance lease	**52**	52	52	51	52
TOTAL DEBT	**3,694**	3,775	3,769	3,849	3,885
Net of: Cash and short-term financial investments	**(93)**	(78)	(137)	(122)	(229)
NET DEBT	**3,600**	3,698	3,632	3,727	3,656
NET DEBT TO EBITDA (LTM)	**3.8**	4.0	3.7	3.7	3.6

Net Debt is not a measure under IFRS, and it should not be considered to be an alternative to other measures of financial position. Other companies in the pipe industry may calculate Net Debt differently and therefore comparability may be limited. Net Debt is a measure of our operating performance that is not required by, or presented in accordance with, IFRS. Although Net Debt is a non IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. Management believes Net Debt provides an accurate indicator of our ability to meet our financial obligations, represented by gross debt, from available cash. Net Debt demonstrates investors the trend in our net financial position over the periods presented. However, the use of Net Debt assumes that gross debt can be reduced by cash. In fact, it is unlikely that all available cash will be used to reduce gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Debt and the ratio of net debt to equity, or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost.

These measures also make it possible to evaluate if our financial structure is adequate to achieve our business and financial targets. Management monitors the net debt and the leverage ratio or similar measures as reported by other companies in Russia or abroad in order to assess our liquidity and financial structure relative to such companies. Management also monitors the trends in our Net Debt and leverage in order to optimise the use of internally generated funds versus borrowed funds.

Change in fair value of derivative financial instrument

In February 2010, we issued convertible bonds in the amount of 413 mln USD due 2015, convertible into TMK's Global Depositary Receipts (GDR). The bonds carry a coupon with a 5.25 interest rate per annum, payable quarterly. The convertible bonds represent a combined financial instrument containing two components: (i) a bond liability and (ii) an embedded derivative representing a conversion option in foreign currency combined with an issuer call. In accordance with IFRS, a bond liability of 368 mln USD (net of transaction costs of 9 mln USD) and the liability under the embedded conversion option of 35 mln USD were recognised at the initial recognition date.

As of 31 December 2013, the carrying value of the bond liability and the fair value of the embedded conversion option were 416 mln USD and 2 mln USD, respectively. As of 31 December 2012, the carrying value of the bond liability and the fair value of the embedded conversion option were 412 mln USD and 10 mln USD, respectively. As a result, we recognised a gain of 8 mln USD on the change in the fair value of the embedded derivative in 2013 as compared to a loss of 7 mln USD last year.

Management believes that the IFRS accounting treatment of the conversion option of the bond does not reflect the expected outflow of resources under the conversion rights. The conversion option, whether exercised or expired, will not result in cash outflows. In the event of the bond not being converted, the liability under the conversion option will be recognised as a gain in our income statement. In the event of the exercise of the option, the liability will be transferred to equity (together with the carrying value of the converted bonds); no gain or loss will be recognised on the transaction. Additionally, the accounting treatment of the conversion option requires changes in fair value of the embedded instrument to be recognised in the income statement. The price and volatility of TMK's GDRs have significant impact on fair value of the embedded derivative. In the event the GDRs perform well, the liability under the conversion option will increase and result in losses in the income statement. Changes in fair value may be material in comparison to our net income and may cause distortions in the income statement.

As such, for the purposes of this report, in addition to net income as reflected in the consolidated income statement, it has been decided to present, in this report, an adjusted net income so that it does not reflect gain or loss on changes in fair value of the derivative financial instrument with respect to the embedded derivative component of the convertible bond. The adjusted net income is an alternative performance measure that is not reflected in our consolidated financial statements and has not been audited or reviewed in accordance with ISA.

Principal risks and uncertainties

Industry risks

Dependence on the oil and gas industry

The oil and gas industry is the principal consumer of steel pipe products worldwide and accounts for most of our sales, in particular sales of OCTG, line pipe and large-diameter welded pipe. In 2013, sales volumes of pipe used in oil and gas industry accounted for approximately 76% of our tubular products. The oil and gas industry has historically been volatile and downturns in the oil and gas markets can adversely affect demand for our products, which largely depends on the number of oil and gas wells being drilled, completed and reworked, the depth and drilling conditions of wells and the construction of oil and gas pipelines. The level of such industry specific activities in turn depends on the level of capital spending by major oil and gas companies. The level of investment activities of oil and gas companies, which is largely driven by prevailing prices for oil and natural gas and their stability, significantly affects the level of consumption of our products. In case of significant and/or sustained decline in oil and natural gas prices energy companies could reduce their levels of expenditures. As a result, the demand for oil and gas pipe can substantially decrease, leading to the tightening of competition and a possible decrease of market prices for tubular products. Thus, the decline in oil and gas exploration, drilling and production activities and prices for energy commodities could.

Increases in the cost of raw materials

We require substantial quantities of raw materials to produce steel pipe. The principal raw materials used in production processes include scrap and ferroalloys for use in steelmaking operations, steel billets used for the production of seamless pipe and steel coils and plates for the production of welded pipe. The demand for the principal raw materials we utilise is generally correlated with macroeconomic fluctuations, which are in turn affected by global economic conditions.

In 2013, the costs of raw materials and consumables accounted for 65% of total cost of production. Prices for raw materials and supplies are one of the main factors affecting our results of operations. They are influenced by many factors, including oil and gas prices, worldwide production capacity, capacity utilisation rates, inflation, exchange rates, trade barriers and improvements in steelmaking processes. Costs of the principal types of raw materials that we require decreased in 2013 as compared to 2012. In 2013, in the Russian division, the average purchase costs of coils and metal scrap decreased 8% and 7%, respectively, the average purchase cost of steel plates decreased 10% as compared to 2012. In the American division, the average purchase costs of metal scrap and coils used in production decreased 7% and 9%, respectively, as compared to 2012. The average purchase costs of metal scrap in the European division were lower by 7% in 2013 than those in 2012. As the result of higher sales volumes, our costs of raw materials and consumables increased from 3,352 mln USD in 2012 to 3,384 mln USD in 2013.The share of raw materials' and consumables' costs in the total cost of production decreased from 66% in 2012 to 65% in 2013.

Raw materials prices continue to have a key influence on our production costs. The increase in prices for scrap, coils and other raw materials, if not passed on to customers in a timely fashion, can adversely affect our profit margins and results of operations.

Our plants also consume significant quantities of energy, particularly electricity and gas. In 2013, the share of energy costs and utilities remained almost flat and amounted to 8% of the total cost of production. Nevertheless, price increases for energy resources will increase our costs of production and could have an adverse effect on results of operations and financial results.

Dependence on a small group of customers

As we focus on supplying primarily the oil and gas industry, our largest customers are oil and gas companies. In 2013, our five largest customers were Rosneft (including TNK BP), Gazprom (excluding Gazprom Neft), Surgutneftegas, Bourland and Leverich and Lukoil which together accounted for 30% of our total sales volumes. The increased dependence of pipe sales on a single large customer bears the risk of an adverse effect on results of operations in the event that our relationship with any of these major customers deteriorated.

Our large-diameter welded pipe business is largely dependent on one of our largest customers, Gazprom, and is subject to increasing competitive pressure. In 2013, 43% of our large-diameter welded pipe were sold for Gazprom projects. Gazprom is one of our largest customers for 1,420 mm diameter welded pipe used for construction of gas trunk pipelines. Increased competition in the supply of large-diameter pipe or a change in relationships with Gazprom could negatively affect our competitive position in the 1,420 mm diameter pipe market, resulting in decreased revenues from sales of these products and adversely affecting our business, financial position and results of operations. Additionally, large-diameter welded pipe business depends significantly upon the level of construction of new oil and gas pipelines in Russia and the CIS. The delay, cancellation or other changes in the scale or scope of significant pipeline projects, or the selection by the sponsors of such projects of other suppliers could have an adverse effect on our sales of large-diameter welded pipe, and thus on the results of operations and financial position. We mitigate this risk by developing cooperation with new customers from CIS countries.

Competition

The global market for steel pipe products, particularly in the oil and gas sector, is highly competitive and primarily based on compliance with technical requirements, price, quality and related services. In the Russian and CIS markets, we face competition primarily from ChTPZ, which produces both welded and seamless pipe, OMK, which produces welded pipe, and the Ukrainian and Chinese pipe producers.

Accession of Russia to the WTO and subsequent reduction of import duties for steel pipe to the level of 5%-13.8%, as well as usage of unfair methods of competition by some importers, led to growth of steel pipe import to Russia and to the Customs Union from China, Ukraine and European Union. Implemented in 2013, antidumping duties of 18.9%-19.9% on imports of Interpipe's (Ukraine) pipe production, antidumping duties of 19.15% on imports of cold-drawn stainless pipe originated from China as well as imposed earlier and currently active import quota for stainless pipe allowed to restrain the total supply of pipe to Russia in 2013 at the level of 2012.

Nevertheless, if the definitive measures imposed to defend the Custom Union from unfair import are insufficient in the future, this could have an adverse impact on TMK market position.

Outside Russia and the CIS, we compete against a limited number of premium-quality pipe products producers, including Tenaris, Vallourec, Sumitomo, Voestalpine and a limited number of Chinese producers, including Baosteel and TPCO.

In the United States, TMK IPSCO faces competition primarily from Boomerang, Tenaris, U.S. Steel and V&M Star, a subsidiary of Vallourec, as well as from imported OCTG and line pipe products, principally from Asia.

In 2013, the majority of the U.S. steel pipe producers, including TMK IPSCO, submitted a request to the U.S. Department of Commerce to initiate antidumping duty investigations of certain oil country tubular goods from India, South Korea, the Philippines, Saudi Arabia, Taiwan, Thailand, Turkey, Ukraine and Vietnam. In February 2014, the Department of Commerce announced its preliminary determination in the investigation of imports of OCTG from Korea with 0% dumping margin and affirmative preliminary determinations in the investigations of imports from other countries involved with dumping margins from 2.65% to 118.32%.

We are expecting that final determinations in the investigations will be affirmative in relation to South Korean imports as well as imports from other mentioned countries. However, any unfavorable decision could have negative effect on the price environment in OCTG segment.

In addition, several large producers declared their plans to construct new facilities in the U.S. Commissioning of new capacities may lead to toughening of competition, which could have an adverse effect on our business.

Financial risks

Liquidity risk

As a result of borrowings undertaken for the acquisition of TMK IPSCO in 2008 and TMK GIPI in 2012, as well as a result of large-scale capital expenditure program, our leverage remains significant. As of 31 December 2013, our total debt amounted to 3,694 mln USD as compared to 3,885 mln USD at the end of 2012. The decrease of our total debt in 2013 was attributable for Net repayment in the amount of 93 mln USD and for the depreciation of the Rouble against the U.S. dollar. As of 31 December 2013, our Net-Debt-to-EBITDA ratio was 3.8.

In 2013, we continued to concentrate on improving our liquidity profile and optimizing financial performance. We negotiated extensions of credit terms and lower interest rates in order to improve our financial position and overall debt maturity profile. In April 2013, we completed a placement of 500 mln USD Eurobonds maturing in 2020 to refinance part of our debt. As a result of measures for improvement of loan portfolio structure the share of our short-term debt decreased to 11% as of 31 December 2013 compared to 28% as of 31 December 2012.

Improving liquidity profile remains one of our priorities, and we continue to carry out measures to maintain sufficient liquidity and improve loan portfolio structure. As of 31 December 2013, we had committed credit lines in Russian, European and American banks with the available limit of 1,619 mln USD.

Nevertheless, there can be no assurance that our efforts to improve liquidity profile and reduce leverage will prove successful. The negative market reaction on deteriorating global financial situation may have an adverse impact on our ability to borrow in banks or capital markets, and may put pressure on our liquidity, increase borrowing costs, temporary reduce the availability of credit lines and lead to unavailability of financing on acceptable terms.

Compliance with covenants

Certain of our loan agreements and public debt securities currently include financial covenants. Some covenants are set in relation to leverage, total indebtedness and tangible net worth, and impose financial ratios that must be maintained. Other covenants impose restrictions in respect of certain transactions, including restrictions in respect of indebtedness. A breach of a financial or other covenant in existing debt facilities, if not resolved by means such as obtaining a waiver from the relevant lender, could trigger a default under our obligations.

We strictly maintain incurrence covenants under our public debt securities and covenants under loan agreements. As of 31 December 2013, we were in compliance with lenders' requirements and covenants.

Nevertheless, in case financial markets or economic environment deteriorate in the future, we may not comply with relevant covenants. Though, historically, we have successfully secured from the relevant lenders all necessary waivers or standstill letters to address possible breaches of financial covenants we may not be able to secure such necessary waivers or standstill letters during future reporting periods if not in compliance with financial covenants. We do not expect the occurrence of such events in the near future.

Interest rate risk

Interest expenses are the prevailing part of our finance costs. In 2013, our finance costs decreased 15% or 45 mln USD and amounted to 252 mln USD as compared to 297 mln USD in 2012. Our weighted average nominal interest rate as of 31 December 2013 decreased by 27 basis points as compared to 31 December 2012. Although we currently benefit from relatively low interest rates, there can be no assurance that rates will stay low in the future. The cost of funding for Russian and international banks may increase in the future, which can increase our interest expense and adversely affect our financial position.

Additionally, certain part of our loan portfolio is represented by loans taken out at floating interest rates. As of 31 December 2013, loans with floating interest rates represented 579 mln USD. The underlying rates in current loans with floating interest rates are LIBOR and EURIBOR. In 2012, taking into account low levels of interest rates which were close to its historical levels, we hedged a part of interest rate risks. Considering hedging, at the end of 2013 the share of variable-rate debt amounted to 9% of our total credit portfolio. Nevertheless, several loans with floating interest rates still exist in our credit portfolio and, should floating interest rates increase in the future, interest expenses on relevant loans will increase.

Currency risk

Our products are typically priced in Roubles for Russian sales and in U.S. dollars and Euros for CIS, U.S. and other international sales. Our direct costs, including raw materials, labour and transportation costs are largely incurred in Roubles and U.S. dollars. Other costs, such as interest expense, are currently incurred largely in U.S. dollars and roubles, and capital expenditures are incurred principally in Roubles, Euros and U.S. dollars.

We hedge our net investment in operations located in the United States and Oman against foreign currency risks using U.S. dollar denominated liabilities. Gains or losses on the hedging instruments relating to the effective portion of the hedge are recognised as other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the income statement. In 2013, we incurred foreign exchange losses from spot rate changes in the total amount of 131 mln USD, including 49 mln USD recognised in the income statement and 82 mln USD (before income tax) recognised in the statement of comprehensive income.

The Rouble remains volatile. Our debt is currently largely denominated in U.S. dollars, and the depreciationof the Rouble against the U.S. dollar in the future could result in foreign exchange losses. The share of U.S. dollar denominated loans in the loan portfolio in 2013 equaled to 64% as of 31 December 2013 as compared to 48% as of 31 December 2012. Since revenue of the Group is nominated in Euros, the U.S. dollar and Russian rouble due to the geographic diversification of sales, this provides a natural hedge for our foreign exchange position. Nevertheless, depreciation of the Rouble against the U.S. dollar could adversely affect our net profit as coherent losses will be reflected in our consolidated income statements.

Inflation risk

A significant amount of our production activities are located in Russia, and a majority of direct costs are incurred in Russian roubles. We tend to experience inflation-driven increases in certain costs, such as raw material costs, transportation costs, energy costs and salaries that are linked to the general price level in Russia. In 2013, inflation in Russia reached 6.5% as compared to 6.6% in 2012. In spite of the intention of the Russian government to reduce rates of inflation in the coming years, inflation may increase in the future. We may not be able to increase the prices sufficiently in order to preserve existing operating margins.

Inflation rates in the United States, with respect to TMK IPSCO operations, are historically much lower than in Russia. In 2013, inflation in the United States decreased to 1.5% in comparison to 1.7% in 2012. High rates of inflation, especially in Russia, could increase our costs, decrease our operating margins and materially adversely affect our business and financial position.

Legal risks

Changes in tax legislation and tax system

Our subsidiaries make significant tax and non-budgetary funds payments, in particular, profit tax, VAT, property tax and payments to social security funds. Changes in tax legislation could lead to an increase in tax payments and, consequently, to a lowering of financial results. As significant part of the operations is located in Russia, the main risks relate to changes in the legislation of the Russian tax system. The Russian Government continually reviews the Russian tax system and passes a number of laws to carry out tax reforms. The new laws generally reduce the number of taxes and the overall tax burden on business while simplifying tax legislation. Nevertheless, should the Russian taxation system suffer any changes related to increasing of tax rates, this could adversely affect our business.

Moreover, the Russian oil industry is subject to substantial taxes, including significant resources production taxes and significant export customs duties. Changes to the tax regime and customs duties rates may adversely affect the level of oil and gas exploration and development in Russia, which can adversely affect the demand for our products in Russia.

Changes in environmental law

We meet the requirements of national environmental laws at our industrial capacities location areas: the directives and regulations of Russian, the United States, the European Union, Romanian, Kazakhstan and Omani legislation.

The main ecological-and-economical risks of our Russian plants are related to expected changes and tightening of Russian environmental protection laws. Environmental legislation in Russia is currently undergoing serious reformation. The imposition of a new environmental law and regulation system may require further expenditures to modernize production operations, install new technological and waste disposal equipment, pollution and wastewater control equipment, as well as will lead to growth of the rate of payments for negative impact on the environment. Compliance with the regulations will be accompanied by stricter control by state monitoring authorities. Such changes in existing legislation may lead to additional costs or unforeseen environmental liabilities, which could have a material adverse effect on our financial position and results of operations.

We estimate that the environmental legislation of the European Union and the United States, Romania, Kazakhstan and Oman will not undergo any material changes in the near future. Nevertheless, if such changes arise, the cost of compliance with new requirements could have a material adverse effect on our business.

Other risks

Equipment failures or production curtailments or shutdowns

Our production capacities are subject to the risk of equipment failures due to unanticipated events, such as fires, explosions and adverse weather conditions. Manufacturing processes depend on critical pieces of steelmaking and pipe-making equipment. Such equipment may, on occasion, be out of service as a result of unanticipated failures could require us to close part of the relevant production facility or cause to reduce production on one or more of production lines. Any interruption in production capability may require us to make significant and unanticipated capital expenditures to affect relevant repairs, which could have a negative effect on our profitability and cash flows. We currently maintain insurance against losses that may arise in case of property damage, accidents and transportation of goods. We also maintain corporate product liability and directors' and officers' liability insurance policies. Nevertheless, any recoveries under insurance coverage that may be obtained in the future may not offset lost revenues or increased costs resulting from a disruption of operations.

Insurance against all potential risks and losses

We do not carry insurance against all potential risks and losses that may arise in connection with the quality of our products, property damage, work-related accidents and occupational illnesses, natural disasters and environmental contamination. We currently maintain no business interruption insurance. Losses or liabilities arising from these or other events could increase our costs and could adversely affect our business, financial position and operating results.

Ability to effect staff alterations and shortages of skilled labor

Our Russian subsidiaries are in many regions the largest employers in the cities in which they operate, such as Volzhsky, Taganrog, Kamensk-Uralsky and Polevskoy. While we do not have any specific legal social obligations or responsibilities with respect to these regions, the ability to effect alterations in the number our employees may nevertheless be subject to political and social considerations. Any inability to make planned reductions in the number of employees or other changes to operations in such regions could have an adverse effect on the results of operations and prospects.

Competition for skilled labor in the steel pipe industry remains relatively intense, and labor costs continue to increase moderately, particularly in the CIS, Eastern Europe and the United States. We expect the demand and, hence, costs for skilled engineers and operators will continue to increase, reflecting the significant demand from other metallurgical companies and other industries. Continual high demand for skilled labor and continued increases in labor costs could have a material adverse effect on our business, financial position and results of operations.

Furthermore, any work stoppages, strikes or other labor-related developments could have an adverse effect on our business, financial position and results of operations.

Total consolidated revenue in 2013 amounted to 6,432 mln USD

Consolidated Financial Statements

Совершенствуя бизнес, улучшаем мир

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Independent auditors' report

To the shareholders and Board of Directors
OAO TMK

We have audited the accompanying consolidated financial statements of OAO TMK and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

A member firm of Ernst & Young Global Limited

Совершенствуя бизнес, улучшаем мир

Opinion

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

Ernst & Young LLC

11 March 2014

A member firm of Ernst & Young Global Limited

OAO TMK

Consolidated Financial Statements

for the year ended December 31, 2013

Contents

A member firm of Ernst & Young Global Limited

OAO TMK

Consolidated Income Statement

for the year ended December 31, 2013

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

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

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

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

OAO TMK

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2013

(All amounts in thousands of US dollars)

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

(a) Other comprehensive income/(loss) for the period, net of tax, was attributable to equity holders of the parent entity and to non-controlling interests as presented in the table below:

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

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

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

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

OAO TMK

Consolidated Statement of Financial Position

as at December 31, 2013

(All amounts in thousands of US dollars)

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

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

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

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2013

(All amounts in thousands of US dollars)

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

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

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2013 (continued)

(All amounts in thousands of US dollars)

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

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

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

OAO TMK

Consolidated Statement of Cash Flows

for the year ended December 31, 2013

(All amounts in thousands of US dollars)

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

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

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

OAO TMK

Notes to the Consolidated Financial Statements for the year ended December 31, 2013

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

Corporate Information

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

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

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

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

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

Basis of Preparation of the Financial Statements

Basis of Preparation

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

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

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

Functional and Presentation Currency

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

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

Basis of Preparation of the Financial Statements (continued)

Functional and Presentation Currency (continued)

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

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

Significant Estimates and Assumptions

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

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

Impairment of Property, Plant and Equipment

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

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

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

OAO TMK
Notes to the Consolidated Financial Statements (continued)
(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Estimates and Assumptions (continued)

Useful Lives of Items of Property, Plant and Equipment

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

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

Employee Benefits Liability

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

Allowance for Doubtful Debts

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

Significant Estimates and Assumptions (continued)

Net Realisable Value Allowance

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

Current Taxes

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

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

Changes in Accounting Policies

Application of New and Amended IFRS and IFRIC

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

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

Changes in Accounting Policies (continued)

Application of New and Amended IFRS and IFRIC (continued)

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

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

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

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

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

IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosure of Involvement in Other Entities

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

Changes in Accounting Policies (continued)

Application of New and Amended IFRS and IFRIC (continued)

IFRS 13 Fair Value Measurement

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

IAS 19 Employee Benefits (revised)

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

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

The impact of changes in accounting policies was as follows:

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

Changes in Accounting Policies (continued)

Application of New and Amended IFRS and IFRIC (continued)

IAS 27 Separate Financial Statements (revised)

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

IAS 28 Investments in Associates and Joint Ventures (revised)

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

Improvements to IFRSs

In May 2012, the IASB issued "Improvements to IFRSs". The document sets out amendments to International Financial Reporting Standards primarily with a view of removing inconsistencies and clarifying wording. Amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. These amendments did not have any impact on the financial position or performance of the Group.

New Accounting Pronouncements

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

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

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

Changes in Accounting Policies (continued)

New Accounting Pronouncements (continued)

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies (continued)

Application of New and Amended IFRS and IFRIC (continued)

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

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

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

In December 2013, the IASB issued "Annual Improvements to IFRSs". The documents set out amendments to International Financial Reporting Standards primarily with a view of removing inconsistencies and clarifying wording. Amendments are generally intended to clarify requirements rather than result in substantive changes to current practice. These improvements will not have any impact on the financial position or performance of the Group.

Significant Accounting Policies

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Notes to the Consolidated Financial Statements (continued)
(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

A) Basis of Consolidation

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

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

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

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

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

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

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

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

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

Significant Accounting Policies (continued)

A) Basis of Consolidation (continued)

When the Group loses control over a subsidiary, it:

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

B) Business Combination and Goodwill

Acquisition of Subsidiaries

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

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

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

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

Goodwill

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

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Significant Accounting Policies (continued)

B) Business Combination and Goodwill (continued)

Goodwill (continued)

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

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

C) Cash and Cash Equivalents

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

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

D) Financial Assets

Initial Recognition and Measurement

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

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

Significant Accounting Policies (continued)

D) Financial Assets (continued)

Subsequent Measurement

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

Loans and Receivables

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

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

Financial Assets at Fair Value through Profit or Loss

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

Held-to-Maturity Investments

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

Available-for-Sale Financial Assets

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

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Notes to the Consolidated Financial Statements (continued)
(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

D) Financial Assets (continued)

Derivatives

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

Hedge accounting

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

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

Impairment of Financial Assets

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

The amount of the impairment loss is measured as a difference between the asset's carrying amount and it's recoverable amount. The carrying amount of financial assets other than loans and receivables is reduced directly without the use of an allowance account and the amount of loss is recognised in the income statement.

Significant Accounting Policies (continued)

E) Inventories

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

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

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

F) Property, Plant and Equipment

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

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

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

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

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

G) Intangible Assets (Other than Goodwill)

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

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

Significant Accounting Policies (continued)

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

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

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

Research and Development

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

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

An assessment is made at each reporting date to determine whether there is an objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the recoverable amount is assessed and, when impaired, the asset is written down immediately to its recoverable amount, which is the higher of the fair value less costs to sell and the value in use.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Significant Accounting Policies (continued)

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

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

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

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

I) Borrowings

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

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

J) Leases

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

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

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

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

Significant Accounting Policies (continued)

K) Provisions

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

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

L) Employee Benefits Liability

Short-Term Employee Benefits

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

Defined Benefit Obligations

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

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

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

Significant Accounting Policies (continued)

L) Employee Benefits Liability (continued)

Defined Contribution Plans

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

M) Government Grants

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

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

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

N) Deferred Income Tax

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

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

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

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

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Notes to the Consolidated Financial Statements (continued)
(All amounts are in thousands of US dollars, unless specified otherwise)

Significant Accounting Policies (continued)

O) Equity

Share Capital

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

Treasury Shares

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

Dividends

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

P) Revenue Recognition

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

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

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flowes

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Notes to the 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.

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

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Notes to the Consolidated Financial Statements (continued)

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

1) Segment Information (continued)

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

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

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

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Notes to the Consolidated Financial Statements (continued)

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

1) Segment Information (continued)

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

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

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

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

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

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

1) Segment Information (continued)

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

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

The following tables present the geographic information. The revenue information is disclosed based on the location of the customer. Non-current assets are disclosed based on the location of the Group's assets and include property, plant and equipment, intangible assets and goodwill.

Year ended December 31, 2013	Russia	Americas	Europe	Cent.Asia & Caspian Region	Asia & Far East	Middle East & Gulf Region	Africa	TOTAL
Revenue	3,637,665	1,862,366	426,237	210,311	198,976	79,734	16,614	**6,431,903**
Non-current assets	3,020,406	1,279,278	291,340	23,214	–	127,440	9	**4,741,687**

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

2) Cost of Sales

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

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

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Notes to the Consolidated Financial Statements (continued)

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

3) Selling and Distribution Expenses

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

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

4) Advertising and Promotion Expenses

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

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

5) General and Administrative Expenses

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

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

6) Research and Development Expenses

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

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

7) Other Operating Expenses

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

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

8) Other Operating Income

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

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

9) Finance Income

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

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

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Notes to the Consolidated Financial Statements (continued)

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

10) Income Tax

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

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

Profit before tax is reconciled to tax expense as follows:

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

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

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

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

10) Income Tax (continued)

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

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

Deferred tax assets were recognised for tax losses carry-forward to the extent that the realisation of the related tax benefit through future taxable profits is probable.

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

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

11) Earnings per Share

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

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

11) Earnings per Share (continued)

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

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

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

12) Acquisition and Disposal of Subsidiaries

Acquisition of Gulf International Pipe Industry LLC

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

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

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

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

12) Acquisition and Disposal of Subsidiaries (continued)

Acquisition of Gulf International Pipe Industry LLC (continued)

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

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

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

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

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

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

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

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

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

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

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

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Notes to the Consolidated Financial Statements (continued)
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12) Acquisition and Disposal of Subsidiaries (continued)

Acquisition of OOO "Uralskiy Dvor"

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

Disposal of OOO "Skladskoy Kompleks TMK"

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

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

13) Investments in Associates

The movement in investments in associates was as follows:

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

14) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

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

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

15) Trade and Other Receivables

Trade and other receivables consisted of the following:

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

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

16) Inventories

Inventories consisted of the following:

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

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

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

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16) Inventories (continued)

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

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

17) Prepayments and Input VAT

Prepayments and input VAT consisted of the following:

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

18) Property, Plant and Equipment

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

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

18) Property, Plant and Equipment (continued)

Movement in property, plant and equipment for the year ended December 31, 2012 was as follows:

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

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

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

Capitalised Borrowing Costs

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

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Notes to the Consolidated Financial Statements (continued)

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

19) Goodwill and Other Intangible Assets

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

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

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

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

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

19) Goodwill and Other Intangible Assets (continued)

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

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

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

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

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

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

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

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

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

19) Goodwill and Other Intangible Assets (continued)

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

20) Other Non-Current Assets

Other non-current assets consisted of the following:

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

21) Trade and Other Payables

Trade and other payables consisted of the following:

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

22) Provisions and Accruals

Provisions and accruals consisted of the following:

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

23) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

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

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

23) Interest-Bearing Loans and Borrowings (continued)

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

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

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

Loan Participation Notes

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

Russian Bonds

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

Unutilised Borrowing Facilities

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

24) Convertible Bonds

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

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

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

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

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

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

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

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25) Finance Lease Liability

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

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

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

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

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

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

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

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

26) Employee Benefits Liability

The Group operates post-employment and other long-term employee benefit schemes in accordance with the collective bargaining agreements, local regulations and practices. These plans cover a large portion of the Group's employees and include benefits in the form of lump-sum post-employment payments, pensions, financial support to pensioners, jubilee payments to employees and pensioners, etc. These benefits generally depend on years of service, level of compensation and amount of benefit under the collective bargaining agreement. The Group pays the benefits when they fall due for payment. All employee benefit schemes are unfunded.

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Notes to the Consolidated Financial Statements (continued)

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

26) Employee Benefits Liability (continued)

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

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

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

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

	Russia		USA		Others	
	2013	2012	2013	2012	2013	2012
Discount rate	8.0%	7.3%	4.95%	4.4%	3.7%-3.8%	6.3%
Inflation	5.0%	5.3%	–	–	3.5%	4.95%
Average long-term rate of compensation increase	6.6%	6.4%	4%	3.5%	1.4%-2.1%	4.3%-4.5%
Turnover	Age-related curve depending on experience data for a year	Age-related curve depending on experience data for a year	Standard Crocker Sarason Termination Table T-11	Standard Crocker Sarason Termination Table T-11	1.0%	1.0%

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

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

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Notes to the Consolidated Financial Statements (continued)

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

27) Other Non-Current Liabilities

Other non-current liabilities consisted of the following:

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

28) Interests in Subsidiaries

Principal Subsidiaries

The major subsidiaries included in these consolidated financial statements are presented in the following table:

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

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

28) Interests in Subsidiaries (continued)

Non-controlling Interests

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

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

29) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

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

The compensation to key management personnel comprised of:

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

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

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

Transactions with the Parent of the Company

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

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Notes to the Consolidated Financial Statements (continued)

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

29) Related Parties Disclosures (continued)

Transactions with the Parent of the Company (continued)

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

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

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

Transactions with Associates

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

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

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

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

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

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

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

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

30) Contingencies and Commitments

Operating Environment of the Group

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

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

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

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

Taxation

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

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

Contractual Commitments and Guarantees

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

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

30) Contingencies and Commitments (continued)

Insurance Policies

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

Legal Claims

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

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding as at December 31, 2013 in the amount of 2,805 (December 31, 2012: 3,275).

31) Equity

i) Share Capital

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

ii) Reserve Capital

According to Russian Law, the Company must create a reserve capital in the amount of 5% of the share capital per the Russian statutory accounts by annual appropriations that should be at least 5% of the annual net profit per the statutory financial statements. The reserve capital can be used only for covering losses and for the redemption of the Company's bonds and purchase of its own shares if there are no other sources of financing.

iii) Dividends Declared by the Parent Entity to its Shareholders

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

31) Equity (continued)

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

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

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

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

v) Acquisition of Non-controlling Interests in Subsidiaries

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

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

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

vii) Contributions from Non-controlling Interest Owners

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

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Notes to the Consolidated Financial Statements (continued)

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

31) Equity (continued)

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

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

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

ix) Treasury Shares

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

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

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

xi) Hedges of Net Investment in Foreign Operations

As at December 31, 2013, a proportion of the Group's US dollar-denominated borrowing in the amount of 1,197,710 (December 31, 2012: 1,158,610) was designated as hedges of net investments in the Group's foreign subsidiaries.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar / Russian rouble spot rates on the hedging instrument and on the hedged item. In the year ended December 31, 2013, the effective portion of net losses from spot rate changes in the amount of 2,551,380 thousand Russian roubles (81,742 at historical exchange rates), net of income tax of 510,276 thousand Russian roubles (16,348 at historical exchange rates), was recognised in other comprehensive income.

31) Equity (continued)

xii) Movement on Cash Flow Hedges

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

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

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

32) Financial Risk Management Objectives and Policies

In the course of its business, the Group is exposed to a number of financial risks: market risk (including interest rate risk, foreign currency risk and other price risk), liquidity risk and credit risk. The presented information shows susceptibility of the Group concerning each of these risks. The Board of Directors reviews and establishes policies for managing each of these risks which are summarised below.

Market Risk

The Group is exposed to risk from movements in interest rates, foreign currency exchange rates and market prices that affect its assets, liabilities and anticipated future transactions. The objective of market risk management is to manage and control market risk exposures, while optimising the return on the risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Group's interest rate risk management policy is to minimise risk with the aim to achieve financial structure objectives defined and approved in the management's plans. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to manage net positions and the funding of portfolio developments consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

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Notes to the Consolidated Financial Statements (continued)

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

32) Financial Risk Management Objectives and Policies (continued)

Interest Rate Risk (continued)

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

The Group does not have any financial assets with variable interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

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

Foreign Currency Risk

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

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

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

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

32) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

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

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax and other comprehensive income. The movement in other comprehensive income arises from gains or losses on the US dollar-denominated borrowings related to the effective portion of the hedge of net investments in foreign operations (Note 31 xi). In estimating reasonably possible changes for 2013 and 2012 the Group assessed the volatility of foreign exchange rates during the three years preceding the end of the reporting period.

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

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

Other Price Risk

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

32) Financial Risk Management Objectives and Policies (continued)

Other Price Risk (continued)

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

Liquidity Risk

Liquidity risk arises when the Group encounters difficulties to meet commitments associated with liabilities and other payment obligations. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of funding at competitive rates through the capital markets and banks and coordinates relationships with banks centrally. At present, the Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

32) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

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

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

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

Credit Risk

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

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The monitoring activity of credit risk exposure is performed at the Group level according to set guidelines and measurement techniques to qualify and monitor counterparty risk.

The Group sells goods to some of the biggest Russian and international companies on credit terms. It is the Group's policy that all customers applying for the credit terms are subject to credit verification procedures.

OAO TMK
Notes to the Consolidated Financial Statements (continued)
(All amounts are in thousands of US dollars, unless specified otherwise)

32) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

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

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

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

Movement in allowance for doubtful debts was as follows:

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

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators. In addition, the Group is subject to externally imposed capital requirements (debt covenants) which are used for capital monitoring. Through 2013, the Group was in compliance with such externally imposed capital requirements. The Group met its objectives for managing capital.

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

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

32) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments Carried at Fair Value

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

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

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

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

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

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

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

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

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

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

Fair Value of Financial Instruments not Carried at Fair Value

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

32) Financial Risk Management Objectives and Policies (continued)

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

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

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

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

TMK's Major Transactions and Related Party Transactions in 2013

Major transactions

No major transactions were approved by the General Meeting of Shareholders of TMK.

Transactions approved by the Board of Directors of TMK

No.	Parties to the transaction	Scope of the transaction and material terms	Related parties
1	Borrower – OAO TMK, Lender – TMK Capital S.A., Guarantors: OAO Volzhsky Pipe Plant, ZAO TMK Trade House, IPSCO Tubulars Inc., OAO Sinarsky Pipe Plant, OAO Seversky Tube Works, OAO TAGMET	A loan for OAO TMK issued by TMK Capital S.A. financed through the issue and offering the Eurobonds by TMK Capital S.A. guaranteed by OAO Volzhsky Pipe Plant and ZAO TMK Trade House as initial guarantors and by IPSCO Tubulars Inc., OAO Sinarsky Pipe Plant, OAO Seversky Tube Works and OAO TAGMET as further guarantors Amount: USD 739,350,000 Duration: 3 April 2020	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev; Members of the Management Board: A. A. Klachkov, A. G. Lyalkov, T. I. Petrosyan

Related Party Transactions

All transactions with related parties were carried out at arm's length.

Transactions approved by the General Meeting of Shareholders of TMK

No.	Parties to the transaction	Scope of the transaction and material terms	Related parties
1	Surety – OAO TMK; Borrower – OAO Volzhsky Pipe Plant, Lender – OAO Sberbank of Russia	Surety agreement Amount not exceeding RUB 6,000,000,000 Duration: 11 September 2018	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. G. Lyalkov
2	Surety – OAO TMK; Borrower – OAO Seversky Tube Works, Lender – OAO Sberbank of Russia	Surety agreement Amount not exceeding RUB 4,000,000,000 Duration: 2 October 2018	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. A. Klachkov
3	Lender – OAO TMK; Borrower – OAO Volzhsky Pipe Plant	Loan agreement Amount: RUB 1,400,000,000 Duration: 5 April 2018	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. G. Lyalkov
4	Lender – OAO TMK; Borrower – OAO Seversky Tube Works	Loan agreement Amount: RUB 1,000,000,000 Duration: 4 April 2018	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. A. Klachkov
5	Lender – OAO TMK, Borrower – OAO Volzhsky Pipe Plant	Loan agreement Amount: RUB 2,000,000,000 Duration: 5 April 2018	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. G. Lyalkov
6	Lender – OAO TMK, Borrower – OAO Seversky Tube Works	Loan agreement Amount: RUB 1,080,000,000 Duration: 4 April 2018	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. A. Klachkov

Transactions approved by the Board of Directors of TMK

No.	Parties to the transaction	Scope of the transaction and material terms	Related parties
1	Parties to the transaction Surety – OAO TMK, Debtor – ZAO TMK Trade House	Contract of remunerationfor a surety issued by OAO TMK in favour of ING BANK (EURASIA) ZAO. Amount: RUB 2,720,628 Duration: 17 January 2016	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, V. B. Oborsky
2	Surety – OAO TMK, Principal – ZAO TMK Trade House. Bank – ING BANK (EURASIA) ZAO	Surety agreement by OAO TMK in favour of ING BANK (EURASIA) ZAO for all Principal obligations performed by ZAO TMK Trade House under the Guarantee Agreement. Amount: RUB 455,098,372 Duration: 2 October 2018	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, V. B. Oborsky
3	Surety – OAO TMK, Debtor – OAO Seversky Tube Works	Contract of remuneration for a surety issued by OAO TMK in favour of OAO Sberbank of Russia Amount – RUB 21,180,000 Duration: 2 October 2015	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. A. Klachkov

No.	Parties to the transaction	Scope of the transaction and material terms	Related parties
4	Surety – OAO TMK, Debtor – OAO Volzhsky Pipe Plant	Contract of remunerationfor a surety issued by OAO TMK in favour of OAO Sberbank of Russia Amount: RUB 36,000,000 Duration: 11 September 2015	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. G. Lyalkov
5	Surety – ZAO TMK Trade House, Debtor – OAO TMK	Contract of remunerationfor a surety issued by ZAO TMK Trade House Amount: RUB 15,558,900 Duration: 3 April 2020	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, V. B. Oborsky
6	Surety – OAO Volzhsky Pipe Plant Debtor – OAO TMK	Contract of remunerationfor a surety issued by OAO Volzhsky Pipe Plant Amount – RUB 15,558,900 Duration: 3 April 2020	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. G. Lyalkov
7	Surety – OAO Seversky Tube Works Debtor – OAO TMK	Contract of remunerationfor a surety issued by OAO Seversky Tube Works Amount: RUB 16,357,000 Duration: 3 April 2020	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. A. Klachkov
8	Surety – OAO Sinarsky Pipe Plant Debtor – OAO TMK	Contract of remunerationfor a surety issued by OAO Sinarsky Pipe Plant Amount: RUB 16,357,000 Duration: 3 April 2020	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. G. Lyalkov

No.	Parties to the transaction	Scope of the transaction and material terms	Related parties
9	Surety – OAO TAGMET Debtor – OAO TMK	Contract of remunerationfor a surety issued by OAO TAGMET Amount: RUB 16,357,000 Duration: 3 April 2020	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. G. Lyalkov
10	Surety – IPSCO Tubulars Inc., Debtor – OAO TMK	Contract of remunerationfor a surety issued by IPSCO Tubulars Inc. Amount: RUB 16,357,000 Duration: 3 April 2020	OAO TMK
11	Surety – OAO TMK Debtor – ZAO TMK Trade House	Contract of remuneration for a surety issued by OAO TMK as a security of obligations of ZAO TMK Trade House under a Supply Contract Amount: RUB 9,000,000 Duration: 28 February 2014	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, V. B. Oborsky
12	OAO TMK; OAO Volzhsky Pipe Plant	Addendum to the Agreement on the Transfer of Powers of the sole executive body of OAO Volzhsky Pipe Plant to OAO TMK which provides for a higher price of its services. Amount: RUB 665,520,000 Duration: until 1 January 2016	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev; members of the Management Board: A. G. Lyalkov, T. I. Petrosyan

No.	Parties to the transaction	Scope of the transaction and material terms	Related parties
13	OAO TMK, OAO Sinarsky Pipe Plant	Addendum to the Agreement on the Transfer of Powers of the sole executive body of OAO Sinarsky Pipe Plant to OAO TMK which provides for a higher price of its services. Amount: RUB 332,760,000 Duration: until 1 January 2015	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev; members of the Management Board: A. G. Lyalkov, T. I. Petrosyan
14	OAO TMK, OAO Seversky Tube Works	Addendum to the Agreement on the Transfer of Powers of the sole executive body of OAO Seversky Tube Works to OAO TMK which provides for prolongation of powers of the sole executive body and a higher price of its services. Amount: RUB 332,760,000 Duration: until 1 January 2015	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev; members of the Management Board: A. A. Klachkov, T. I. Petrosyan
15	OAO TMK, OAO TAGMET	Addendum to the Agreement on the Transfer of Powers of the sole executive body of OAO TAGMET to OAO TMK which provides for a higher price of its services. Amount: RUB 332,760,000 Duration: until 1 January 2015	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. G. Lyalkov
16	Surety – OAO Volzhsky Pipe Plant Debtor – OAO TMK	Contract of remunerationfor a surety issued by OAO Volzhsky Pipe Plant Amount: RUB 15,000,000 Duration: 27 December 2016	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. G. Lyalkov

No.	Parties to the transaction	Scope of the transaction and material terms	Related parties
17	Surety – OAO Volzhsky Pipe Plant Debtor – OAO TMK	Contract of remunerationfor a surety issued by OAO Volzhsky Pipe Plant Amount – RUB 19,552,020 Duration: 30 June 2017	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. G. Lyalkov
18	Surety – OAO Seversky Tube Works Debtor – OAO TMK	Contract of remunerationfor a surety issued by OAO Seversky Tube Works Amount: RUB 19,718,760 Duration: 30 June 2017	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. A. Klachkov
19	Surety – OAO TMK, Debtor – ZAO TMK Trade House	Contract of remunerationfor a surety issued by OAO TMK Amount: RUB 2,400,000 Duration: 31 July 2014	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, V. B. Oborsky
20	OFS International – Borrower, OAO TMK and OAO Volzhsky Pipe Plant – Co-borrowers, UniCredit Bank AG, New York Branch (or other lending institutions within UniCredit Group) – Administrative Agent and Lender	Loan agreement: Amount: USD 17,800,000 Duration: 30 December 2015	Members of the Board of Directors: A. Yu. Kaplunov, A. G. Shiryaev Members of the Management Board: T. I. Petrosyan, A. G. Lyalkov

Glossary and Contacts

Glossary

EBITDA
Earnings before Interest, Taxes, Depreciation, and Amortization

FQM
Fine Quality Mill

OCTG
Oil country tubular goods

Seamless pipe
Pipe manufactured through the insertion of a solid billet in a press or a piercing mill (with subsequent hot or cold working)

Drill pipe
Threaded seamless steel butted pipe used to drill wells

Volzhsky Pipe Plant
Volzhsky Pipe Plant, Open Joint Stock Company

Line pipe
Line pipe used in the construction and workover of upstream, midstream and process pipelines

IFRS
International Financial Reporting Standards

Tubing pipe
Plain-end steel pipe or steel pipe with externally upset ends for oil and gas well operation

Casing pipe
Steel pipe used to reinforce the walls of a well

RAS
Russian Accounting Standards

Welded pipe
Pipe that are made from metal coil, plate, strip or sheet, rolled and welded, manufactured on a tube welding mill

Sinarsky Pipe Plant
Sinarsky Pipe Plant, Open Joint Stock Company

Seversky Tube Works
Seversky Tube Works, Open Joint Stock Company

ISO 14001:2004 standards
Environmental Management Standards to ensure a balanced approach to managing environmental performance of a company

TAGMET
Taganrog Metallurgical Works, Open Joint Stock Company

LDP
Large diameter pipe

Payout ratio
Dividend-to-earnings per ordinary share ratio

Contacts

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