contents

ANNUAL REPORT

2012

TMK Profile

TMK is one of the world's leading producers of steel pipes and Russia's largest producer and exporter of pipes as well as a significant player on the North American market. The Company's shares are traded on the London Stock Exchange, the OTCQX International Premier trading platform in the United States, and on Russia's major stock exchange — MICEX-RTS.

The Company was founded in 2001 and currently integrates 28 production assets in Russia, the United States, Canada, Oman, UAE, Romania and Kazakhstan. TMK's principal activities are production and distribution of seamless and welded pipes, including pipes 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 - Volzhsky Pipe Plant, Seversky Tube Works, Sinarsky Pipe Plant and Taganrog Metallurgical Works, 12 production facilities in the United States and Canada, owned by TMK IPSCO, and TMK-ARTROM and TMK-RESITA in Romania. The Company also includes four oilfield service assets in Russia, incorporated in TMK Oilfield Services division and TMK-Kaztrubprom, located in Kazakhstan.

In 2012-13, the Company grew further with the acquisition of the following businesses: a production site in Edmonton, Alberta (Canada), GIPI in the Sultanate of Oman, and two oilfield service companies, Threading & Mechanical Key Premium (Abu Dhabi, UAE) and OFS International (Houston, USA).

TMK's two research centers in Russia (RosNITI, Chelyabinsk) and in the United States (R&D Centre, Houston) are involved in new product design and development, experimental and validation testing and advanced metallurgical research.

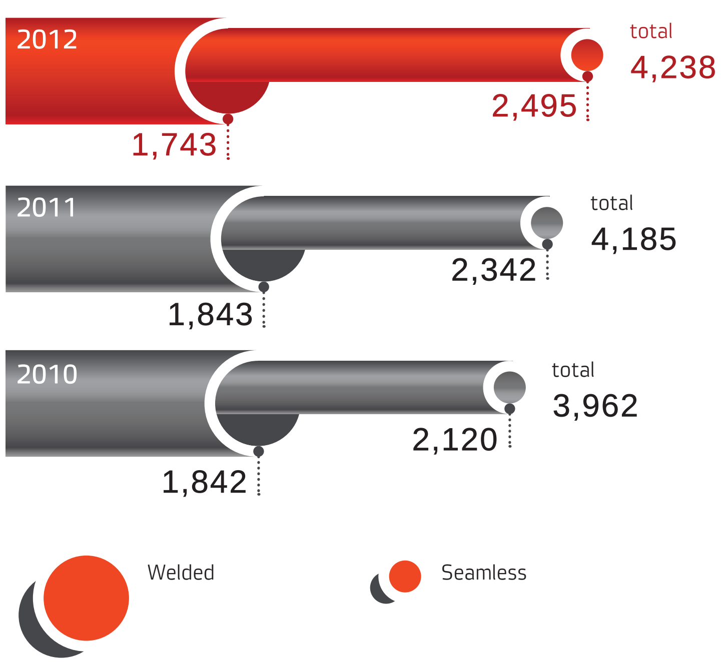
In 2012, TMK's pipe shipments totaled 4.22 million tonnes, allowing the Company for the fourth year in a row to confirm its position as the world's largest by shipments. The largest share of TMK's sales belongs to higher margin oil country tubular goods (OCTG) products supplied to customers in over 80 countries.

Consolidation of production assets, implementation of innovative scientific and engineering developments and a geographically diversified sales network have allowed the Company to create a modern global technological complex manufacturing high-tech and competitive pipe products. TMK's unique production and service capacities enable it to satisfy the demand of a wide range of customers and offer effective solutions for their operational challenges.

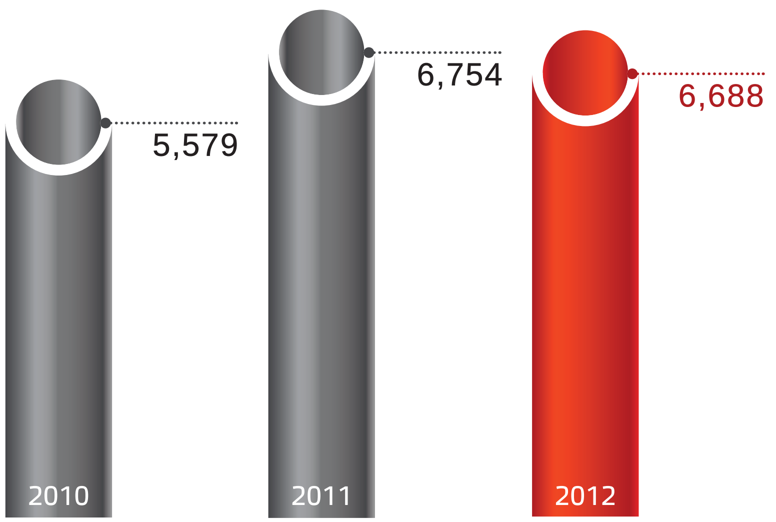
TMK is one of the world's leading producers of steel pipes and Russia's largest producer and exporter of pipes as well as a significant player on the North American market

Key Indicators

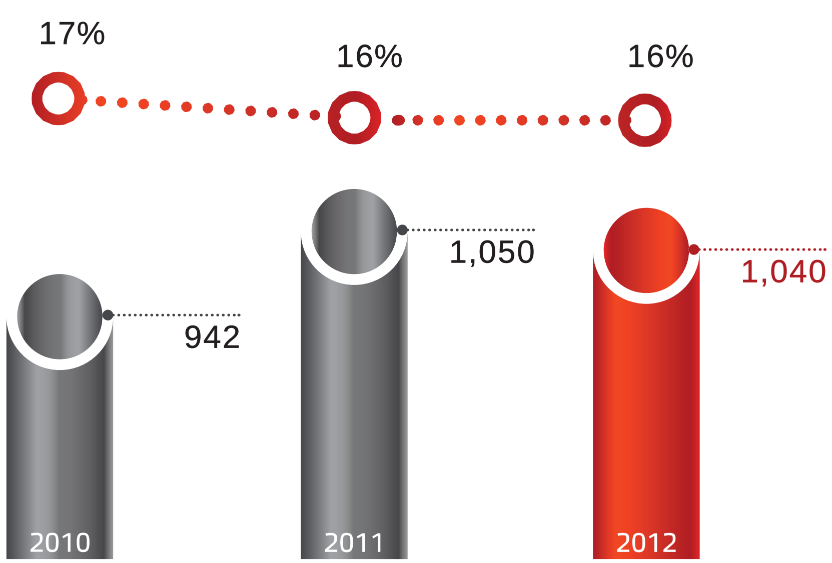
Revenue, mn USD



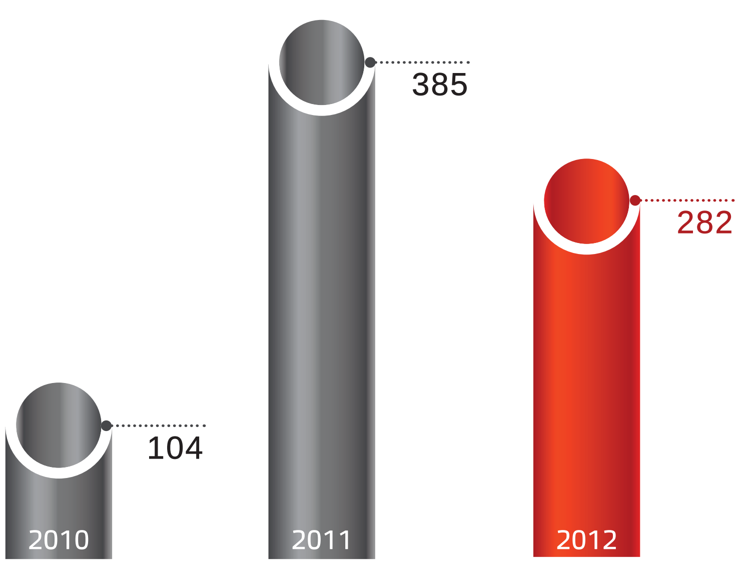
Revenue, mn USD



EBITDA, mn USD
and EBITDA margin, %



Net income, mn USD



Letter to Shareholders

Chairman of the Board of Directors of TMK,
Dmitry Pumpyanskiy

TMK CEO,
Alexander Shiryaev

Dear Shareholders,

In 2012, TMK continued to implement its strategic objectives, strengthening its position as a global pipe manufacturer and a part of the global oil and gas industry. For the fourth year running, TMK has ranked as the world leader in steel pipe shipments. The company has shipped over 4.2 million tonnes of tubular products to customers in over 80 countries. This corresponds to 2011 levels, a record year for TMK shipments. Despite the turbulent market conditions in the industry and the economies where we have a presence, TMK has managed to achieve a financial performance on a par with the previous year. At the same time, TMK has delivered a solid performance in the most important segments: the volume of shipments for seamless OCTG, (TMK's top product), is up 15% against 2011, whereas shipments of welded OCTG and welded line pipe have increased by 3% and 17%, respectively.

Today, TMK is arguably viewed by the global investment community not as a metallurgical company, but as an oil and gas service company. This shift in perception is reflected in the 57.0% increase of company's share price in 2012, following the trends evident in the oil and gas industry. The MSCI World Metal & Mining index, however, showed a decrease of 5.9%. To us, this indicates that the strategy we elected to take a few years ago, and which we have been consistently implementing since, was the right path to take.

In the past year, we have made some important changes to TMK's structure. We are always trying to build a closer relationship with our customers and, with this in mind, TMK is expanding its presence on the global markets by acquiring the GIPI plant in Oman. The plant is being integrated into our own production and sales network. In order to strengthen our presence in the promising middle-eastern market, we began the construction of a Threading and Mechanical Key Premium Service and Technology Center in Abu Dhabi. This Center will specialize in the repair of pipes and downhole equipment, and facilitate threading on elements of pipe strings for oil and gas companies working in the Gulf Cooperation Council (GCC) countries.

One more crucial step towards improving the effectiveness and efficiency of business management was the relocation of TMK IPSCO 's head office from Chicago to Houston, the largest hub in the global oil and gas industry and a major regional transportation hub. Houston is also home to TMK's new R&D center which is developing, testing, and certifying new types of our premium tubular products.

In 2012 TMK greatly enhanced the premium segment of its business. Shipments of pipes with premium connections have risen by more than a third, thus increasing their share in the Company's product portfolio. Now, premium products generate about 20% of TMK's EBITDA. We view this as being a good result for the moment. Pipes with TMK's premium connections are increasingly being used in the development of unconventional hydrocarbon resources in the United States, Canada, offshore oil fields in Russia, the Gulf of Mexico, Latin America, and South-East Asia.

In 2012 TMK greatly enhanced the premium segment of its business. Shipments of pipes with premium connections have risen by more than a third

New high-tech products are the key to leadership in the highly competitive pipe market. By the end of 2012 the Company's enterprises had mastered the production of double the number of new products planned. Among our innovative developments are: high-strength casing for ultra-deep wells, high-strength hydrogen-sulfide resistant casing, casing resistant to high-pressure loads; casing with lubricant-free coating of threads; pipes for oil and gas industry and longitudinally welded pipes for subsea pipelines among others. We do not intend to slow down our commissioning of cutting-edge production: in 2013, we are planning to roll out 50 new products with unique features and a high level of consumer appeal to facilitate more efficient and environmentally-friendly hydrocarbon extraction.

TMK declared 2012 to be a year of efficient production and increased product quality. During the reporting period, there was a positive trend in equipment performance and quality indicators, providing a solid foundation for achieving our targets for 2013 and onwards - an accelerated return on multi-billion investments.

By implementing a strategic investment program in stages, we have secured a solid foundation for our future development. In 2012, we modernized our production line for longitudinal welded large-diameter (LD) pipes at the Volzhsky Pipe Plant enabling us to expand our product range. We also commissioned the production of long cold-deformed pipes and vacuum insulated tubing (VIT) at the Sinarsky pipe plant, TMK INOX launched the production of stainless steel welded pipes.

In 2013, our priority is to complete the overhaul of the Taganrog Metallurgical Plant with the commissioning of a new electric arc furnace. When this is in place, we will have one of the most advanced facilities for producing seamless pipe in the world. We also aim to complete all major construction works on the new FQM mandrel mill at the Seversky Pipe Plant, slated to begin production next year.

Our American division has implemented a long-term investment program which includes major capital investments in expanding finishing capacities for heat treatment and threading. In Edmonton, Canada, we have opened a new facility for service maintenance and production of pipes with ULTRA Premium connections aimed at meeting our clients’ demand for products to develop oil sands.

In 2013, we are planning to roll out 50 new products with unique features and a high level of consumer appeal

Increasing finishing capacities for pipes in major regions where our products are used and expanding TMK's licensee network allows us to successfully develop the range of oil and gas services we offer. In recent years, the company has gained considerable experience in the packaged supply of pipe products and services to support pipe string installation. We will continue to develop our service expertise in this area.

Effectively implementing our goals, spurring progress, and winning leadership positions would be impossible without the right human resources. In 2012, we worked tirelessly to optimize our production processes, broaden skills, increase workforce productivity, develop our managers, and share experiences.

Over the past year, we have continued to implement global best management practices. To ensure transparency in our operations and minimize financial and reputational risks, TMK, a member of the International Compliance Association (ICA), is building a system of compliance and risk controls in accordance with its anti-corruption policy. We plan to continue developing our corporate governance system to keep it aligned with global standards.

We operate in a highly-competitive market alongside numerous other companies. To be successful and maintain a leading position means meeting the demand for products of impeccable quality at affordable prices. We are committed to achieving world leadership in the pipe industry in terms of technology and financial indicators. This is why our priorities at this stage are to increase internal efficiency and marginal profitability, while decreasing debt burden. We also seek to secure an accelerated return on investments which, in turn, will deliver increased investment attractiveness and shareholder value of TMK.

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Chairman of the Board of Directors of TMK,
Dmitry Pumpyanskiy

TMK CEO,
Alexander Shiryaev

Key Events

February

TMK was the first Russian company ever to produce vacuum insulated tubing (VIT) at its Sinarsky Pipe Plant. The first VIT batch was shipped to Gazprom for its Bovanenkovskoye oil and gas condensate field on the Yamal Peninsula

March

TMK PF ET premium threaded connections passed 100% gas tightness tests at Oil States Industries international testing center (Aberdeen, UK)

Commissioned by Gazprom, TMK launched production of super-chrome steel casing pipes with TMK GF premium threaded connections and unique mechanical properties

April

TMK tubing with TMK PF premium threaded connections were certified for ISO 13679 CAL IV by Oil States Industries (Aberdeen, UK)

TMK launched production of drill pipes with TMK TDS joints and shipped a pilot batch to Surgutneftegaz

TMK shipped its new high collapse resistant casing pipes with TMK PF premium threaded connections to Zarubezhneft

May

TMK made the first shipment of Russian-manufactured casing with ULTRA-FJ Premium Connections to LUKOIL, the pipe was produced at the Orsky Machine Building Plant, a part of TMK Oilfield Services

August

TMK shipped high-strength seamless line pipes to Nautilus Minerals to develop massive sulphide deposits in the Bismarck Sea (Papua New Guinea)

September

TMK shipped tubing and casing pipes with premium connections to Yamal LNG for development of Yuzhno-Tambeyskoe gas condensate field

TMK and Halliburton signed a contract to provide threading services. TMK's Central Pipe Yard, a part of TMK Oilfield Services, acted as a contractor under the agreement to thread casing components for Halliburton's division in Russia

TMK-INOX, a subsidiary of TMK, commissioned a production line for stainless steel and alloy-based precision welded pipes

October

TMK opened R&D center in Houston (Texas, USA)

TMK started shipments of tubular products for the construction of deep water pipelines at the Filanovsky oil and gas condensate field in the North Caspian Sea, developed by Lukoil

November

Following the joint survey conducted by Vedomosti business daily, PricewaterhouseCoopers, a multinational audit consultancy services firm, and the Donors Forum, a non-profit partnership of grant-making organisations, TMK was named among the leading companies in corporate sponsorship and charity in Russia

December

TMK acquired a 55% stake in Gulf International Pipe Industry LLC (GIPI), Oman's pipe plant. The plant has an annual capacity of over 200 thousand tonnes of welded OCTG and line pipes

TMK established a service joint venture with EMDAD in Abu Dhabi. EMDAD, a leading service provider in the Middle East and North Africa and an official TMK dealer, became a full-fledged partner to the joint project

January 2013

TMK ran its casing pipes with TMK PF premium threaded connections in onshore and offshore parts of the well at NOVATEK's Yurkharovskoye field

March 2013

TMK shipped the first pilot batch (ca. 500 meters) of vacuum insulated tubing made of 13 Cr steel for Gazprom's Bovanenkovskoye oil and gas condensate field on the Yamal peninsula

TMK IPSCO launched a new premium threaded pipe and service facility in Edmonton (Alberta, Canada)

April 2013

TMK acquired pipe service and accessory manufacturing assets in the USA with an annual capacity of over 700 thousand threaded joints and ca. 250 thousand couplings for oil and gas industry. The facility also provides pipe inspection services and manufactures down-hole tools and accessories for a wide range of oil and gas applications

TMK placed USD 500 million 7-year Eurobonds

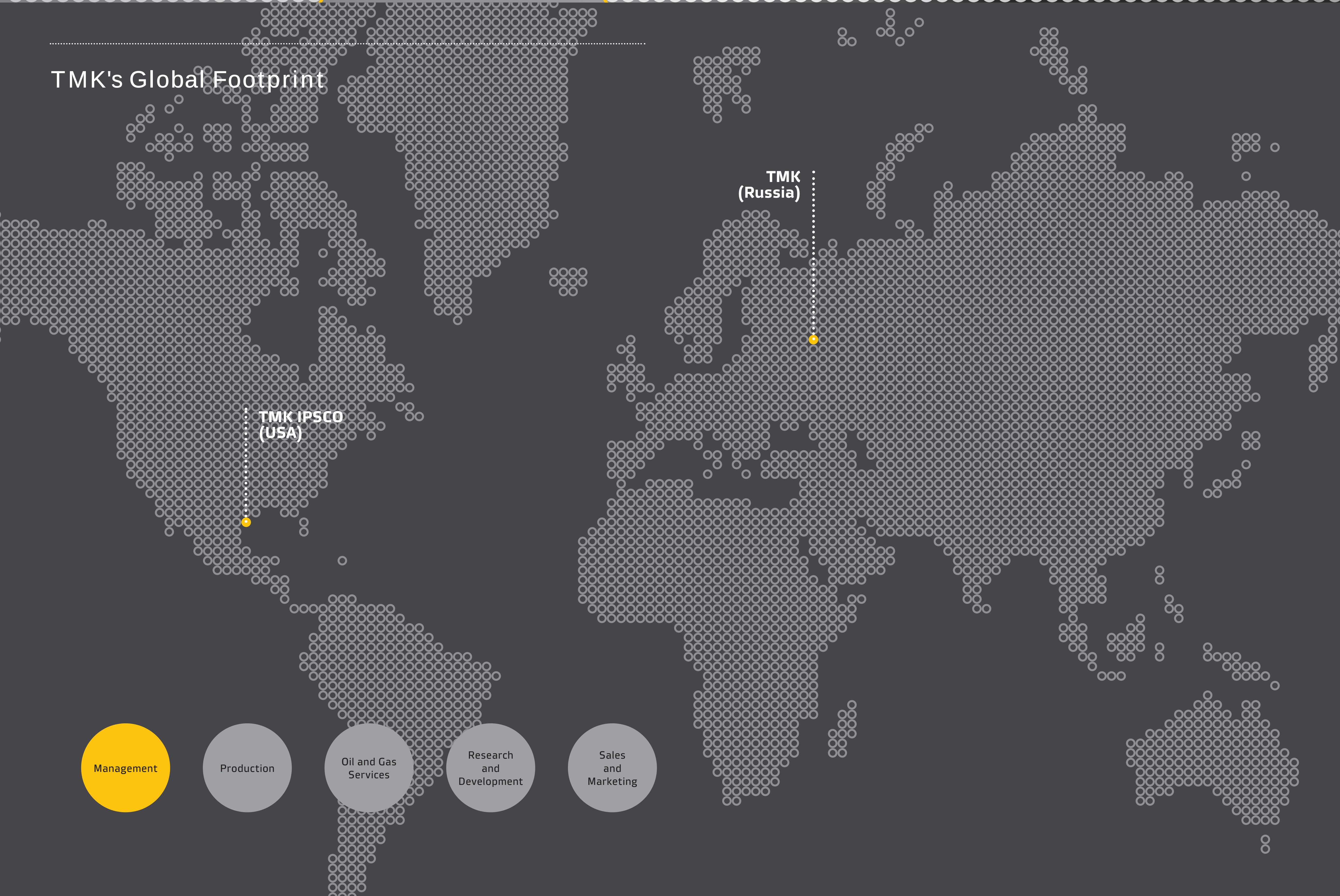
About Company

4,238
thousand tonnes
Total Pipe Sales

10%
of Global OCTG Market

Export to more than
80 Countries
of the World

TMK's Global Footprint



Management

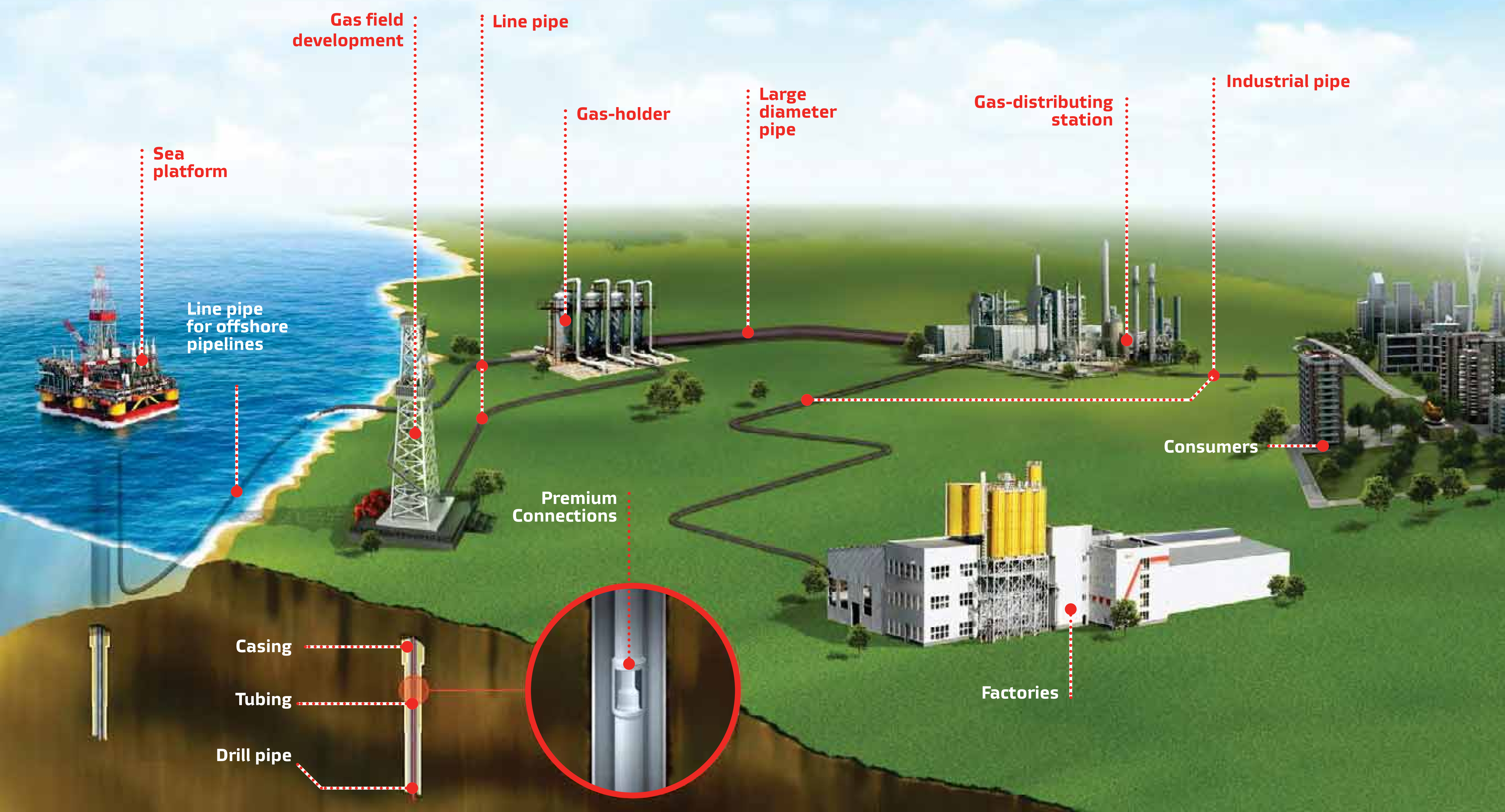
Production

Oil and Gas Services

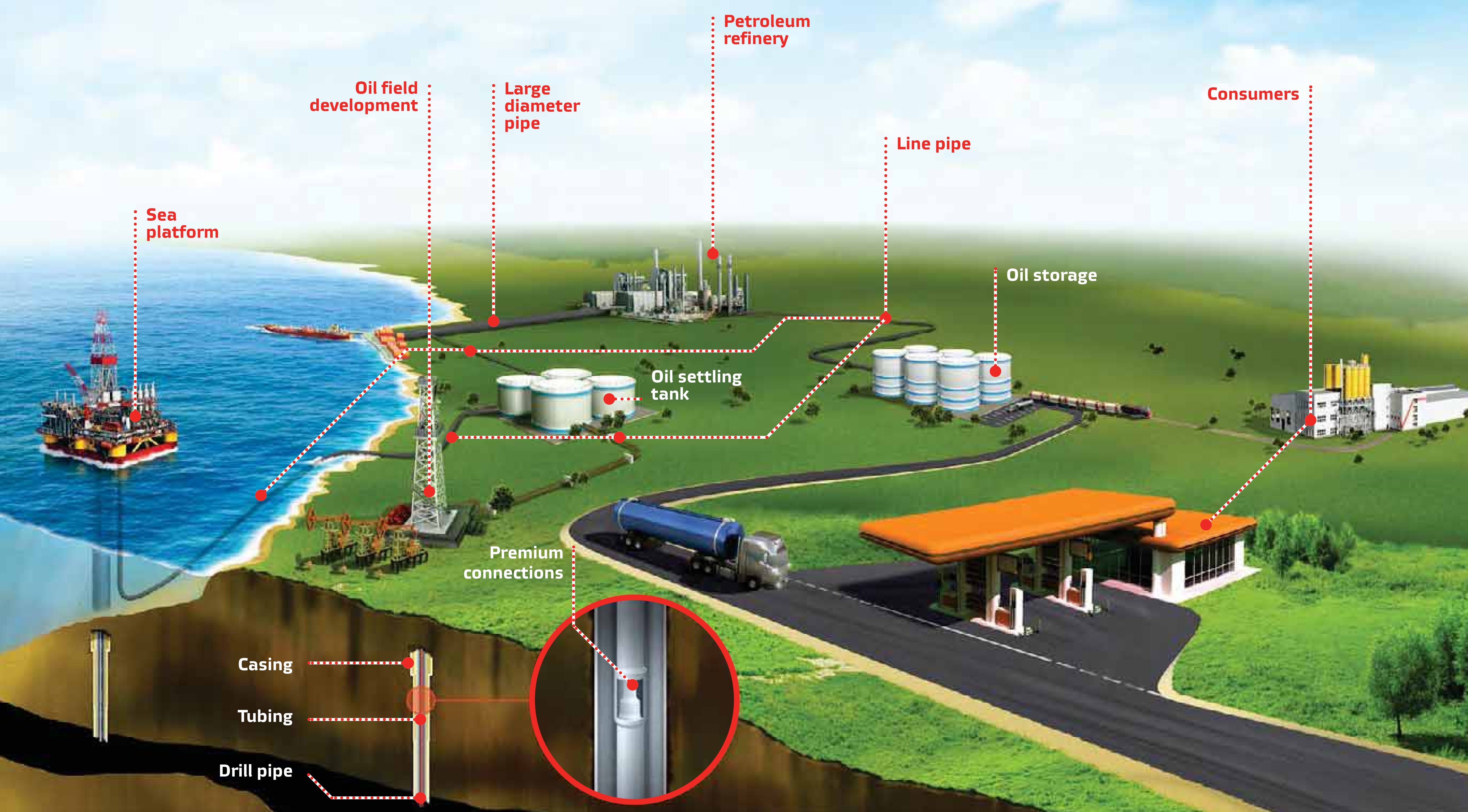
Research and Development

Sales and Marketing

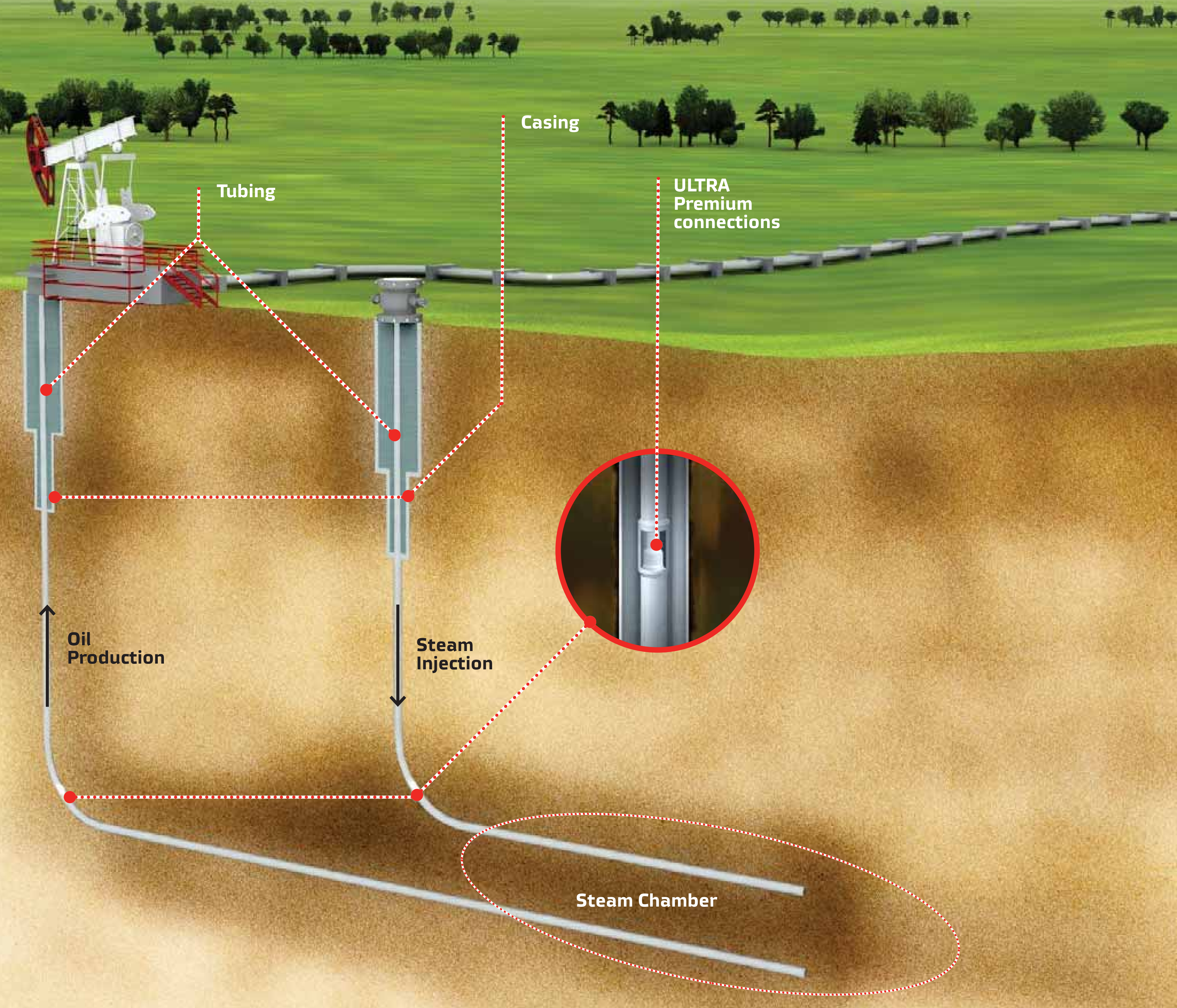
Use Of TMK Pipe Products
For Gas Production And Transportation



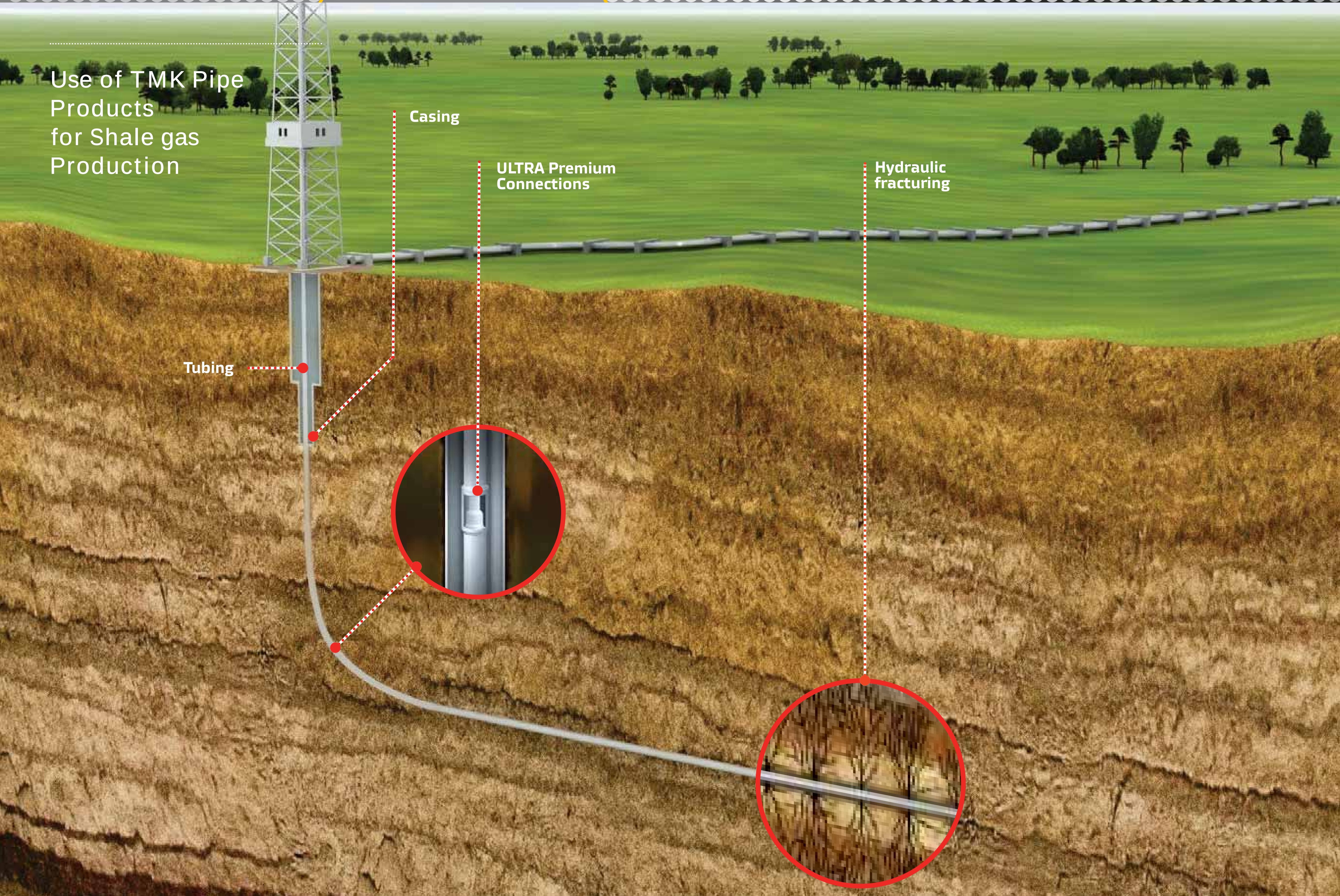
Use Of T M K Pipe Products For Oil Production And Transportation



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



Use of TMK Pipe Products for Shale gas Production



Market Position in 2012

In 2012, we maintained our global leadership position having sold 4,238 thousand tonnes of pipes, 2,495 thousand tonnes of which were seamless pipes and 1,722 thousand tonnes of which were OCTG pipes.

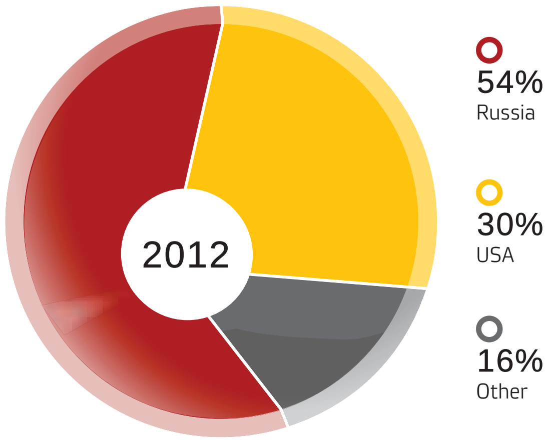
In 2012, our sales represented approximately 6% of the worldwide market for seamless pipes and 10% of the worldwide market for seamless and welded OCTG. We also remain a national leader in Russia with 25% market share, including 52% of the seamless pipe market and 62% of the seamless OCTG market.

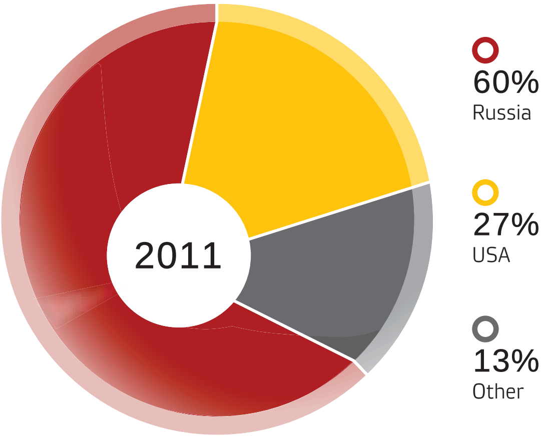
Seamless pipes remain our priority segment, with particular emphasis on the oil and gas industry (line and OCTG pipes) and high value-added premium connections. In 2012, seamless pipes accounted for 73% of our gross profit, with an average margin of the segment totalling 26% against 15% in the welded pipe segment.

In 2012, our sales to the oil and gas industry amounted to 75% of total sales (compared to 74% in 2011). Our five major customers accounted for 26% of 2012 sales volumes, those being Rosneft, Surgutneftegaz, Lukoil, TNK-BP, and Gazprom. Our Top 5 customers remained unchanged when compared to 2011, although Gazprom moved from first to fifth place due to a significant decrease in its consumption of large diameter pipes.

In 2012, our sales to the oil and gas industry amounted to 75% of the total sales (compared to 74% in 2011). Our five major customers accounted for 26% of the 2012 sales volumes

TMK sales geography





We remain the largest Russian exporter of steel pipes supplying our products to more than 80 countries. In 2012, export from our Russian plants amounted to 19% compared to 14% in the previous year. We also intended to diversify our sales geographically. And in 2012 we increased our sales in the US to 30% from 27% in 2011 while decreasing the share of Russian sales to 54% from 60%.

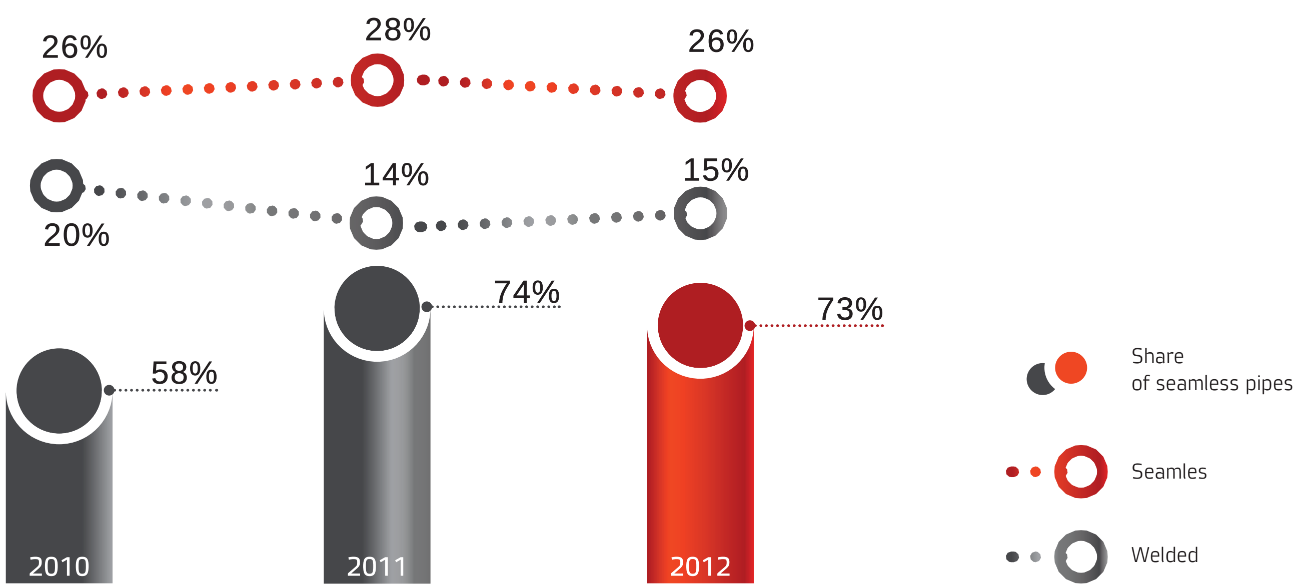
We strive to increase our presence in the Middle East having acquired a production facility in Oman and established a service joint venture in the United Arab Emirates.

In 2012, export from our Russian plants amounted to 19% comparing to 14% in the previous year

Pipe sales by TMK division, thousand tonnes

	Russian Division			US Division			European Division		
	2012	2011	Change, %	2012	2011	Change, %	2012	2011	Change, %
Seamless pipes	2,051	1,883	9%	268	281	-5%	176	178	-1%
Welded pipes	1,108	1,232	-10%	635	611	4%			
incl. large diameter pipes	408	608	-33%	-	-				
Total	**3,159**	**3,115**	**1%**	**903**	**892**	**1%**	**176**	**178**	**-1%**

Gross profit margins



Russian market

Oil and gas pipes and premium connections

Russia and the CIS remain our major markets with a steady demand stimulated by active upstream operations in the oil and gas industry and construction of new pipelines. As existing oil and gas fields become depleted, exploration and development of new deposits shift towards less conventional environments leading to expansion of horizontal and directional drilling and sinking of vertical wells. These trends call for a more efficient oil and gas production technology, and drive demand for high-tech pipes and premium connections resistant to aggressive environments and pressure.

The new regions driving oil and gas reserve replacement are Eastern Siberia, Far East, North Caucasus and the Caspian region.

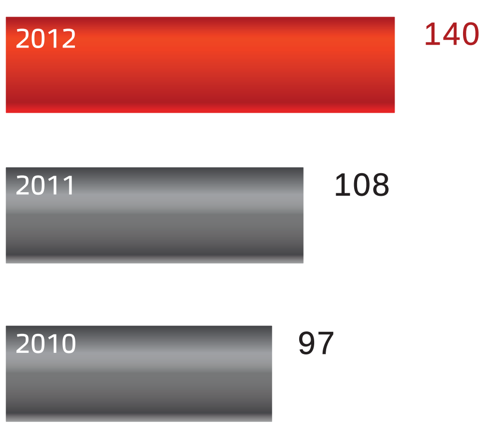
According to our estimates Russian seamless OCTG market increased by 7% in 2012.

Permafrost, aggressive environments and extremely deep wells in new production regions set rigid requirements for technology and quality of the pipes used. Following the trend, TMK shipped the first batch of unique vacuum insulated tubing (VIT), launched manufacturing of super-chrome casing pipes, and developed new drill pipes with TMK TDS joints in 2012.

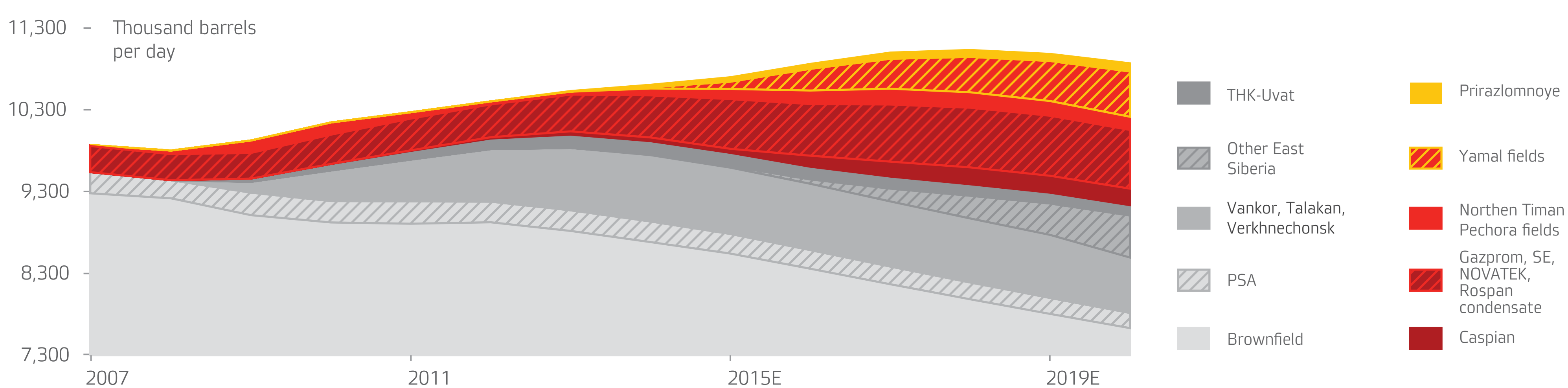
According to our estimates Russian seamless OCTG market increased by 7% in 2012

Russian sales of TMK premium connections, thousand tonnes

2010–2012 CAGR: ↑ 20%



Increase in oil production through development of new regions



Source: Sberbank

In 2012, our sales of seamless OCTG pipes and line pipes (seamless and welded) grew by 15% and 10% year-on-year respectively.

Demand for premium threaded connections grew considerably. TMK is currently a leading producer in this segment in Russia.

Large diameter pipes

Completion of several major gas pipelines in 2011 resulted in a shrinking market for large diameter pipes in 2012. Our sales in the segment decreased by 33% to 408 thousand tonnes in 2012.

Nevertheless, TMK started pipe shipments for the onshore part of Gazprom's South Stream pipeline. Alongside the South Stream project, we shipped our products to Bovanenkovo-Ukhta and Zapolyarye-Purpe pipelines, and increased shipments of large diameter pipes to Turkmenistan and Uzbekistan.

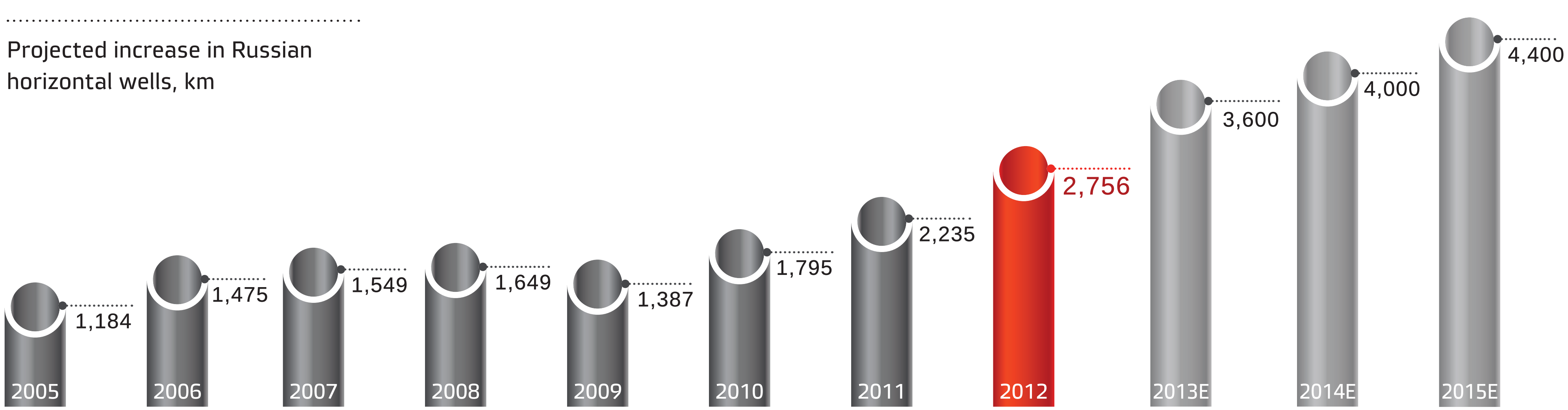
Industrial pipes

We strive to increase our sales of seamless pipes for different industry applications, including power, nuclear and automotive industries, as this is a high-tech and high-margin segment.

Welded industrial pipes are not our priority due to the low margins of the segment.

Segment of seamless pipes for different industry applications, including power, nuclear and automotive industries is a high-tech and high-margin

Projected increase in Russian horizontal wells, km



2005–2015
CAGR: ↑ 14,0%

Source: REnergyCO 2012

North American market

Active development of offshore fields in 2011–2012 resulted in a considerable decrease in the US natural gas prices. For the major part of 2012 gas prices per 1 mmbtu remained below US$3, showing a slight increase in Q4 2012.

This trend started in 2011 followed by a move in drilling activity, represented by increasing share of oil rigs from 55% at the end of 2011 to 76% in late 2012. However, oil drilling did not fully offset a decline in gas drilling, the overall number of rigs went down by 11% or 219 rigs from 2,003 rigs in December 2011 to 1,784 rigs in December 2012.

The growing share of oil wells results in a declining demand for seamless pipes and premium connections widely used in gas field developments. Sales of welded pipes are therefore rising while offering lower margins that result from a lower technology input and strong competitive pressure from Asian producers.

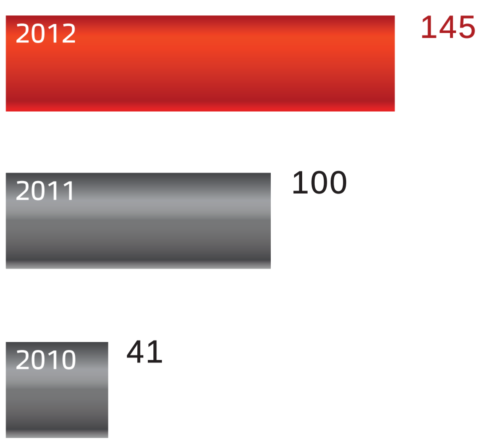
However, development of offshore and unconventional fields still harbours large potential in North America where horizontal and directional drilling continue to prevail.

The trend in drilling activity, represented by increasing share of oil rigs from 55% at the end of 2011 to 76% in late 2012, was continued

Henry Hub gas spot price

Sales of ULTRA premium connections, thousand tonnes

CAGR 2010–2012: ↑ 88%

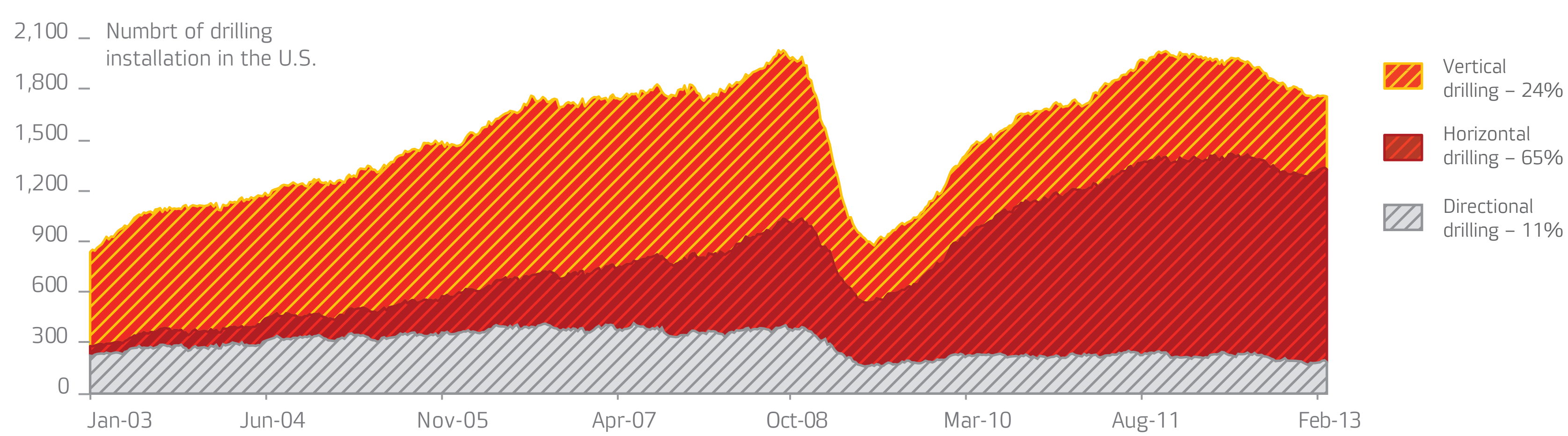


In 2012 the US steel pipe market grew by 11% to 20 million tonnes, imports increased by 23%, while shipments of US pipe producers showed only a 4% growth. OCTG shipments in the USA went up by 14% to 7 million tonnes and OCTG imports rose by 23% reaching 51% of the total U.S. OCTG market, local producers added only 6% to their output. North America remains one of the most promising markets as it demonstrates the highest demand for tubular products, including oil and gas pipes, and outperforms other regions in drilling activity.

As a major producer of premium connections in North America, we continue to focus on high-margin premium products, and annually increase sales of ULTRA connections.

In 2012 the US steel pipe market grew by 11% to 20 million tonnes, imports increased by 23%

U.S. drilling activity by dip



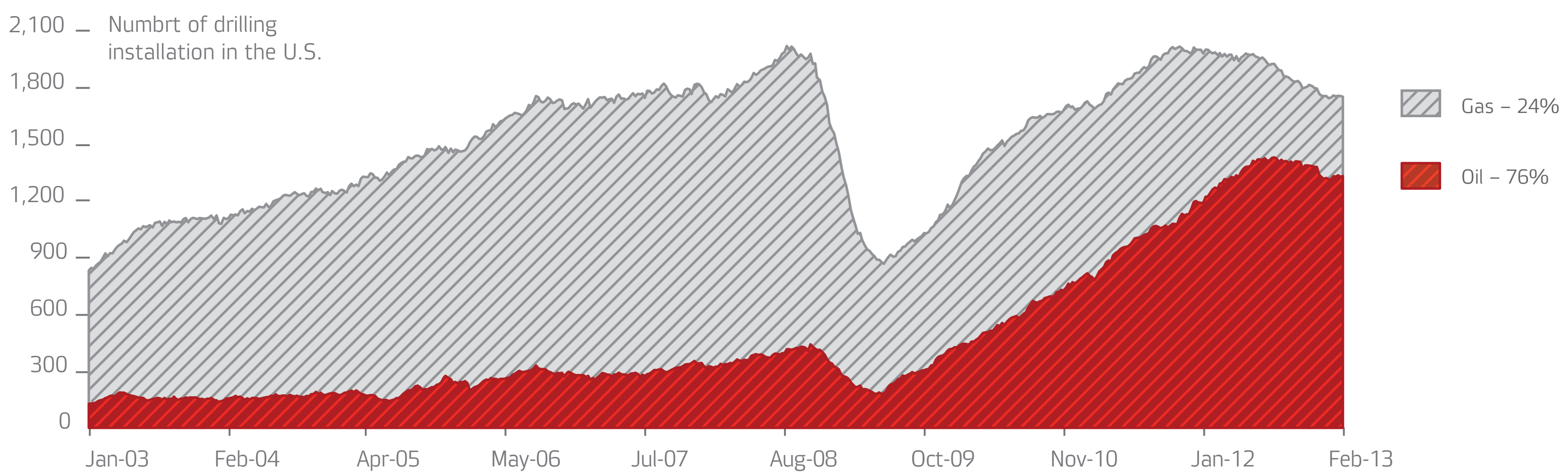
Source: Baker Hughes

In 2012, TMK IPSCO expanded its presence in Canada and opened in March 2013 a new pipe threading and service facility in Edmonton to produce ULTRA premium connections. The new plant is located in close proximity to Canadian oil sands where premium connections are highly required for hydrocarbon production. We are therefore looking for further expansion of our presence in Canada.

Besides, TMK IPSCO is actively strengthening its market position in Latin America – the company established contacts with major distributors of tubular products and increased shipments to the region in 2012. In addition, line pipes produced by TMK IPSCO were certified by certain oil companies in Latin America.

TMK IPSCO expanded its presence in Canada and opened in March 2013 a new pipe threading and service facility in Edmonton to produce ULTRA premium connections

U.S. drilling activity by product



Source: Baker Hughes

European market

The economic crisis in Europe resulted in more rigid specifications for tubular products. Our European Division was well equipped to cope with the changes, leveraging on own steelmaking facilities and well-established customer relations.

Our ability to promptly fulfil orders with customised specifications allows our European Division to ship high value-added products to the US and Middle East markets. In 2012, US shipments of high-tech pipes manufactured by TMK-Artrom increased by 18% while shipments to the Middle East rose by 85%.

In 2012 TMK-Artrom launched production of special-purpose cold-shaped pipes and pipes for low temperature applications in the petrochemical industry, and made the first shipments of these products.

Our ability to promptly fulfil orders with customised specifications allows our European Division to ship high value-added products to the US and Middle East markets

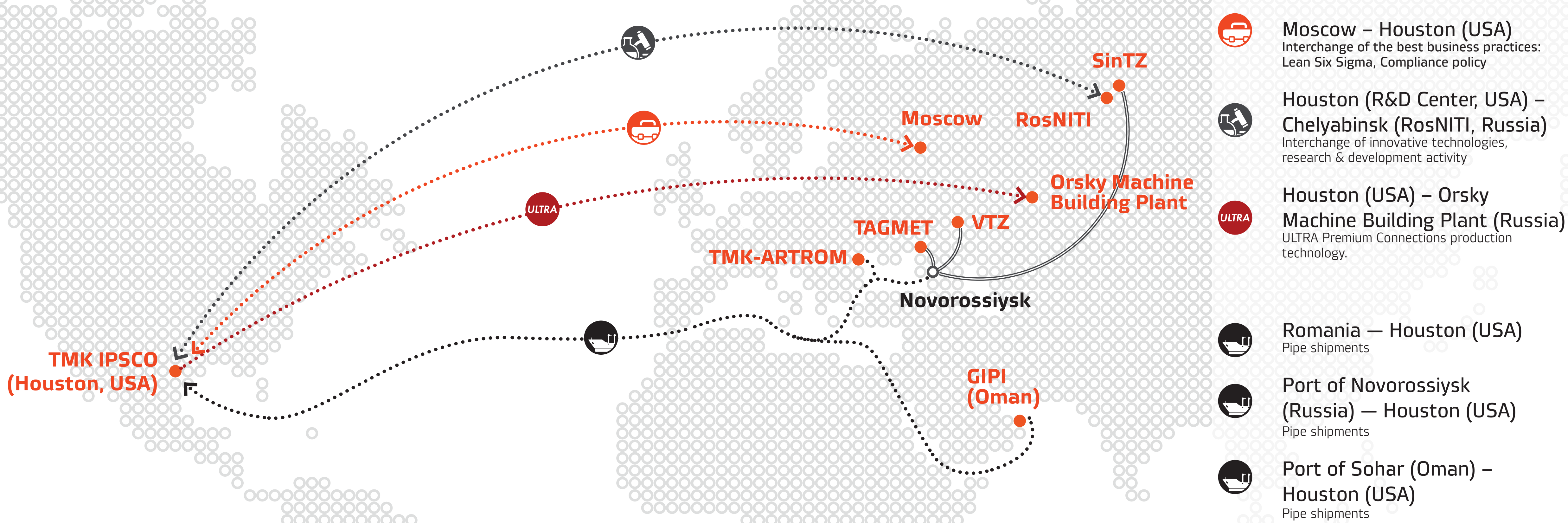
Synergy

We keep on improving our interaction within the group to ensure high efficiency of our operations.

Last year we focused on the following:

1) increase of pipe shipments to North America from Russia and Europe;
2) collaboration with respect to sharing best practices regarding maintenance planning and execution;
3) improving operational planning and reporting by finding modern IT solutions;
4) cooperation of logistics teams to create efficient shipping routes and to continually reduce transportation costs;
5) exchange of research results between the Russian Research Institute for the Tube and Pipe Industries (RosNITI) and the R&D centre in Houston, Texas.

Synergy map



New markets entry

We strive to strengthen our presence in major oil and gas regions, the largest of them being the USA, CIS, Middle East and Latin America.

To expand our market share in the strategically important Middle East region, we acquired a 55% stake in GIPI, Omani producer of welded oil and gas pipes. We believe that our own production site in the region will strengthen local positions of TMK M.E. FZ, TMK's distribution subsidiary in Dubai, and pave new ways to the Arabian Gulf region for our products. Thus, acquisition of the production facilities was a logical step towards improvement of our presence in the Middle East. GIPI's products will be sold not only on Arabian Peninsula but in Africa, Central Asia and the Americas as well. In addition, we will be able to increase in the Middle East region our sales from Russian and Romanian plants.

GIPI plant was built in 2010 and has an annual capacity of over 200 thousand tonnes of welded OCTG and welded line pipes. At present, we are considering various pipe production development options for GIPI. Major consumers of TMK products are large oil and gas multinationals operating in the Gulf region. However, our development strategy of GIPI expects a considerable expansion of their sales geography as a result of integration into our global production and distribution network.

To benefit from vertical integration and further strengthen our position in the Middle East, we opened a service joint venture, Threading and Mechanical Key Premium LLC, in Abu Dhabi, UAE, in late 2012. The service centre will focus on repair of pipes and down-hole equipment and making threading connections on pipe columns for oil and gas companies operating in the Gulf region. The centre is scheduled for commissioning in Q2 2013.

As we intend to develop our service capacities and increase our share in the segment, we acquired pipe service and accessory manufacturing assets in Texas, USA, in April 2013. The assets are located near Houston and have an annual capacity of over 700 thousand threaded joints and ca. 250 thousand couplings. In addition, the facility provides pipe inspection services and manufactures a wide range of down-hole tools and accessories.

New service subsidiaries allow for quicker responses to customer needs, and contribute to stronger relations with TMK customers in the Middle East and the USA.

To expand our market share in the strategically important Middle East region, we acquired a 55% stake in GIPI, Omani producer of welded oil and gas pipes

Capital Expenditures

By 2012, we had largely implemented our Strategic Investment Programme aimed at boosting OCTG seamless pipe production in Russia, line pipe production capacities and overall performance efficiency.

Since launch of the Strategic Investment Programme in 2004, TMK's investments exceeded USD 3 billion; however, we are going to reduce our capital expenditures in the future.

As a result, TMK increased its seamless pipe production capacity to 3.0 million tonnes and steelmaking capacity up to 3.4 million tonnes per annum by the end of 2012.

There are currently two major investment projects under way in Russia:

- installation of an electric arc furnace at the Taganrog Metallurgical Plant with an annual capacity of up to 1,000 thousand tonnes of steel ant incremental capacity of 400 thousand tonnes of steel per annum. The project is scheduled for completion in 2013, and will contribute to production growth and absolute exclusion of open-hearth operations on our plants, and

- installation of an FQM mill at the Seversky Pipe Plant with an annual capacity of up to 600 thousand tonnes of seamless pipes and incremental capacity of 250 thousand tonnes per annum. The project is scheduled for completion in 2014.

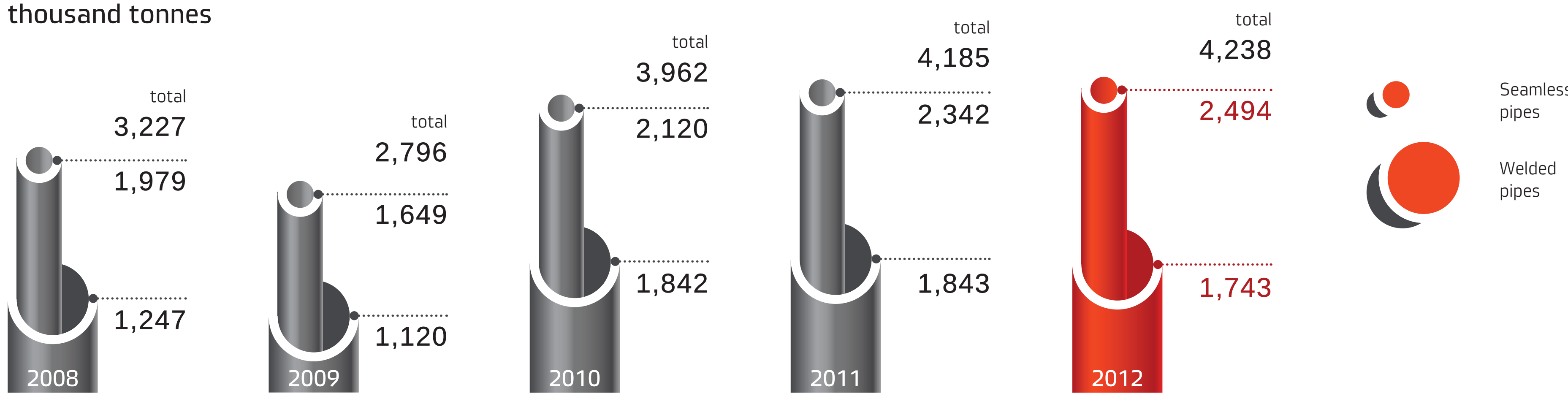
Our Strategic Investment Programme in the USA focuses on improvement of premium products production capacities.

Since launch of the Strategic Investment Programme in 2004, TMK's investments exceeded USD 3 billion; however, we are going to reduce our capital expenditures in the future

Arc furnace at the Taganrog Metallurgical Plant

FQM mill at the Seversky Pipe Plant

Tubular product sales, thousand tonnes



Our Strategic Investment Programme in the USA focuses on improvement of premium products production capacities

TMK is currently implementing two investment projects in the USA:

- expansion of threading capacities for premium connections that will enhance the our capacity by 230 thousand tonnes. The project is scheduled for completion by 2017;
- expansion of heat treatment capacity, i.e. thermal processing operations allowing to obtain materials with desired structures and properties. After the project is completed, heat treatment capacity is expected to grow by 280 thousand tonnes. The project is scheduled for completion by 2017.

In addition, we opened a research and development centre in Houston (Texas, USA) in the reporting year. The R&D Centre will focus on practical application of our scientific innovations, product testing, and certification.

R&D Center (Houston, USA)

Share Capital

At Least 25%
of annual IFRS net profits is paid out as dividends

TMK Shares are Traded on Stock Exchanges in Moscow and London

1,406 mln RUR
Dividends for 1H 2012

Share Capital

As of 31 December 2012, the share capital of TMK was comprised of 937,586,094 fully paid ordinary shares, each with a nominal value of RUB 10.0. TMK does not have any preferred shares, neither outstanding nor authorised.

As of 31 January 2012	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	1,000,095	0,107%
Free float	192 981,467	20.57%
Total:	**937,586,094**	**100.00%**

As of 31 December 2012, 20.57% of TMK shares were in free float, with approximately 90% of them traded in the form of GDRs on the London Stock Exchange. TMK Board of Directors and Management owned 707,947 shares, which is approximately 0.08% of the share capital.

TMK securities are traded on Russian and international stock exchanges.

The shares are traded on MICEX (Moscow Exchange Group) under the TRMK ticker (Bloomberg: TRMK: RM / Reuters: TRMK.MM).

The GDRs are traded on the London Stock Exchange under the TMKS ticker (Bloomberg: TMKS:LI / Reuters:TRMKq.L).

As of 31 December 2012, 20.57% of TMK shares were in free float, with approximately 90% of them traded in the form of GDRs on the London Stock Exchange

* The main 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 GDR USD 412.5 million bonds issued by TMK Bonds S.A. in February 2010 and maturing in 2015. The bonds may be converted at USD 22.308 per GDR.

The table below shows current weights of TMK shares in indices:

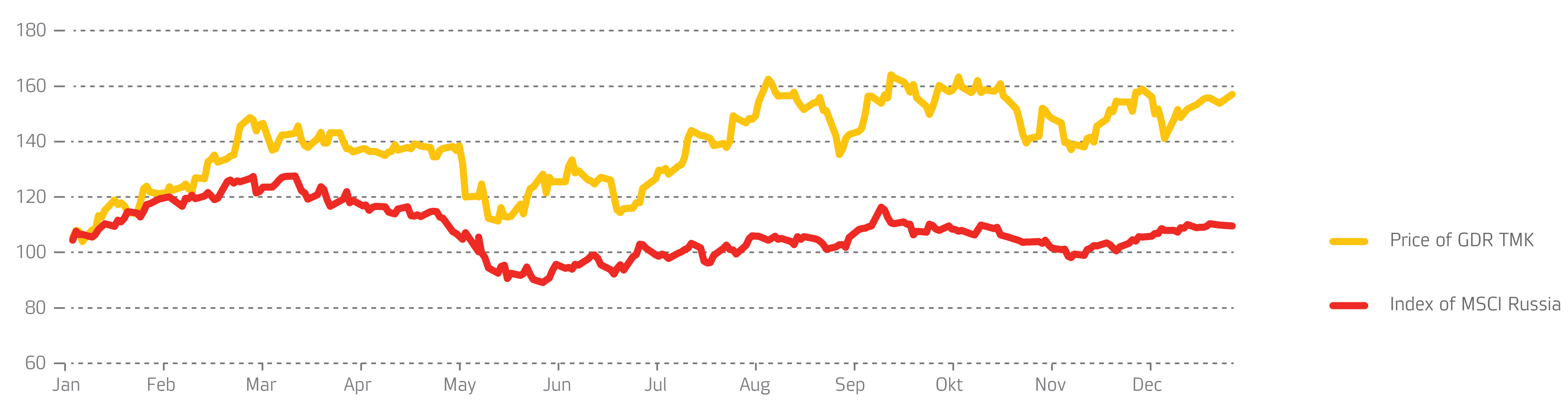
Index	Weight
MSCI Russia	0.33% (GDR)
MICEX M&M	3.01% (shares)
MICEX MC	0.80% (shares)

American depository receipts (ADRs) are traded on the OTC platform (OTCQX) under the TMKXY ticker (Bloomberg: TMKXY: US / Reuters: TMKXY.PK).

Dividend history:

Period	Announced dividends per 1 share, rubles	Total announced dividends, rubles
2010	0.85	796,948,180
2011	3.63	3,403,437,521.22
1H 2012	1.50	1,406,379,141

Dynamics of TMK GDR price and MSCI Russia, %



Report On Corporate Governance

32 meetings of the Board of Directors

11 Directors

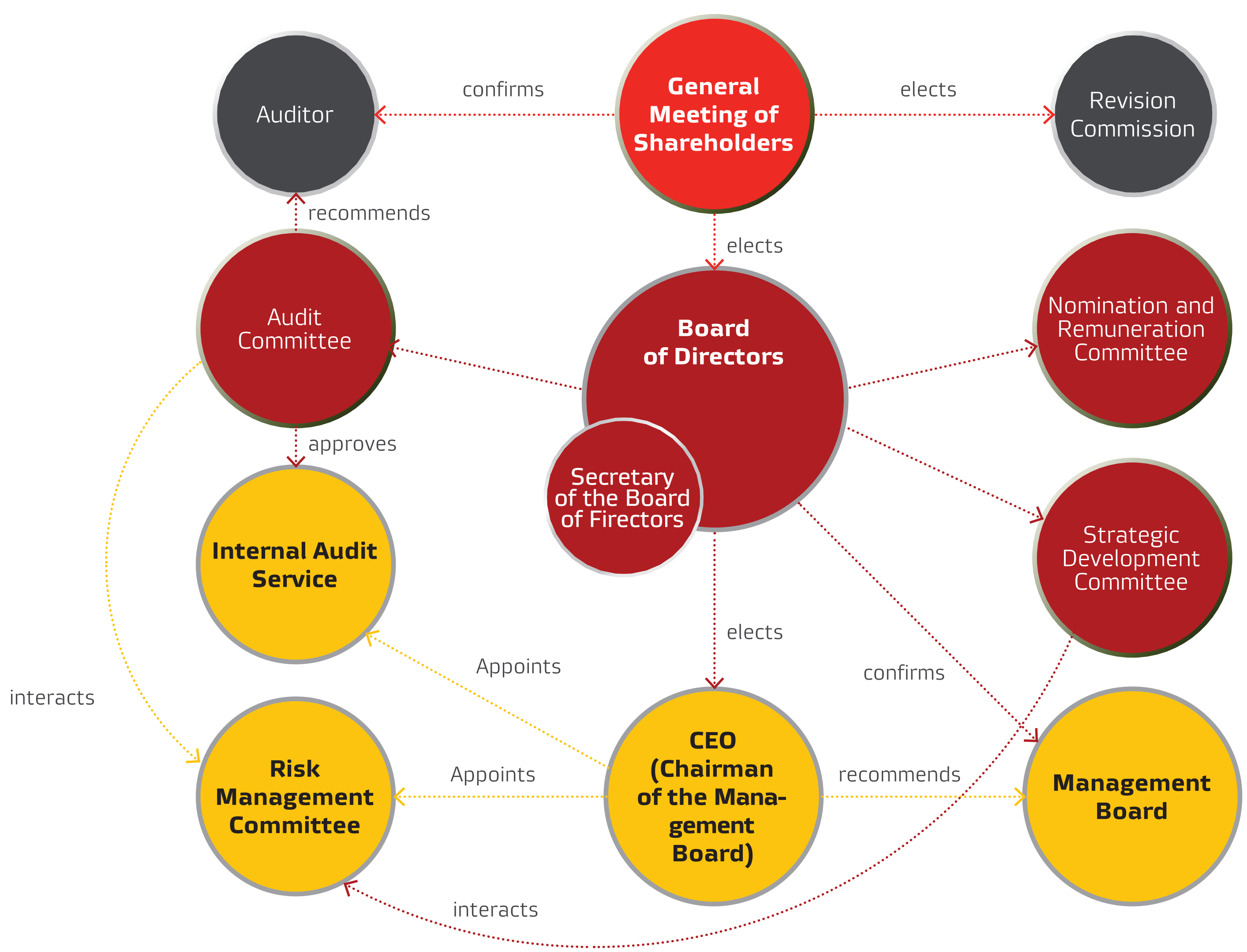
Including **6** Independent Directors

TMK's Corporate Governance Structure

The General Meeting of Shareholders is the highest governing body of the Company, with the primary management powers being delegated by the 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.

In order to ensure efficient control over the Company's financial and business operations as well as the Company's compliance with Russian laws and regulations, the General Meeting of Shareholders elects the Revision Commission and approves the Company's auditor.

TMK's Corporate Governance Structure



TMK keeps its accounting practices and prepares financial and accounting reports in compliance with Russian and international standards. Starting from 2011, TMK began publishing quarterly consolidated IFRS reports (ir.tmk-group.com/financials/results-center/). In addition, the Company distributes press releases discussing key financial highlights and their changes and conducts conference calls attended by the Company's senior executives. TMK has a unit which monitors the development and implementation of a single information policy as well as a function that controls compliance with insider dealing laws and regulations

General Meeting of Shareholders

The shareholders may exercise their rights set forth in the Company's Charter primarily by participating in the General Meeting. 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 ten per cent of shares.

Shareholders holding at least two per cent 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 call Board of Directors meetings.

In 2012, the Annual General Meeting of Shareholders was held along with one extraordinary meeting. The meetings' agenda included, inter alia, amendments to the Charter of OAO TMK, approval of the Company's annual report and annual financial statements, distribution of profits for 2011 and 1H 2012, election of the Board of Directors and the Revision Commission, auditor approval, amendments to the Regulations on the Board of Directors, approval of related party transactions.

Activity of the Board of Directors in 2012

In 2012, the Board of Directors held 32 meetings, including eight meetings held in person. Key items included:

- TMK's investment programme for 2013;
- logistics management system of the Company;
- TMK's Business Plan for 2011 through 2015;
- TMK's target structure for 2013;
- market environment and development of TMK's distribution platform;
- TMK's consolidated budget for 2013;
- TMK's management accounts;
- results of Internal Audit Department's activity in 2012.

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 ten per cent of shares

The Board of Directors and Committees

In the reporting year, our Company took one more important step towards bringing the corporate governance system to a new level by significantly reshuffling its Board of Directors. In June 2012, six independent directors were appointed, the total number of directors was raised to eleven, and as much as one third of the Board was replaced with new members. Mukhadin Eskindarov and Geoffrey Townsend stepped down as Board members, having served on the Board for the maximum period during which directors can be deemed independent according to the Regulations on the Board of Directors and the Corporate Governance Code of TMK. Both actively contributed to implementing corporate governance best practices and chaired Board committees. Thomas Reeve Pickering also stepped down, having been a director since 2009. The Annual Meeting of Shareholders held on 26 June 2012 elected four new independent directors, Ruben Aganbegyan, Peter O'Brien, Bob Foresman, and Oleg Schegolev.

Six independent directors were appointed, the total number of directors was raised to eleven, and as much as one third of the Board was replaced with new members

Following the Annual General Meeting of Shareholders, the Board of Directors of OAO TMK is composed as follows:

DMITRY PUMPYANSKIY

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

Born in 1964. Graduated from the Sergey Kirov Urals Polytechnic Institute in 1986. PhD in Technical Sciences, Doctor of Economics. Founder and beneficial owner of TMK. Has been with TMK since foundation, Chairman of TMK's Board of Directors since 2004.

In 2011, he was pronounced the winner of the 6th Director of the Year National Award in the Chairman of the Board of Directors in Furtherance of Corporate Governance nomination.

Relevant experience:
Chairman of the Supervisory Board of Russian Agricultural Bank, Member of the Board of Directors at Rosagroleasing and SKB-Bank, President of the Sverdlovsk Regional Manufacturers and Entrepreneurs Association, President and Chairman of the Board of Directors of Sinara Group, Board member at various industrial and financial companies, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs, CEO at TMK, CEO at Sinara Group, top executive at Russian metallurgical and pipe companies.

Holds 0.007% in the authorised capital of OAO TMK

RUBEN AGANBEGYAN

Independent director,
member of the Board of Directors since 2012.

Born in 1972.
Graduated from the Moscow State Law Academy in 1995.

Relevant experience:
Member of the Board of Directors, Chairman of the Management Board and CEO at Otkritie Financial Corporation, CEO, President, member of the Supervisory Board at Moscow Exchange MICEX-RTS, Board member at various stock exchange infrastructure companies and self-regulated financial market players, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs. Previously held executive positions at investment companies and banks (Renaissance Capital, Troika Dialog, Credit Suisse First Boston) and worked for PricewaterhouseCoopers, Clifford Chance, Credit Suisse Financial Products.

Holds no shares in OAO 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:
Chairman of the Management Board of UniCredit Bank, Chairman of the Board and President of "Rossiysky Promyishlenny Bank" (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 OAO TMK

ANDREY KAPLUNOV

Executive director.
Has been with TMK since foundation.

Born in 1960. Graduated from the Moscow Finance Institute in 1982. PhD in Economics.

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" Interregional Non-Profit Social Welfare NGO, member of the Board of Trustees of the Sinara Mini-Football Club (Sverdlovsk Regional Sports Non-Governmental Fund), Director of the HR and Corporate Development at Inkombank and Rosbank, Vice President of Guta-Bank, Deputy Head of the Currency and Finance Department at Zarubezhneft Foreign Trade Enterprise, Assistant Professor at the Economic Theory Department of the Moscow Finance Institute.

Holds 0.0116% in the authorised capital of OAO 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, he won the National Award of the Independent Directors' Association as the Director of the Year.

Relevant experience:
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, Press Officer at the US Treasury.

Holds no shares in OAO 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.

Relevant experience:
Vice President, member of the Board of Directors of Sinara Group, Board member at various companies, Deputy CEO for External and Special Projects at TMK, Vice President of Inkombank and Guta-Bank.

Holds 0.012% in the authorised capital of OAO 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 & Sciences in 1993. Obtained a certificate from the Moscow Power Engineering Institute in 1989.

Relevant experience:
Head of Barclays Capital in Russia, Deputy Chairman of the Management Board at Renaissance Capital, 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 OAO TMK

IGOR KHMELEVSKIY

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

Born in 1972.
Graduated from the Urals State Law Academy in 1995.

Relevant experience:
Vice President and member of the Board of Directors of Sinara Group, Board member at various financial institutions and TMK companies, Deputy CEO for Legal Practice at TMK, Head of the Legal Department at Sinara Group.

Holds 0.01% in the authorised capital of OAO 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 officer, deputy director, department head at Sibneft.

Holds no shares in OAO 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.

Relevant experience:
CEO, Chairman of the Management Board of OAO TMK, Board member at TMK's Russian pipe plants and TMK Trade House, Deputy CEO for Development, CEO and subsequently member of the Board of Directors at Sinara Group, Chief Financial Officer at TMK, CEO at Uralshina.

Holds 0.017% in the authorised capital of OAO TMK

As of 31 December 2012, the members of the Board of Directors held no interests in affiliated companies.

ШОХИН АЛЕКСАНДР НИКОЛАЕВИЧ

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

Born in 1951. Graduated from the Lomonosov Moscow State University in 1974. PhD, Doctor of Science, Professor.

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

Holds no shares in OAO TMK

MAXIM KURBATOV

Secretary of the Board of Directors.

Born in 1967. Graduated from the Sergey 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. Subsequently headed the CEO's Executive Office and the Corporate Governance function at TMK. Has been Secretary of the Board of Directors since 2005.

The corporate governance practices of the Company in 2012 were in full compliance with the Corporate Governance Code.

We have built a cutting-edge corporate governance system which is regulated by Company's internal documents available on the TMK's web site (tmk-group.com/company_documents.php) and generally described in the Corporate Governance Code of TMK (tmk-group.com/files/corp_gov_code_en.pdf).

Remuneration

In accordance with the Regulations on the Board of Directors, only directors who are not executives of TMK are entitled to remuneration. Prior to the Annual General Meeting of Shareholders, the Board of Directors had 5 independent directors, 3 non-executive directors and 2 executive directors. As of 26 June 2012, the Board of Directors is comprised of 6 independent directors, 3 non-executive directors and 2 executive directors.

The remuneration to be paid includes:

- a fixed base remuneration of Chairman or member 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 Chairman or member of a Board Committee payable every six months in the amount of 1/2 of the annual additional remuneration.

In 2012, the members of the Board of Directors received a total of USD 2.42 m as remuneration.*

The Board of Directors is comprised of 6 independent directors, 3 nonexecutive directors and 2 executive directors

[1] Based on the average exchange rate of 31.093 RUB/USD in 2012.

Committees of the Board of Directors

The Board of Directors has three standing committees: Audit Committee, Nomination and Remuneration Committee and Strategy Committee. The committees have been formed in full compliance with the Code 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.

Participation of Board Members in Board and Committee Meetings in 2012.

	Board of Directors (32 meetings, including 16 post-AGM meetings)	Audit Committee (8 + 6 joint meetings)	Nomination and Remuneration Committee (8 meetings)	Strategy Committee (3 + 6 joint meetings)
Pumpyanskiy, D.A. (Chairman)	32			
Aganbegyan, R.A.	14			
Alekseev, M.Yu.	32	3	4	1
Kaplunov, A.Yu.	32			
O'Brien, Peter	15	6		
Papin, S.T.	32		5	
Pickering, T.	16			
Townsend, G.	16	8	3	
Foresman, R.M.	15		3	
Khmelevskiy. I.B.	32	14		
Shiryaev, A.G.	32			9
Shokhin, A.N.	32			7
Schegolev, O.A.	16			5
Eskindarov, M.A.	16	4	4	

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

Audit Committee

On 26 June 2012, Peter O'Brien and M. Alekseev were elected to the Committee to replace G. Townsend and M. Eskindarov who left the Board of Directors. The Audit Committee is composed as follows:

O'Brien, Peter	Chairman of the Audit Committee, independent director
Alekseev, M.Yu.	Member of the Audit Committee and Chairman of the Nomination and Remuneration Committee, independent director
Khmelevskiy, I.B.	Member of the Audit Committee, non-executive director

The Committee's activity in 2012 and from 1 January 2013 to 31 March 2013 to the extent related to the 2012 consolidated financial statements or to the tender for external auditor selection 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 audit plan and scope;
- active discussion with the external auditor of matters arising out of audit;
- assessment as regards independence of an external auditor;

Committee oversight of the external audit of the 2012 financial statements

The auditor issued an unqualified audit opinion on TMK's IFRS consolidated financial statements. The Audit Committee reviewed OAO TMK's financial statements prepared in accordance with Russian accounting standards and the auditor's opinion and concluded that the RAS statements are consistent with the IFRS consolidated financial statements given the differences in accounting standards and the fact that the RAS financial statements are unconsolidated and include only OAO TMK accounts.

As a result of its work on the oversight of the external audit, the Audit Committee believes that the audit was performed professionally and that there are no material conflicts of interest and recommends to the Board of Directors that the financial statements and the auditor's opinion be submitted for the approval of shareholders at the Annual General Meeting.

As a result of its work on the oversight of the external audit, the Audit Committee believes that the audit was performed professionally and that there are no material conflicts of interest

Nomination and Remuneration Committee

On 26 June 2012, M. Alekseev and R. Foresman were elected to the Committee to replace M. Eskindarov and G. Townsend.

The Committee aims to create a favourable environment for the employment of qualified personnel

As of 26 June 2012, the Nomination and Remuneration Committee is composed as follows:

Alekseev, M.Yu.	Chairman of the Nomination and Remuneration Committee and member of the Audit Committee, independent director
Papin, S.T.	Member of the Nomination and Remuneration Committee, non-executive director
Foresman, Robert Mark	Member of the Nomination and Remuneration Committee, independent director

The Committee aims to create a favourable environment for the employment of qualified personnel in the Company and incentives for their efficient performance as well as to improve the corporate governance system in line with best international practices.

In 2012, the Committee reviewed and presented to the Board of Directors recommendations on the following key matters:

- nominees to the Board of Directors of TMK for 2012 through 2013;
- establishment of TMK's Director Club;
- amendments to the Regulations on the Board of Directors;
- key performance indicators and incentive scheme for executives and directors of TMK's main business units;
- implementation of TMK's HR policy;
- changes to the Company's organisational structure and staff;
- key indicators in terms of headcount and payroll for TMK's budget for 2013.

Strategy Committee

In 2012, the Committee membership was changed with O. Schegolev replacing M. Alekseev who was elected as the Chairman of the Nomination and Remuneration Committee and a member of the Audit Committee.

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

In 2012, the Committee reviewed and presented to the Board of Directors recommendations on the following key matters:

- development of TMK's premium business;
- logistics management system and TMK's vision for its further development;
- implementation of TMK's Business Plan for 2011 through 2015;
- amendments to TMK's Strategy;
- TMK's budget for 2013;
- recommendations on M&A transactions, asset disposal and joint ventures.

As of 26 June 2012, the Strategy Committee is composed as follows:

Shokhin, A.N.	Chairman of the Strategy Committee, independent director
Schegolev, O.A.	Member of the Strategy Committee, independent director
Shiryaev, A.G.	Member of the Strategy Committee, CEO, Chairman of the Management Board

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

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 collective decision-making.

In 2012, the Management Board composition remained unchanged. As of 31 December 2012, the eight members of the Management Board were as follows:

ALEXANDER SHIRYAEV

CEO of TMK, Chairman of the Management Board.
See the Board of Directors section for a detailed bio.

ANDREY KAPLUNOV

First Deputy CEO of TMK.
See the Board of Directors section for a detailed bio.

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.

Relevant experience:
Head of the Technological Development Directorate at TMK.

Holds 0.003% in the authorised capital of OAO 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.

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

Holds 0.0037% in the authorised capital of OAO TMK

VLADIMIR OBORSKY

Deputy CEO for Sales at TMK. Has been with TMK since inception.

Born in 1961. Graduated from the Mikhail 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.

Relevant experience:
CEO at TMK Trade House, 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 the Strategic Customer Service Directorate and the Gas Producers Customer Service Directorate at Volzhsky Trade House.

Holds 0.0008% in the authorised capital of OAO TMK

TIGRAN PETROSYAN

Chief Financial Officer at TMK. Has been with TMK since foundation.

Born in 1968.
Graduated from the Erevan State University in 1993.

Relevant experience:
CEO at TMK Trade House, 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 the Strategic Customer Service Directorate and the Gas Producers Customer Service Directorate at Volzhsky Trade House.

Holds no shares in OAO TMK

KONSTANTIN SEMERIKOV

President of OFS International LLC. Has been with TMK since 2003.

Born in 1959. Graduated from the Moscow Institute of Steel and Alloys in 1981.

Relevant experience:
Deputy CEO for Development Projects, First Deputy CEO and Executive Director at TMK, Board member at TMK's Russian pipe plants, CEO at TMK Trade House, Deputy CEO for Operations and subsequently CEO at TMK, Mayor of Taganrog. Held various executive roles at TAGMET.

Holds 0.01% in the authorised capital of OAO 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 (MBA) in 1993.

Relevant experience:
Board Member of Lhoist - TMK B.V. and OFS Development SARL, CFO of TMK, Deputy CEO, CFO at various companies (Udmurtneft, Sidanco, RusPromAvto), CEO of Interros.

Holds no shares in OAO TMK

As of 31 December 2012, 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 by the Board of Directors.

In 2012, the aggregate remuneration of the CEO and the members of the Management Board amounted to USD 8.24m, 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, which aim to ensure 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 business activities is exercised by the Board of Directors, the Audit Committee, the Revision Committee, the Internal Audit Department, and the independent auditor of the Company.

In 2012, the Revision Commission held four meetings.

Members of the Revision Commission	Year of Birth	Year of Election to the Revision Commission
Maximenko, A.V. (Chairman)	1955	2005
Vorobyev, A.P.	1957	2005
Pozdnyakova, N.V.	1979	2009

On 26 June 2012, TMK's Annual General Meeting of Shareholders resolved to appoint Ernst & Young, a member of the Russian Chamber of Auditors Non-Profit Partnership, as the Company's Auditor for 2012. While selecting an auditor and assessing its performance, we adhere to the Policy on Selection of the Group External Auditor of the Consolidated Financial Statements (www.tmk-group.com/files/external_auditor_policy_en.pdf) as approved by the Board of Directors.

TMK's Annual General Meeting of Shareholders resolved to appoint Ernst & Young, a member of the Russian Chamber of Auditors Non-Profit Partnership, as the Company's Auditor for 2012

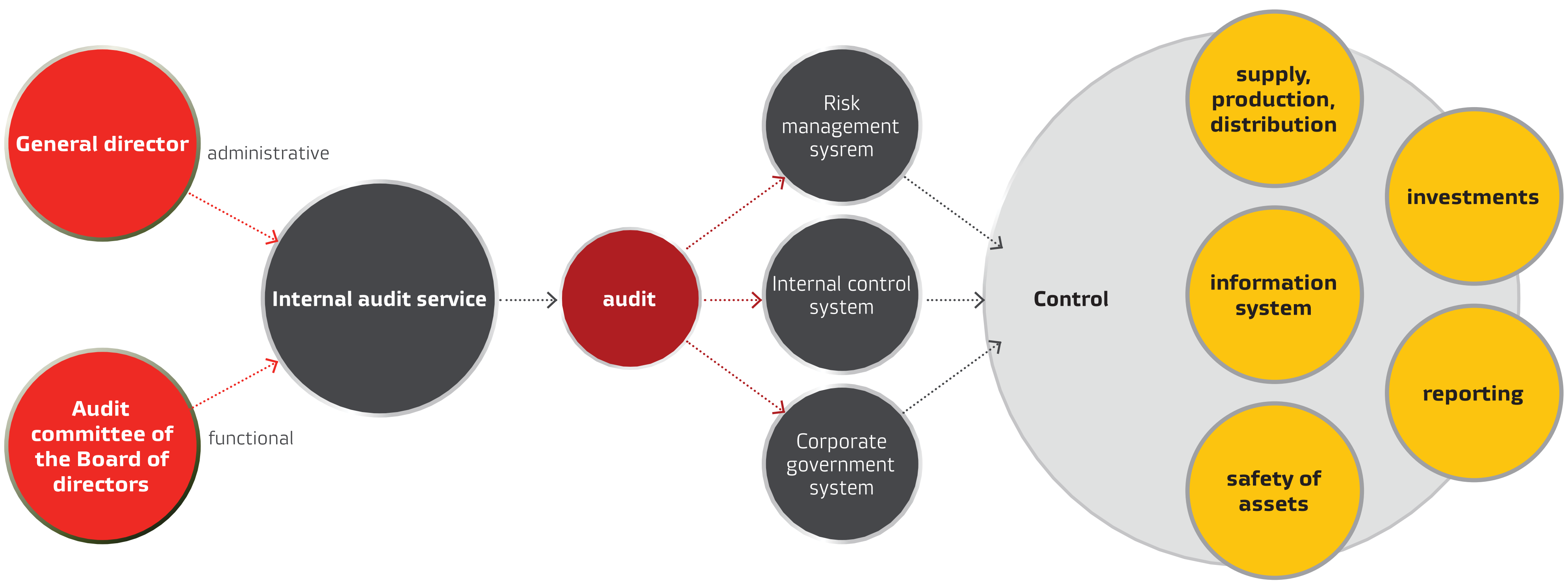
In order to reduce the effects of long-term relationships on the external auditor’s independence, members of audit teams and the lead partner responsible for the audit are rotated.

In 2012, the auditor’s remuneration for auditing the annual accounts and reviewing interim accounts (including audit of local accounts at some TMK plants) was USD 3.28m, for other audit-related services – USD 0.02m, and for non-audit services – USD 0.35m.

The Internal Audit Department operates on the basis of the Regulations approved by the Board of Directors (www.tmk-group.ru/files/pol_sva.pdf). The Company has a two-tier centralised internal audit function – at the holding company and regionally – using a single planning and reporting system. The Internal Audit Department 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.

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

Internal Control Structure



In 2012, we proceeded with further integration of the compliance function in the overall system of risk management and internal control as well as 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.

Our employees and counterparties may also use our Hotline information system to report corrupt practices and 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 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 IFRS 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 2012 and to date, the Company has had an operational system of internal control 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.

Throughout 2012 and to date, the Company has had an operational system of internal control which provides reasonable assurance as regards the efficiency of operations covering all controls

Corporate Citizenship

45,000
TMK's Headcount

The Salaries Grew By An Average
10%

TMK Spent On Environmental Activities
61.1 mln USD

Human Resources and Social Policy

Implementation of TMK's HR Strategy in 2012:

HR management and corporate development

The Company optimised its headcount by eliminating duplicate functions across business units and enhancing corporate integration.

We focused on a detailed headcount analysis of the manufacturing plants of the Russian division, with the Methodology for Technological and Functional HR Audit at TMK developed and implemented in 2012. The methodology serves to identify potential areas for a deeper insight into the efficiency of business processes and alternatives for better performance by way of benchmarking against pre-selected structural units with optimal headcount numbers.

Employee compensation and incentives

In 2012, the wages and salaries at TMK grew by an average 10% y-o-y, which exceeds inflation rates in the regions and countries of our presence thus helping the Company live up to its commitments. However, our payroll expenses generally remained flat y-o-y as a result of a downsizing exercise.

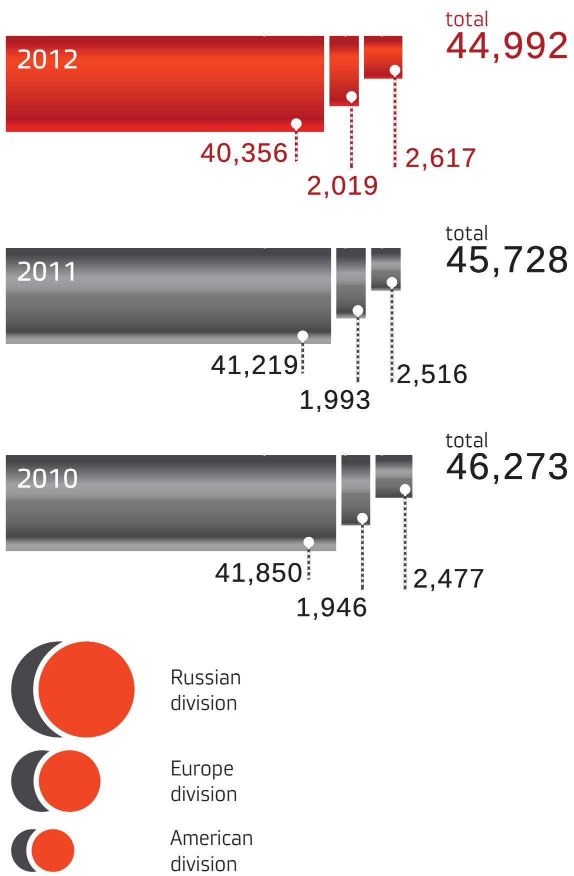
We aim to increase the competitive advantage and fairness of compensation offered by the Company. We strive to make all our managers highly motivated in achieving business goals by actively promoting the Management Incentive Guidelines based on the Management By Objectives Approach at TMK. Once a top management incentive scheme, in 2012 a similar approach was expanded to include line managers of TMK's Russian manufacturing plants.

Employee development and training

In 2012, the Efficient Manager Programme became the key project for employee development, training, and appraisal which serves to foster a new generation of TMK's managers and enhance the managers rotation efficiency, including across TMK's plants. Throughout 2012, over 200 line managers received training under the programme, including top managers at TAGMET, the Sinarsky Pipe Plant, and the Orsky Machine Building Plant.

In 2012, TMK spent USD 4.6m on high-quality, innovative, and systematic training with a view to increasing the professional and managerial skills of our employees. TMK continued its company-wide internship programme raising it to the international scale. The programme covered 148 participants, 1.5 times more than in 2011.

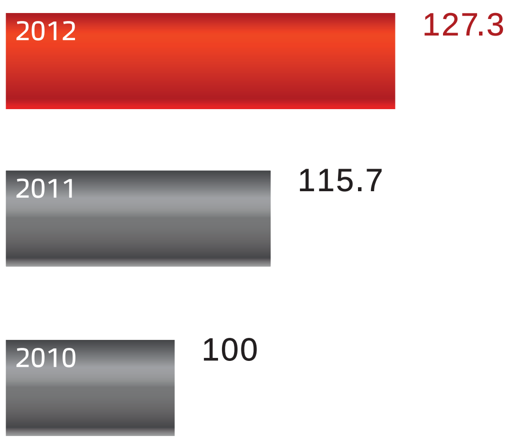
TMK's headcount



Our goal is to be among the best employers in the industry, to offer competitive working conditions, social guarantees and opportunities to discover and make use of the potential of employees committed to achieving best results.

TMK's HR Strategy through 2020

Average wages and salaries at TMK (compared to 2010)



In 2012, TMK actively cooperated with the Ministry of Education of the Sverdlovsk Region in implementing an education promotion programme which resulted in the Mutual Cooperation and Assistance Agreement signed between the Government of the Sverdlovsk Region and the Chairman of TMK's Board of Directors, including in the regional education promotion. Implementation of this Agreement will help upgrade the relevant vocational training colleges, create cutting-edge training grounds on the basis of TMK's plants, increase the number of vocational training programmes in line with the Company's needs.

In order to promote innovative activities of TMK's young employees, we held the 8th TMK Youth Scientific and Technical Conference whose participants offered a broad range of unconventional and efficient solutions ready for manufacturing application.

Social partnership

As a socially focused company, we develop and implement our long-term programmes based on the principles of social partnership.

All TMK's plants build partnerships with employees in close cooperation with trade unions on the basis of collective bargaining agreements and meet all obligations as responsible employers.

TMK is active in the Co-Financing Programme for the Funded Component of a Retirement Pension. As of the year-end, 5,300 employees participated in the programme, including 1,400 employees who joined it in 2012. The Company's expenses in this area of social support amounted to RUB 22m in the reporting year.

We always strive to encourage our best employees by granting state and corporate awards. In 2012, the list of corporate awards was expanded to include TMK Badge of Merit, First and Second Class, and the Badge for Business Cooperation with TMK, with the latter designed to commend corporate clients.

Occupational safety

TMK has established modern and safe working conditions for employees in line with national and international laws and regulations as well as collective agreements. All plants are certified and audited annually for compliance with OHSAS 18001:2007 (Occupational Safety and Health Management System) international standard. Supervisory and re-certification audits conducted in 2012 confirmed compliance with the standard. The system of occupational health and safety is subject to regular control and improvement initiatives by the plants' management, trade unions and local supervisory bodies. Planned actions in this area become part of the collective

The companywide internship programme covered 148 participants, 1.5 times more than in 2011 bargaining agreement. The employees are regularly trained and certified in their knowledge of and compliance with the applicable requirements.

In 2012, TMK spent over RUB 720m on health and safety measures, personal protection equipment, and compensations. As a result of improved working conditions at 1,212 work stations, the lost time accident frequency rate fell by more than 6.5% and the occupational disease frequency continuously went down reaching zero at certain plants.

The following awards were given to TMK's plants for excellence in health and safety in 2012:

- Seversky Tube Works was awarded by the Government of the Sverdlovsk Region with the Certificate for the First Place in the Reduction in Workplace Injuries and Diseases in the Manufacturing Industry nomination.
- Sinarsky Pipe Plant ranked third in industrial standards and occupational health and safety in the Sverdlovsk Region.
- Six TMK IPSCO facilities were commended for industrial safety performance in the cities of their presence.

As a result of improved working conditions at 1,212 work stations, the lost time accident frequency rate fell by more than 6.5% and the occupational disease frequency continuously went down reaching zero at certain plants

Environmental Management

In furtherance of sustainable development, our efforts during the year were focused on improving the 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. The introduction of an environmental dimension in the management of business operations enabled us to make consistent planning and management decisions in the field of environmental management during our large-scale upgrade, technical re-equipment, and expansion. Ten of the Company's manufacturing plants are certified and audited annually for compliance with ISO 14001:2004 (Environmental Management System) international standard. Continuous improvement of environmental management was once again confirmed by international auditors in 2012.

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

Environmental Investments for Transition to Best Available Technologies

In 2012, TMK spent USD 61.1m on environmental activities and compliance. A total of 25 environmental investment activities were implemented in the amount of USD 18.9m related to the following projects:

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

Emissions Control

In order to reduce negative impact on the air, TMK introduces advanced technology with a high degree of industrial emissions treatment. Activities in this area are carried out every year, including overhaul of treatment facilities to improve the efficiency of gas cleaning, etc. Current atmospheric emissions control expenses amounted to USD 6.3m. In 2012, the treatment facilities of TMK's Russian division operating units captured and neutralised 23.8 tonnes of pollutants.

Key activities and results:

- *TAGMET has nearly completed the construction of an electric arc furnace equipped featuring modern efficient gas cleaning systems.*
- *TMK-RESITA carried out a set of initiatives to reduce dust levels in the neighbouring areas for a total of USD 4m resulting in 5% lower dust emissions.*
- *The Sinarsky Pipe Plant completed the technical phase of land reclamation at the 2nd and 3rd sludge dumps.*
- *Mobile labs were commissioned resulting in broader scope and higher quality of environmental control at the Sinarsky Pipe Plant.*

Water Management

TMK's strategic priority in reducing the impact on water bodies is transition to recycling water supply. 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 water consumption, distribution, use, and sewage.

In 2012, TMK went on developing its water recycling system and enhancing the efficiency of its existing water treatment facilities, with the recycling water supply accounting for more than 94.2% at TMK's plants.

The water body protection expenses amounted to USD 18.7m in 2012 resulting in material improvements to water consumption/sewage ratios vs. 2011:

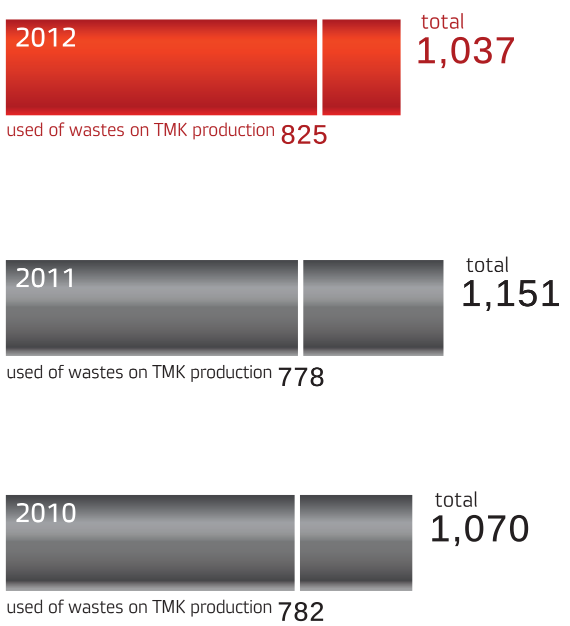
- 13.5% reduction in aggregate water consumption amounting to 38.11m cu m p.a.;
- 8.8% reduction in water consumption from surface water bodies, including 6.0% by the Russian division;
- 26% reduction in aggregate water consumption by the European division;
- 18.7% reduction in waste water discharged to natural water bodies;
- 32% reduction in waste water discharged to surface water bodies by the US division.

Key activities and results:

- *The Seversky Tube Works commenced construction of water recycling and gas cleaning systems as part of a larger pipe-rolling mill upgrade.*
- *As a result of environmental initiatives, TAGMET reduced the amount of water diverted from the Taganrog Bay by 43,100 cu m. The plant continued construction of a water recycling system at the electric arc furnace.*
- *The Seversky Tube Works undertook a set of initiatives to improve the efficiency of waste water treatment which led to a reduction in iron discharge by two times and in oil products by 24%.*
- *The Sinarsky Pipe Plant undertook a set of initiatives to improve industrial waste water treatment which led to a reduction in waste water pollutants by 418 tonnes.*

Recycling Water Supply Accounting for More Than 94.2% at TMK's Plants

Use of waste products (Russian division)



Waste Management

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

A total of USD 10.7m was spent to minimise the impact of waste on the environment, including USD 7.6m by the Russian division, USD 1.4m by the European division, and USD 1.7m by the US division.

The amount of waste dumped in 2012 at TMK's own sites fell by 554 tonnes, or 1.2%.

During the year, the plants of the Russian division recycled 294,000 tonnes of accumulated waste.

In 2012, TMK working towards its commitment to use waste products as raw materials for both in-house production and other industries set forth by the Company's Environmental Policy, with 94.5% of waste being reused or recycled.

In 2012, the plants of the Russian division continued reclamation of disturbed land, with land protection expenses amounting to USD 1.4m.

Key activities and results

- *The Seversky Tube Works introduced an automated waste management system.*
- *The Sinarsky Pipe Plant completed the biological phase of land reclamation following discontinued waste treatment.*
- *The Volzhsky Pipe Plant continued construction of waste disposal grounds to accommodate waste with a hazard rating of 3, 4, 5.*
- *TAGMET continued to develop its on-site waste dump, with 286,000 tonnes of accumulated waste recycled and disposed.*

The amount of waste dumped in 2012 at TMK's own sites fell by 554 tonnes, or 1.2%

Sponsorship and Charity

Through sponsorship and charity, TMK aims to foster a favourable social climate and to create an environment for sustainable development of the regions of its presence.

In 2012, TMK was named among the leading companies in corporate sponsorship and charity in Russia following the joint survey conducted by the Vedomosti business daily, PricewaterhouseCoopers, a multinational audit consultancy services firm, and the Donors Forum, a non-profit partnership of grant-making organisations. TMK ranked first in the Industry sub-rating and fifth in the long list of the Leaders in Corporate Charity in Russia.

TMK's charitable activities are traditionally carried out in collaboration with non-profit organisations. As such, the Sinara Charitable Foundation which is under TMK's trusteeship implements integrated social and charitable programmes. In 2012, 122 non-profit organisations benefited from the financial support of the Foundation, including foster homes, social shelters, educational institutions for children with special needs, hospitals, sports clubs, cultural institutions, veterans' associations and orthodox organisations.

TMK continues to develop the Corporate Citizenship project in the Urals Federal District which aims to provide donations to children with serious diseases and children's institutions.

TMK is active in developing the Russian Olympic movement. The Company sponsors the Russian Olympians Foundation and the Federation of Ski-Jumping and Nordic Combined of Russia.

TMK also sponsors a number of sports clubs, including the Ural Football Club which takes part in the Russian Football Championship along with the teams of the National Football League; the Sinara mini-football club in Yekaterinburg, a two-time champion in Russia and 2008 UEFA Cup winner; the Dinamo Women's Handball Club, a nine-time champion in Russia; TAGMET tennis club in Taganrog.

In the US division, charitable activities are carried out both at the level of the Company and the local communities. TMK IPSCO is a member of The United Way, a national coalition of charitable organisations, while its managers and employers are involved in broad volunteer movement.

In 2012, the Romania-based TMK-ARTROM in collaboration with the Russian Embassy to Bucharest rendered financial and technical support to the international cultural project aiming to publish manuscripts by Dimitrie Cantemir. The exclusive Collection of Cantemir's Manuscripts comprised around 15,000 pages belonging to the Cantemir dynasty which were gathered by Romanian cultural foundations.

TMK ranked fifth in the long list of the Leaders in Corporate Charity in Russia

Management Discussion and Analysis

Consolidated Gross Profit
1,483 mln USD

Gross Profit Margin
22%

Adjusted EBITDA
1,040 mln USD

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 2012.

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 report are 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 leading global manufacturers and suppliers of tubular products for the energy industry, as well as other industrial applications. We are also Russia's leading manufacturer and supplier of steel pipe for the energy industry. The largest share of our shipments comprises high-margin oil-country tubular goods (OCTG). Our sales mix also includes OCTG pipes with the entire range of premium connections.

We sell our products worldwide to major oil and gas, automotive, engineering, and power generation companies, and provide oilfield services. 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 2012, we delivered 55% of our tubular products to our customers located in Russia and 26% in North America. We estimate our share on global market of seamless OCTG at 10%.

According to our estimates, in 2012 Russian pipe market fell by 9% as a result of lower demand for welded large diameter (LD) pipe, offset to a certain extent by increased consumption of seamless OCTG and seamless line pipe. Our sales increased slightly year-on-year, and we retained our leading position in the Russian pipe market with a 25% market share.

We are the largest exporter of pipes in Russia. Exports of pipes produced by our Russian plants accounted for 19% of our total sales in 2012 as compared to 14% in 2011.

In 2012, we sold 4,238 thousand tonnes of steel pipes. Seamless pipes comprise more than half of our sales volumes. Sales of seamless and welded OCTG reached 1,722 thousand tonnes, a 12% year-on-year increase, whereas sales of LD pipe dropped by 33% to 408 thousand tonnes following the completion of major pipeline projects in the second half of 2011 and the postponement of new projects by our customers.

Our total consolidated revenue was relatively flat year-on-year at $6,688 million as compared to $6,754 millionin 2011, despite a $318 million decrease due to the negative currency translation effect[1]. Adjusted EBITDA[2] declined to $1,040 million as compared to $1,050 million. Adjusted EBITDA margin stayed flat at 16%.

In the fourth quarter of 2012, our sales volumes were higher by 3% as compared to the previous quarter while our revenue increased from $1,617 million to $1,631 million. Adjusted EBITDA declined by 5% to $230 million from $243 million in the previous quarter, while adjusted EBITDA margin decreased from 15% to 14%.

Key events

Product development

In January, we developed and introduced vacuum insulated tubing (VIT), a technologically unique product offered by a limited number of producers globally.

In February, TMK PF ET premium connections successfully passed qualification tests in accordance with ISO 13679 CAL IV standard for 100% gas tightness under the application of total compression force. Completion of this certification serves as confirmation of the world quality level of our threads.

In March, we started production of 13-Chrome steel casing pipe. 13-Chrome steel pipes have unique characteristics that allow using them in various aggressive environments.

In May, we shipped casing with ULTRA™ FJ Premium connections to Lukoil and Gazprom. This premium product was patented by our American division and manufactured at our Orsky Machine Building Plant. The shipments of our premium product, new for the Russian market, confirm our commitment to offer top-quality innovative products to our strategic partners.

In July, our company signed agreements on technology cooperation with Gazprom for 2012–2015. The Sci-Tech cooperation programme concentrates on developing and delivering substitutes for imported product and new types of tubular products with high performance characteristics that would meet the advanced needs of OAO Gazprom.

In January 2013, we run casing pipes with TMK PF premium connections in the onshore and offshore parts of the well at NOVATEK's Yurkharovskoye gas field, beyond the Arctic Circle.

[1] The currency translation effect on income/expense items illustrates the influence of different exchange rates we use to convert these items from functional currenciesinto the presentation currency, the U.S. dollar, in different reporting periods for financial reporting purposes.

[2] Adjusted EBITDA -See "Selected financial data".

Production capacity

In March, TMK IPSCO started development of a new pipe threading and service facility in Edmonton, Canada. The state-of-the-art production equipment at the facility will thread a full range of ULTRA™ Premium connections. In addition, it will offer accessories, services and repairs of pipes. We started experimental-industrial exploitation of the facility in early 2013. It will expand TMK's local presence and enable us to better serve our customers in North America.

In July, our Orsky Machine Building Plant qualified for compliance of their quality management system that covers both the plant and OCTG production with the American Petroleum Institute (API) standard. A thread line for casing with premium connections was commissioned in October 2011.

In September, TMK-INOX commissioned a new line manufacturing stainless steel and alloy-based welded precision pipe. The new pipe shop produces high-quality products conforming to world-class samples and standards, which are in great demand with car manufacturers, food, energy, and construction companies. We plan that after reaching their full production capacity the lines will annually produce several thousand tonnes of high-tech welded stainless steel and alloy pipes.

In October, TMK IPSCO launched its research and development center in Houston, Texas. The new state-of-the-art R&D center serves as the heart of our company's innovation initiatives – new product design and development, experimental and validation testing, and advanced metallurgical research – and is a key part of our company's long-term strategy to strengthen our position in oil and gas markets.

Dividends

In June, the annual shareholders' meeting approved payment of a final dividend for 2011 in the amount of 2,531 million Russian roubles ($76 million at the exchange rate on the date of approval) or 2.70 Russian roubles ($0.08) per ordinary share, of which 201 million Russian roubles ($6 million at the exchange rate on the date of approval) related to treasury shares in possession of TMK Group.

In November, the extraordinary general shareholders' meeting approved an interim dividend payment for the first six months of 2012 of 1.5 Russian roubles ($0.05) per ordinary share in the amount of 1.4 billion Russian roubles ($44.8 million at the exchange rate on the date of approval).

Acquisitions and joint ventures

In December, we acquired a 55% stake in Gulf International Pipe Industry (GIPI) plant in the Sultanate of Oman. The plant's annual capacity exceeds 200,000 tonnes of welded OCTG and welded line pipe shipped to oil and gas companies operating in the Gulf Cooperation Council countries.

We also launched a service joint venture, Threading and Mechanical Key Premium LLC, with EMDAD in Abu Dhabi, the United Arab Emirates, one of the leading service and support companies for the oil and gas industry in the Arabian Gulf region. The center will focus on repair of pipes and underground equipment, as well as threading of connections on various components of pipe columns. Its annual production capacity is approximately 10,000 tonnes of premium pipe. The commissioning of the center is set for the middle of 2013.

The plant acquisition and the launch of the service center have allowed our company to expand in the Middle East.

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;
- *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.

Fourth quarter 2012 results

Results of operations

In the fourth quarter of 2012, our results of operations declined, mostly driven by the weaker results of the American division.

	4 quarter 2012	3 quarter 2012	Change	Change
	in million dollars		in million dollars	in %
Sales volume (in thousand tonnes)	1,082	1,050	32	3%
Revenue	1,631	1,617	14	1%
Cost of sales	(1,300)	(1,265)	(35)	3%
GROSS PROFIT	**331**	**352**	**(20)**	**(6)%**
GROSS PROFIT MARGIN	*20%*	*22%*	-	-
Net operating expenses[1]	(197)	(204)	7	(3)%
Impairment of assets	(8)	-	(8)	(100)%
Foreign exchange gain, net	5	13	(8)	(61)%
(Loss) / gain on changes in fair value of derivative financial instrument	(7)	1	(8)	n/a
Finance costs, net	(70)	(68)	(3)	4%
INCOME BEFORE TAX	**53**	**94**	**(40)**	**(43)%**
Income tax expense	(22)	(25)	3	(13)%
NET INCOME	**32**	**69**	**(37)**	**(54)%**
NET INCOME ADJUSTED FOR GAIN ON CHANGES IN FAIR VALUE OF DERIVATIVE INSTRUMENT[2]	**38**	**67**	**(29)**	**(43)%**
ADJUSTED NET INCOME MARGIN[3]	*2%*	*4%*	-	-
ADJUSTED EBITDA	**230**	**243**	**(13)**	**(5)%**
ADJUSTED EBITDA MARGIN	*14%*	*15%*	-	-

[1] Net operating expenses include selling and distribution, general and administrative, advertising and promotion, research and development, share of profit in associate, and net other operating expenses.

[2] For the purposes of this report, net income has been adjusted for the (loss) / gain 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 (loss) / gain on changes in fair value of derivative instrument divided by Revenue.

Sales

Our revenue was relatively flat quarter-on-quarter. The unfavourable changes in seamless pipe pricing in our American division were offset by higher volumes of welded LD pipe in the Russian division, and the favourable currency translation effect.

Sales by reporting segments are as follows:

	4 quarter 2012	3 quarter 2012	Change	Change
	in million dollars		in million dollars	in %
Russia	1,212	1,132	81	7%
America	352	410	(58)	(14)%
Europe	67	75	(8)	(11)%
REVENUE	**1,631**	**1,617**	**14**	**1%**
	in thousand tonnes		in thousand tonnes	in %
Russia	826	797	29	4%
America	211	214	(3)	(1)%
Europe	45	39	6	15%
TOTAL PIPE	**1,082**	**1,050**	**32**	**3%**

Sales by group of products are as follows:

	4 quarter 2012	3 quarter 2012	Change	Change
	in million dollars		in million dollars	in %
Seamless pipe	999	993	6	1%
Welded pipe	568	547	22	4%
TOTAL PIPE	**1,567**	**1,540**	**27**	**2%**
Other operations	65	77	(13)	(17)%
TOTAL REVENUE	**1,631**	**1,617**	**14**	**1%**
	in thousand tonnes		in thousand tonnes	in %
Seamless pipe	619	604	15	2%
Welded pipe	463	446	17	4%
TOTAL PIPE	**1,082**	**1,050**	**32**	**3%**

Russia. The division's revenue was up by 7% or $81 million, including a $37 million increase from the currency translation effect.

Revenue from sales of seamless pipe stayed relatively flat, as higher volumes of seamless OCTG were offset by lower volumes of seamless industrial pipe and worsened seamless OCTG sales mix.

Revenue from welded pipe sales was up by $36 million on higher volumes of welded LD pipe driven by our company's involvement, among other projects, in supplies for the construction of the Russian on-shore section of the South Stream pipeline.

America. Revenue decreased by 14% or $58 million, reflecting a drop in revenue of seamless and welded pipe by $26 million and $25 million, respectively. The division's revenue dropped mainly as a result of reduction in prices across all product lines following declining rig count and temporary drop in demand as customers increasingly used their inventory and delayed purchases of the new stock, with reduction in seamless OCTG having the most significant effect.

Europe. Throughout the year, the European market was challenging, with weak demand and growing competition. We have managed to increase sales of seamless industrial pipe, yet sales of steel billets dropped dramatically. Besides, declining prices for all our product lines adversely affected revenue. As a result, the European division's revenue declined by 11% or $8 million. The currency translation effect was marginal.

Gross profit

Our consolidated gross profit decreased by 6% or $20 million, mostly reflecting the results of operations in our American division. Gross profit margin was 20% as compared to 22% in the previous quarter.

Gross profit results by reporting segments are as follows:

	4 quarter 2012		3 quarter 2012		Change
	in million dollars	in %	in million dollars	in %	in million dollars
Russia	277	23%	282	25%	(5)
America	42	12%	54	13%	(12)
Europe	13	19%	16	21%	(3)
GROSS PROFIT	**331**	**20%**	**352**	**22%**	**(20)**

Gross profit results by group of products are as follows:

	4 quarter 2012		3 quarter 2012		Change
	in million dollars	in %	in million dollars	in %	in million dollars
Seamless pipe	246	25%	240	24%	7
Welded pipe	72	13%	101	19%	(29)
TOTAL PIPE	**318**	**20%**	**341**	**22%**	**(23)**
Other operations	13	20%	10	13%	3
GROSS PROFIT	**331**	**20%**	**352**	**22%**	**(20)**

Russia. The division's gross profit decreased by $5 million, while gross profit margin dropped from 25% to 23%. The effect of currency translation accounted for a $9 million increase in gross profit.

Despite higher sales volumes of welded LD pipe gross profit of welded pipe declined by $28 million mainly as result of worsened welded LD sales mix due to completion of deliveries for certain high-margin projects in CIS.

Gross profit of seamless pipe increased by $5 million on higher sales of seamless OCTG. Profitability of seamless pipe remained flat.

America. Gross profit was lower by 22%, reflecting the decrease in gross profit of seamless and welded pipe by $6 million and $3 million, respectively, as a result of the following factors: (i) lower volumes and unfavorable pricing attributed to all welded tubular products partially offset by favourable sales mix due to improved volume of higher priced welded OCTG, and (ii) unfavourable pricing across all product lines of seamless pipe, however, partially offset by higher volumes. As a result, gross profit margin declined from 13% to 12%.

Europe. Gross profit decreased by 19% or $3 million, reflecting lower gross profit of steel billets due to the weak market environment in the E.U. Gross profit of seamless industrial pipe was relatively flat. The currency translation effect was marginal. As a result, gross profit margin declined from 21% to 19%.

Net operating expenses

Net operating expenses comprise selling, general and administrative, research and development, and other income and expenses.

In the fourth quarter of 2012, net operating expenses decreased by 3% or $7 million primarily because of the decline in freight cost as a result of lower share of sales with long distance delivery terms. The share of net operating expenses, expressed as a percentage of revenue, decreased to 12% from 13%.

The currency translation effect amounted to a $4 million increase in net operating expenses.

Adjusted EBITDA

In the fourth quarter of 2012, adjusted EBITDA decreased by 5% or $13 million; adjusted EBITDA margin declined from 15% to 14%.

	4 quarter 2012		3 quarter 2012		Change
	in million dollars	in %	in million dollars	in %	in million dollars
Russia	195	16%	190	17%	4
America	26	7%	42	10%	(16)
Europe	9	14%	10	14%	(1)
ADJUSTED EBITDA	**230**	**14%**	**243**	**15%**	**(13)**

Russia. Adjusted EBITDA increased by 2% or $4 million, mainly as a result of a slight decrease in selling, general and administrative expenses. Adjusted EBITDA margin was down from 17% to 16%.

America. Adjusted EBITDA went down by 38% or $16 million mainly on lower gross profit. Adjusted EBITDA margin dropped from 10% to 7%, reflecting a higher selling, general and administrative expenses as a percentage of revenue.

Europe. Adjusted EBITDA declined by 14% or $1 million following the decrease in gross profit. Adjusted EBITDA margin remained at the level of the previous quarter, primarily on lower selling, general and administrative expenses as a percentage of revenue.

Impairment of assets

As of 31 December 2012, we determined in respect of certain non-production assets in the Russian division that the carrying value of cash-generating unit exceeded its value in use. As a result, we recognised the impairment of these assets in the amount of $8 million.

Foreign exchange movements

In the fourth quarter, we recorded a $5 million foreign exchange gain as compared to a $13 million gain recognised in the previous quarter. We also recognised a foreign exchange gain from exchange rate fluctuations in the amount of $15 million (net of income tax) in the fourth quarter as compared to a $52 million (net of income tax) in the third quarter 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

In the fourth quarter of 2012, our finance costs increased by 4% or $3 million as compared to the previous quarter substantially due to the currency translation effect. As of 31 December 2012, the weighted average nominal interest rate for our loans and borrowings decreased to 6.99%, which is a 1 basis point lower compared to the rate at 30 September 2012.

In the fourth quarter of 2012, our finance income remained flat.

As a result, our net finance costs increased by 4% or $3 million.

Cash flows

The following table illustrates our cash flows for the periods presented:

	4 quarter 2012	3 quarter 2012	Change	Change
	in million dollars		in million dollars	in %
Net cash provided by operating activities	**390**	**226**	**164**	**72%**
Payments for property and equipment	(138)	(109)	(29)	27%
Acquisition of subsidiaries	(27)	(1)	(26)	n/a
Dividends received	3	6	(3)	(45)%
Other investments	4	2	2	73%[1]
Free Cash Flow[1]	**232**	**125**	**107**	**86%**
Change in loans	(75)	1	(76)	n/a
Interest paid	(60)	(70)	10	(14)%
Other financial activities	6	(2)	8	n/a
Free Cash Flow to Equity[2]	**104**	**54**	**49**	**91%**
Dividends paid	(8)	(71)	63	(88)%
Effect of exchange rate changes	3	6	(2)	(44)%
Cash and cash equivalents at the beginning of period	127	137	(11)	(8)%
Cash and cash equivalents at period end	225	127	99	78%

[1] Please refer to "Rounding" for the details of calculation

[2] Free Cash Flow and Free Cash Flow to Equity are non-IFRS measures of financial performance, and they should not be considered as an alternative to cash flow from operating activities or as a measure of our liquidity. Other companies in the pipe industry may calculate Free Cash Flow and Free Cash Flow to Equity differently and therefore comparability may be limited.

Net cash flows provided by operating activities substantially increased, primarily due to a $176 million decrease in working capital in the fourth quarter of 2012, as compared to the $17 decrease in the third quarter of 2012.

Cash spent for acquisition of subsidiaries in the fourth quarter of 2012 relates to the acquisition of 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 pipes.

In the fourth quarter of 2012, we paid $8 million of the interim dividend in respect of the six months of 2012 to the shareholders of OAO TMK. In the third quarter of 2012, we paid $68 million of the final dividend in respect of 2011 to the shareholders of OAO TMK.

Net debt

With almost half of the debt portfolio denominated in the Russian rouble, our total debt is highly sensitive to exchange rates volatility. In the fourth quarter 2012 our total debt increased from $3,816 million to $3,885 million as a result of the appreciation of the Rouble against the U.S. dollar and acquisition of a subsidiary with a $98 million debt on its balance, while net repayment amounted to $75 million (including partial repayment of the acquired subsidiary's debt). At the same time our net debt[2] decreased by $30 million because of the significant growth of the cash balance at the end of the year. As a result, our Net debt-to-EBITDA ratio[1] improved to 3.5.

[1] Please refer to "Rounding" for the details of calculation.

[2] For Net Debt and Adjusted EBITDA, please, refer to "Selected financial data". Net-Debt-to-EBITDA ratio is defined as the quotient of Net Debt at the end of the given reporting date divided by Adjusted EBITDA for the 12 months immediately preceding the given reporting date.

Year ended 31 December 2012 results

Results of operations

Our revenue, gross profit, and EBITDA have not changed significantly year-on-year. Net profit in 2012 was substantially lower as a result of the impairment of assets and changes in fair value of the derivative financial instrument. However, profitability ratios remained relatively flat.

	2012	2011	Change	Change
	in million dollars		in million dollars	in %
Sales volume (in thousand tonnes)	4,238	4,185	53	1%
Revenue	6,688	6,754	(66)	(1)%
Cost of sales	(5,204)	(5,307)	103	(2)%
GROSS PROFIT	**1,483**	**1,446**	**37**	**3%**
GROSS PROFIT MARGIN	*22%*	*21%*	-	-
Net operating expenses[1]	(811)	(743)	(68)	9%
(Impairment) / Reversal of impairment of assets	(8)	68	(77)	n/a
Foreign exchange gain/(loss), net	23	(1)	24	n/a
(Loss)/gain on changes in fair value of derivative financial instrument	(7)	45	(52)	n/a
Finance costs, net	(275)	(271)	(4)	1%
INCOME BEFORE TAX	**405**	**544**	**(139)**	**(26)%**
Income tax expense	(123)	(159)	37	(23)%
NET INCOME	**282**	**385**	**(103)**	**(27)%**
NET INCOME ADJUSTED FOR GAIN/(LOSS) ON CHANGES IN FAIR VALUE OF DERIVATIVE INSTRUMENT[2]	**290**	**340**	**(50)**	**(15)%**
ADJUSTED NET INCOME MARGIN[3]	*4%*	*5%*	-	-
ADJUSTED EBITDA	**1,040**	**1,050**	**(10)**	**(1)%**
ADJUSTED EBITDA MARGIN	*16%*	*16%*	-	-

[1] Net operating expenses include selling and distribution, general and administrative, advertising and promotion, research and development, impairment of goodwill, share of loss in associate, gain on disposal of assets held for sale 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 2012, our consolidated revenue decreased as a result of the negative currency translation effect. Excluding the unfavourable currency translation impact of $318 million, total revenue growth is $252 million.

Sales by reporting segments are as follows:

	2012	2011	Change	Change
	in million dollars		in millions dollars	in %
Russia	4,714	4,788	(74)	(2)%
America	1,650	1,590	60	4%
Europe	324	375	(51)	(14)%
TOTAL REVENUE	**6,688**	**6,754**	**(66)**	**(1)%**

	2012	2011	Change	Change
	in thousand tonnes		in thousand tonnes	in %
Russia	3,159	3,115	44	1%
America	903	892	11	1%
Europe	176	178	(2)	(1)%
TOTAL PIPE	**4,238**	**4,185**	**53**	**1%**

Sales by group of products are as follows:

	2012	2011	Change	Change
	in million dollars		in millions dollars	in %
Seamless pipe	4,134	3,911	224	6%
Welded pipe	2,257	2,536	(279)	(11)%
TOTAL PIPE	**6,391**	**6,446**	**(55)**	**(1)%**
Other operations	296	307	(11)	(4)%
TOTAL REVENUE	**6,688**	**6,754**	**(66)**	**(1)%**

	2012	2011	Change	Change
	in thousand tonnes		in thousand tonnes	in %
Seamless pipe	2,495	2,342	153	7%
Welded pipe	1,743	1,843	(100)	(5)%
TOTAL PIPE	**4,238**	**4,185**	**53**	**1%**

Russia. The division's revenue decreased by 2% or $74 million year-on-year, primarily because of the negative currency translation effect in the amount of $274 million.

Sales of *seamless* pipe increased by $435 million mainly due to higher demand from Russian oil and gas companies driving an increase in sales volumes. Better pricing and sales mix, especially an increase in share of *seamless OCTG,* also had a significant positive effect on the revenue dynamics.

Revenue from sales of *welded* pipe decreased by $231 million on lower volumes and unfavourable sales mix as a result of an expected decrease in demand for *LD* pipe after completion of major pipeline projects and the postponement of new projects by our customers.

America. In the American division, revenue increased by 4% or $60 million year-on-year.

Sales of *welded* pipe increased by $33 million on higher volumes of primarily *welded OCTG* and *welded line* pipe due to favourable market conditions in the U.S. in the first half of 2012.

In spite of a decline in sales volumes of *seamless* pipe, revenue from sales of this group of products was higher by $3 million, reflecting a favourable changes in sales mix, particularly higher share of *seamless OCTG.* Prices mostly stayed flat year-on-year as a result of a growth in the first half and a decrease in the second half of 2012.

Revenue from other operations, mainly from premium threading services and sales of fishing tools, increased by $24 million.

Europe. In the European division, revenue decreased by 14% or $51 million year-on-year, primarily on the unfavourable currency translation effect and weaker pricing.

Revenue from sales of *seamless industrial* pipe increased by $6 million as compared to the last year. The adverse effect from lower volumes and unfavourable pricing in the weak E.U. market was compensated by improved sales mix as we sold more expensive pipe to the customers in North America in the first half of 2012.

Revenue from other operations, mostly from sales of *steel billets,* declined by $13 million as compared to last year as a result of the worsening market environment in the second half of the year.

Gross profit

In 2012, our consolidated gross profit amounted to $1,483 million, a 3% increase as compared to last year, despite the unfavourable currency translation effect of $76 million. Gross profit margin improved to 22%.

Gross profit results by reporting segments are as follows:

	2012		2011		Change
	in million dollars	in %	in million dollars	in %	in million dollars
Russia	1,124	24%	1,036	22%	88
America	285	17%	311	20%	(26)
Europe	75	23%	100	27%	(25)
TOTAL GROSS PROFIT	**1,483**	**22%**	**1,446**	**21%**	**37**

Gross profit results by group of products are as follows:

	2012		2011		Change
	in million dollars	in %	in million dollars	in %	in million dollars
Seamless pipe	1,088	26%	1,074	28%	14
Welded pipe	343	15%	344	14%	(1)
TOTAL PIPE	**1,431**	**22%**	**1,418**	**22%**	**13**
Other operations	52	18%	29	9%	24
TOTAL GROSS PROFIT	**1,483**	**22%**	**1,446**	**21%**	**37**

Russia. The division's gross profit increased by $88 million, despite a $65 million negative currency translation effect. Gross profit margin improved from 22% to 24%.

Gross profit of *seamless* pipe increased by $122 million, to a large extent driven by higher volumes of *seamless OCTG.* Profitability of *seamless* pipe stayed flat.

Gross profit of *welded* pipe increased by $8 million. The adverse effect from drop in sales of *welded* pipe, specifically *LD* pipe, was fully compensated by improved profitability, following a significant drop in the average purchase price for steel coil.

Gross profit from other operations increased by $23 million.

America. The American division's gross profit decreased by $26 million as compared to 2011; gross profit margin declined to 17% from 20%, primarily reflecting a negative sales mix impact from growth in sales of lower-margin *welded* pipe as opposed to drop in sales of higher-margin *seamless* pipe, and a decline in gross profit margin of *seamless* pipe.

Gross profit of *welded* pipe increased by $6 million as result of slight growth in sales volumes and prices, and changes in sales mix. Profitability was relatively flat.

Growth in the average cost per tonne of *seamless* pipe outpaced growth in the average selling price, and together with declining volumes of *seamless* pipe resulted in a $41 million decline in gross profit. Profitability was affected by higher fixed costs absorption.

Gross profit from other operations increased by $8 million mainly due to higher volume of premium threading services and higher sales of fishing tools.

Europe. Given the weak trends in the E.U. market, gross profit in the European division decreased by $25 million; profitability decreased from 27% to 23%. The currency translation effect provided a $10 million decrease in gross profit.

Net operating expenses

Net operating expenses were higher by 9% or $68 million; the share of net operating expenses, expressed as a percentage of revenue, increased to 12% from 11%.

The increase in net operating expenses was primarily due to a $52 million growth in freight costs in the Russian division as a result of increased transportation tariffs and higher share of sales with long distance delivery terms. Our staff costs rose by $18 million. Other expenses growth by $16 million was due to losses on disposal of certain items of property, plant and equipment.

In addition, in 2011, we received a $19 million gain from sale of TMK Hydroenergy Power S.R.L., which reduced our net operating expenses for the period. No such gain was recognised in 2012.

The currency translation effect accounted for a $38 million decrease in net operating expenses.

Adjusted EBITDA

In 2012, adjusted EBITDA margin remained flat at 16%.

	2012		2011		Change
	in million dollars	in %	in million dollars	in %	in million dollars
Russia	766	16%	721	15%	45
America	222	13%	265	17%	(43)
Europe	52	16%	64	17%	(12)
TOTAL ADJUSTED EBITDA	**1,040**	**16%**	**1,050**	**16%**	**(10)**

Russia. Adjusted EBITDA was higher by 6% or $45 million. Gross profit increase of $88 million was partially offset by increase in selling, general and administrative expenses. Adjusted EBITDA margin increased from 15% to 16%.

America. Adjusted EBITDA decreased by 16% or $43 million as a result of both lower gross profit and higher other operating expenses. Adjusted EBITDA margin declined from 17% to 13%.

Europe. Adjusted EBITDA decrease by 19% or $12 million. Gross profit decrease of $25 million was partially offset by decrease in selling, general and administrative expenses. Adjusted EBITDA margin dropped from 17% to 16%.

Impairment of assets

As of 31 December 2012, we determined in respect of certain non-production assets in the Russian division that the carrying value of cash-generating unit exceeded its value in use. As a result, we recognised the impairment of these assets in the amount of $8 million.

As of 31 December 2011, we determined that the value in use of the European division cash-generating unit significantly exceeded its carrying value. As a result, we reversed the impairment loss recognised in 2008 and 2009 in respect of property, plant and equipment of the European division in the amount of $73 million.

Foreign exchange movements

In 2012, we recorded a foreign exchange gain in the amount of $23 million as compared to a $1 million loss in 2011. In addition, we recognised a foreign exchange gain from exchange rate fluctuations in the amount of $48 million (net of income tax) in 2012 as compared to a $54 million loss (net of income tax) in 2011 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 2% or $6 million as result of the repayment of part of the debts in 2012 and the currency translation effect. At the same time, the weighted average nominal interest rate remained relatively flat at 6.92% as of 31 December 2011 as compared to 6.99% as of 31 December 2012.

Finance income decreased by 30% or $10 million due to a decrease in dividend income from an investee.

As a result, our net finance costs increased by 1% or $4 million 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 2011 and 2012, 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 2012, a pre-tax income of $405 million was reported as compared to $544 million in 2011; an income tax expense of $123 million was recognised as compared to $159 million in 2011. Our effective income tax rate increased by 1% to 30% year-on-year.

Cash flows

The following table illustrates our cash flows:

	2012	2011	Change	Change
	in million dollars		in million dollars	in %
Net cash provided by operating activities	**929**	**787**	**141**	**18%**
Payments for property and equipment	(445)	(402)	(43)	11%
Acquisition of subsidiaries	(33)	(4)	(29)	n/a
Dividends received	14	25	(11)	(44)%
Other investments	9	4	5	147%[1]
Free Cash Flow	**474**	**410**	**64**	**16%**
Change in loans	(148)	4	(152)	n/a
Interest paid	(263)	(286)	23	(8)%
Other financial activities	1	(4)	5	n/a
Free Cash Flow to Equity	**64**	**124**	**(60)**	**(48%)**
Dividends paid	(79)	(49)	(30)	62%
Effect of exchange rate changes	10	(2)	12	n/a
Cash and cash equivalents at the beginning of period	231	158	73	46%
Cash and cash equivalents at period end	225	231	(6)	(2)%

Net cash flows provided by operating activities increased by 18% to $929 million from $787 million in 2011, mainly due to a much higher increase in working capital in 2011 as compared to the moderate growth in 2012. In 2012, working capital increased by $34 million, while in 2011 it grew by $156 million.

A net repayment of borrowings totalled $148 million as compared to $4 million of net proceeds from borrowings last year.

Cash spent for acquisition of subsidiaries in 2012 relates primarily to the acquisition of 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 pipes.

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 million to the shareholders of OAO TMK. In 2011, we paid a full year dividend in respect of 2010 and an interim dividend in respect of the first half of 2011 in the total amount of $47 million. We paid dividends in the amount of $3 million and $2 million to our non-controlling interest owners in 2012 and 2011, respectively.

[1] Please refer to “Rounding” for the details of calculation

Indebtedness

The following table illustrates the maturity profile of our total financial debt:

	1 year or less	1 to 3 years	Over 3 years	Unamortised debt issue costs	Total debt
			in millions of U.S. dollars		
As of 31 December 2012	1,073	1,351	1,474	(14)	3,885
As of 31 December 2011	602	1,468	1,740	(23)	3,787

Our overall financial debt increased from $3,787 million as of 31 December 2011 to $3,885 million as of 31 December 2012. The appreciation of the Rouble against the U.S. dollar resulted in an increase of the U.S. dollar equivalent of the Rouble-denominated loans and borrowings as of December 31, 2012. The acquisition of a subsidiary with a $98 million debt on its balance also increased our debt. During 2012, the net repayment of loans and borrowings was $148 million (including partial repayment of the acquired subsidiary's debt).

As of 31 December 2012, our debt portfolio comprised diversified debt instruments, including bank loans, bonds, convertible bonds, and other credit facilities. As of 31 December 2012, our Rouble-denominated portion of debt represented 46%, the U.S. dollar-denominated portion of debt represented 48%, euro-denominated portion of debt represented 5%, and other currencies represented less than 1% of our total debt.

The share of short-term portion of debt increased to 27% as of 31 December 2012 as compared to 16% as of 31 December 2011, as the convertible bond liability was included in our short-term portion of debt as of 31 December 2012 due to the bondholders' right to request redemption of convertible bonds on the third anniversary following the issue date. However at the time of the issuance of this management discussion and analysis, we are aware that no bondholders have executed or will execute their rights to request redemption of the bonds[1], and at the closest reporting date the convertible bonds will be classified as the long-term liability.

As of 31 December 2012, our debt portfolio comprised fixed and floating interest rate debt facilities. Borrowings with a floating interest rate represented $667 million or 17% of total debt, and borrowings with a fixed interest rate represented $3,165 million or 83% of our total debt.

As of 31 December of 2012, our weighted average nominal interest rate was 6.99%, which was a 7 basis point increase compared to 31 December 2011.

[1] According to IAS 10 "Events after the Reporting Period", this is a non-adjusting event.

Our most significant credit facilities as of 31 December 2012 were as follows:

Type of borrowing	Bank	Original currency	Outstanding principal amount	Maturity period
			in millions of U.S. dollars	
7.75% LPN		USD	500	January 2018
Loan	Sberbank of Russia	RUR	489	September 2015
5.25% convertible bonds		USD	413	February 2015
Loan	Gazprombank	USD	400	January 2017
Loan	Alfa-Bank	RUR	336	November 2016
Loan	Nordea Bank	USD	200	January 2017
Bonds, series БО-01		RUR	165	October 2013
Loan	Gazprombank	RUR	151	March 2014
Loan	Sberbank of Russia	RUR	145	April 2016
Loan	Wells Fargo	USD	121	August 2016
Loan	Gazprombank	RUR	113	February 2014
Loan	Gazprombank	RUR	112	January 2014
			3,143	
Other credit facilities			674	
TOTAL LOANS AND BORROWINGS			**3,817**	

Capital expenditure

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

	2012	2011	Change	Change
	in million dollars		in millions dollars	in %
Russia	**347**	248	99	40%
America	**95**	64	31	48%
Europe	**45**	14	31	223%
CAPITAL EXPENDITURE	**487**	**326**	**161**	**49%**

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

- ongoing replacement of the open hearth furnaces with EAF steelmaking facilities at TAGMET in order to reduce steel-making costs and increase an annual billet-production capacity. Commissioning is planned in 2013;
- ongoing construction of a new Fine Quality Mill ("FQM") at STZ. Commissioning is planned in 2014.

At the same time, we implement several less expensive projects which also help us to maintain our production flexibility, efficiency and to sustain competitive advantage:

- installation of additional non-destructive testing instrumentation, the new hydro-press and pipe-threading facilities at SinTZ as part of their programme to improve the quality of OCTG. The project is planned to be completed in 2013;
- construction of the mill for production of stainless steel seamless pipe measuring up to 30 meters in length at TMK-INOX. The project completion is scheduled at the end of 2013;
- construction of the new line for coating application at TMK Oilfield Services. The project is planned to be completed in 2013.

During 2012, we completed some projects including:

- modernisation of the longitudinally welded large diameter pipe mill at VTZ. It has significantly enhanced our production capacity for high grade welded pipe;
- modernisation of a hot-rolled mill at VTZ was completed in late 2012. It has significantly enhanced production capacity for hot-rolled pipe at VTZ and increased the quality of pipe produced;
- a new line to produce premium threaded casing was constructed at our Orsk Machine-Building Plant. The line was commissioned in the third quarter of 2012.

The following projects will enable TMK IPSCO to strengthen its position in the segment of premium connections for horizontal and directional drilling in North America:

- launch of the research and development center in Houston, Texas in October 2012. The new state-of-the-art R&D center serves as the heart of our company's innovation initiatives – new product design and development, experimental and validation testing, and advanced metallurgical research;
- consolidation of threading operations at the production facility located in Odessa, TX is underway. The project completion is scheduled for 2013;
- development of a new pipe threading and service facility in Edmonton, Canada. The state-of-the-art production equipment at the facility will thread a full range of ULTRA™ Premium connections. The facility commissioning is planned in early 2013.

At the same time, TMK IPSCO continues to improve cost efficiency and increase production capacities. The following projects, among others, serve this purpose:

- installation of a slitting line in Wilder, KY. The line was commissioned in the second half of 2012;
- launch of a programme to expand finishing capacities at Koppel, PA, including heat treatment and, nondestructive testing. The project completion is scheduled for 2014.

During 2012, TMK-RESITA completed renovation of gas cleaner facilities as part of its environmental protection programme.

TMK-ARTROM launched a programme to increase the share of high value added product sales. Under this project, construction of a new pipe finishing shop was completed in 2012.

Development trends

In early 2013, the Russian division sees a strong order backlog for the beginning of the year, particularly in OCTG and line pipe, as a result of growing exploration and production activity of oil and gas companies. However, the drilling environment in the U.S. and economic conditions in Europe remain challenging, and therefore the Company conservatively expects the results of the first quarter of 2013 to be approximately in line with the results of the fourth quarter of 2012.

Given the anticipated improvements in the subsequent quarters of 2013 the Company expects to compensate slower pace of the first quarter of 2013 with better operational performance for the remainder of the year to be in line with the 2012 results with some upside potential.

Selected financial data

Adjusted EBITDA

Reconciliation of income before tax to Adjusted EBITDA for the twelve months ended:

	31 December 2012	30 September 2012	30 June 2012	31 March 2012	31 December 2011
			in million dollars		
Income before tax	**405**	497	442	539	544
Depreciation and amortisation	**326**	322	327	335	336
Finance costs, net	**275**	265	263	274	271
Impairment of assets/(Reversal of impairment of assets)	**8**	(72)	(72)	(68)	(68)
Loss/(gain) on changes in fair value of derivative financial instrument	**7**	0	(27)	(53)	(45)
Foreign exchange (gain)/loss, net	**(23)**	(21)	29	3	1
Loss/(gain) on disposal of property, plant and equipment	**17**	13	8	(16)	(17)
Movement in allowances and provisions	**24**	28	21	19	28
Other non-cash items	**0**	0	0	0	0
ADJUSTED EBITDA	**1,040**	**1,033**	**991**	**1,034**	**1,050**

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 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. Some of these limitations include:

- 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:

	31 December 2012	30 September 2012	30 June 2012	31 March 2012	31 December 2011
			in million dollars		
Loans and borrowings	**3,833**	3,764	3,658	3,866	3,751
Liability under finance lease	**52**	52	52	54	36
TOTAL DEBT	**3,885**	**3,816**	**3,710**	**3,920**	**3,787**
Net of:					
Cash and short-term financial investments	**(229)**	(131)	(141)	(223)	(235)
NET DEBT	**3,656**	**3,686**	**3,569**	**3,697**	**3,552**
NET DEBT TO EBITDA (LTM[1])	**3.5**	**3.6**	**3.6**	**3.6**	**3.4**

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

[1] Net Debt-to-EBITDA ratio is defined as the quotient of Net Debt at the end of the given reporting date divided by the Adjusted EBITDA for the 12 months immediately preceding the given reporting date. Adjusted EBITDA – see "Selected financial data".

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 million 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 million (net of transaction costs of $9 million) and the liability under the embedded conversion option of $35 million were recognised at the initial recognition date.

As of 31 December 2012, the carrying value of the bond liability and the fair value of the embedded conversion option were $412 million and $11 million, respectively. As of 31 December 2011, the carrying value of the bond liability and the fair value of the embedded conversion option were $386 million and $3 million, respectively. As a result, we recognised a loss of $7 million on the change in the fair value of the embedded derivative in 2012 as compared to a $45 million gain last year.

As of 30 September 2012, the carrying value of the bond liability and the fair value of the embedded conversion option were $406 million and $4 million, respectively. In the fourth quarter of 2012, we recognised a $7 million loss on the change in the fair value of the embedded derivative as compared to a $1 million gain in the previous quarter.

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 that changes in fair value of the embedded instrument 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 2012, sales volumes of pipes used in oil and gas industry (mainly OCTG, line pipe and large-diameter pipe) accounted for approximately 75% 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 pipes 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 have a negative impact on our results of operations and financial position.

Increases in the cost of raw materials

We require substantial quantities of raw materials to produce steel pipes. 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 pipes and steel coils and plates for the production of welded pipes. 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 2012, the costs of raw materials and consumables accounted for 66% 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 consume decreased in 2012 as compared to 2011. In 2012, in the Russian division, the average purchase costs of coils and metal scrap decreased 11% and 1%, respectively, though the average purchase cost of steel plates increased 7% as compared to 2011. In the American division, the average purchase costs of metal scrap and coils used in production decreased 2% and 3%, respectively, as compared to 2011. The average purchase costs of metal scrap in the European division were lower by 5% in 2012 than those in 2011. As a result of the decrease in prices for raw materials, our costs of raw materials and consumables decreased from $3,721 million in 2011 to $3,352 in 2012 and thus decreased the share of raw materials' and consumables' costs in the total cost of production from 69% in 2011 to 66% in 2012.

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 margins and results of operations.

Our plants also consume significant quantities of energy, particularly electricity and gas. In 2012, energy costs and utilities amounted to 8% of the total cost of production. Average natural gas tariffs in Russia increased by 6% in 2012. Further 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 2012, our five largest customers were Rosneft, Surgutneftegas, Lukoil, TNK BP and Gazprom (excluding Gazprom Neft), which together accounted for 26% of our total sales volumes. We maintain strong business relationships with key customers and expect this concentration of customers in Russia to continue for the foreseeable future. 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. In the United States, TMK IPSCO cooperates with a wide range of distributors in North America, whose shares in our total sales are not significant.

Our large-diameter welded pipe business is largely dependent on one of our largest customers, Gazprom, and is subject to increasing competitive pressure. Gazprom is one of our largest customers for 1,420 mm diameter welded pipes used for construction of gas trunk pipelines. Increased competition in the supply of large-diameter pipes 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 pipes, 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 pipes, OMK, which produces welded pipes, and the Ukrainian pipe producers. In the second half of 2012, Russia joined WTO. Due to WTO regulation Russian import duties for steel pipes were decreased for 5-10% to the level of 5-15%. These changes could have an adverse impact on TMK market position, opening Russian borders for imported steel pipes. Outside Russia and the CIS, we compete against a limited number of producers of premium-quality principally seamless steel pipe products, including Tenaris, Vallourec, Sumitomo 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, Canada and Mexico. Moreover, several large producers including TPCO America Corp., Tenaris and Evraz declared their plans to construct new facilities in the U.S. Once these capacities are commissioned the competition may become tougher, 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, as well as a result of continued large-scale capital expenditure program, our leverage remains significant. As of December 31, 2012, our total debt amounted to $3,885 million as compared to $3,787 million at the end of 2011. The increase of our total debt in 2012 was primarily attributable to the acquisition of Gulf International Pipe Industry LLC and inclusion of its debt in our balance sheet, and the appreciation of the rouble against the U.S. dollar. As a result our leverage increased and Net-Debt-to-EBITDA ratio increased to 3.5 as of December 31, 2012.

In 2012, we continued to concentrate on improving our liquidity profile and optimising financial performance. We negotiated extensions of credit terms and lower interest rates in order to improve our financial position and overall debt maturity profile. Nevertheless due to inclusion of our 2015 convertibles to short-term debt owing to the put option, which could be exercised in February 2013, the share of short-term debt in the total credit portfolio increased to 27% as of December 31, 2012 as compared to 16% at the end of 2011. Anyway as of the date of 2012 IFRS statement disclosure no Bonds were redeemed and full issue was left outstanding.

Improving liquidity profile remains one of our priorities, and we continue to carry out measures to maintain sufficient liquidity and improve loan portfolio structure. 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. For example, 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.

In 2012, we complied with the terms of our debt instruments and plan to be in compliance over next fiscal year.

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 foreseeable future.

Interest rate risk

Interest expenses are the prevailing part of our finance costs. In 2012, our finance costs decreased 2% or $6 million and amounted to $297 million as compared to $303 million in 2011. Our weighted average nominal interest rate as of December 31, 2012 increased by 7 basis points as compared to December 31, 2011. 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 December 31, 2012, loans with floating interest rates represented $667 million or 17% of our total credit portfolio. The underlying rates in current loans with floating interest rates are LIBOR and EURIBOR. In 2012, floating interest rates remained close to their historical lows, which kept our interest expense on the relevant loans low. Taking into account low levels of interest rates, we considered to hedge a part of interest rate risks at the beginning of 2012 and thus reducing the share of variable-rate debt to 11% as of the end 2012. 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 Unites States 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 2012, we incurred foreign exchange gains from spot rate changes in the total amount of $83 million, including $23 million recognised in the income statement and $60 million recognised in the statement of other comprehensive income. Gains in the statement of other comprehensive income from foreign exchange difference relating to hedged financial instruments arose from the revaluation of U.S. dollar denominated loans attracted by Russian companies of the Group.

The rouble remains volatile. Our debt is currently largely denominated in U.S. dollars, and the possible devaluation of the rouble against the dollar in the future could result in foreign exchange losses. The share of U.S. dollar denominated loans in the loan portfolio in 2012 remained flat and equaled to 48% as of December 31, 2012. If the U.S. dollar appreciates against the rouble in the future, this 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 2012, inflation in Russia reached 6.6% as compared to 6.1% in 2011. 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 2012, inflation in the United States decreased to 1.7% in comparison to 3.0% in 2011. 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 payments, in particular, profit tax, VAT, social security payments and property tax. Changes in tax legislation could lead to an increase in tax payments and, as a result, 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. Despite measures to improve the tax system, tax legislation continues to give wide latitude to local tax authorities and leaves a multitude of unresolved problems which may have a negative effect on our operating results.

For several years one of the main changes in Russian taxation system relates to social security tax, which was revised and increased from 26% to 34% in 2011. In 2012, the regressive taxation system has come into effect and the upper bound of social security tax has been limited to 30%.

In addition, 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.

Should the Russian taxation system suffer any further changes, this could adversely affect our business.

Changes in environmental law

We meet the requirements of national environmental regulations at our Russian plants, the directives and regulations of the European Union and Romanian legislation at our Romanian plants, and the U.S. environmental laws.

The main ecological-and-economical risks are related to expected changes and tightening of Russian environmental protection laws. Environmental legislation in Russia is currently undergoing significant change. The imposition of a new environmental law and regulation system may require further expenditures to modernize production operations, install pollution control equipment, perform site clean-ups and reclamation, pay fees and fines or make other payments if not in compliance with new environmental laws and regulations. Stricter regulations will also lead to increases in the rate of payments for negative impact on the environment and the use of increasing payment coefficients. 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 are also responsible for compliance with stringent U.S. environmental laws. The environmental protection regime in the United States is more onerous than what we face with respect to operations in Russia and other countries and compliance with these U.S. laws may expose us to additional costs. We estimate that the environmental legislation of the European Union and the United States will not undergo any material changes in the near future. Nevertheless, there can be no assurance that the European Union will not impose new environmental regulations or that Romanian state authorities will not change national environmental laws in the future.

Although we don’t anticipate any significant environmental matters in the United States, Russia and Romania, if such matters arise, the cost of compliance 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 industries and public infrastructure projects. 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.

Responsibility statement

We confirm to the best of our knowledge that:

1. the consolidated financial statements prepared in accordance with International Financial Reporting Standards and presented together with this Management Discussion and Analysis of financial condition and results of operation give a true and fair view of the assets, liabilities, financial position and profit or loss of OAO "TMK" and its consolidated subsidiaries, taken as a whole; and

2. the Management Discussion and Analysis includes a fair review of the development and performance of the business and the position of OAO "TMK" and its consolidated subsidiaries, taken as a whole.

Alexander G. Shiryaev
Chief Executive Officer, OAO "TMK"

Tigran I. Petrosyan
Chief Financial Officer, OAO "TMK"

6 March 2013

Consolidated Financial Statement

Consolidated Revenue

6,688 mln USD

Adjusted EBITDA Margin

16%

Net Income

282 mln USD

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 December 31, 2012, 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

March 5, 2013
Moscow, Russia

OAO TMK

Consolidated Financial Statements

for the year ended December 31, 2012

Contents

OAO TMK

Consolidated Income Statement

for the year ended December 31, 2012

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2012	Year ended December 31, 2011
Revenue:	1	6,687,740	6,753,517
Sales of goods		*6,575,050*	*6,645,963*
Rendering of services		*112,690*	*107,554*
Cost of sales	2	(5,204,315)	(5,307,243)
Gross profit		**1,483,425**	**1,446,274**
Selling and distribution expenses	3	(433,243)	(411,252)
Advertising and promotion expenses	4	(11,060)	(9,204)
General and administrative expenses	5	(292,539)	(282,785)
Research and development expenses	6	(16,592)	(18,690)
Other operating expenses	7	(68,011)	(53,325)
Other operating income	8	10,707	13,090
Impairment of goodwill	20	–	(3,368)
Impairment of investment in associate	10	–	(1,833)
Impairment of property, plant and equipment	19	(8,406)	–
Reversal of impairment of property, plant and equipment	19	–	73,417
Foreign exchange gain/(loss), net		22,597	(1,254)
Finance costs		(297,099)	(302,786)
Finance income	9	22,329	32,063
(Loss)/gain on changes in fair value of derivative financial instruments		(7,436)	44,792
Share of profit/(loss) of associates	10	41	(185)
Gain on disposal of assets classified as held for sale	11	–	19,184
Profit before tax		**404,713**	**544,138**
Income tax expense	12	(122,634)	(159,441)
Profit for the year		**282,079**	**384,697**
Attributable to:			
Equity holders of the parent entity		276,897	380,130
Non-controlling interests		5,182	4,567
		282,079	**384,697**
Earnings per share attributable to equity holders of the parent entity (in US dollars)			
Basic	13	**0.32**	**0.44**
Diluted	13	**0.32**	**0.40**

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, 2012

(All amounts in thousands of US dollars)

	NOTES	2012	2011
Profit for the year		**282,079**	**384,697**
Exchange differences on translation to presentation currency [a]		34,895	(57,619)
Foreign currency gain/(loss) on hedged net investment in foreign operation [b]	32 (xiii)	60,427	(67,772)
Income tax [b]	32 (xiii)	(12,085)	13,554
		48,342	**(54,218)**
Movement on cash flow hedges [a]	32 (xiv)	(3,998)	–
Income tax [a]	32 (xiv)	972	–
		(3,026)	**–**
Other comprehensive income/(loss) for the year, net of tax		**80,211**	**(111,837)**
Total comprehensive income/(loss) for the year, net of tax		**362,290**	**272,860**
Attributable to:			
Equity holders of the parent entity		352,629	273,303
Non-controlling interests		9,661	(443)
		362,290	**272,860**

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

	Year ended December 31,	
	2012	2011
Exchange differences on translation to presentation currency attributable to:		
Equity holders of the parent entity	30,413	(52,609)
Non-controlling interests	4,482	(5,010)
	34,895	**(57,619)**
Movement on cash flow hedges attributable to:		
Equity holders of the parent entity	(3,023)	–
Non-controlling interests	(3)	–
	(3,026)	**–**

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

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

OAO TMK

Consolidated Statement of Financial Position

as at December 31, 2012

(All amounts in thousands of US dollars)

	NOTES	2012		2011	
ASSETS					
Current assets					
Cash and cash equivalents	15, 30	225,061		230,593	
Trade and other receivables	16	912,327		766,155	
Accounts receivable from related parties	30	2,008		5,526	
Inventories	17	1,346,303		1,418,455	
Prepayments and input VAT	18	167,902		170,708	
Prepaid income taxes		12,447		29,580	
Other financial assets		4,008	**2,670,056**	4,047	**2,625,064**
Non-current assets					
Investments in associates	10	1,862		1,717	
Property, plant and equipment	19	3,805,912		3,347,648	
Goodwill	20	594,898		547,211	
Intangible assets	20	356,602		413,263	
Deferred tax asset	12	56,713		97,880	
Other non-current assets	21	114,191	**4,930,178**	99,458	**4,507,177**
TOTAL ASSETS			**7,600,234**		**7,132,241**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	22	855,569		862,940	
Advances from customers		189,693		188,861	
Accounts payable to related parties	30	87,103		733	
Provisions and accruals	23	55,520		46,075	
Interest-bearing loans and borrowings	24, 25	1,065,044		597,551	
Finance lease liability	26	3,198		1,826	
Derivative financial instruments		10,520		3,024	
Dividends payable		303		323	
Income tax payable		8,281	**2,275,231**	4,078	**1,705,411**
Non-current liabilities					
Interest-bearing loans and borrowings	24	2,767,627		3,153,274	
Finance lease liability	26	49,045		34,290	
Deferred tax liability	12	302,314		304,785	
Provisions and accruals	23	29,293		25,336	
Employee benefits liability	27	51,973		51,836	
Other liabilities	28	42,856	**3,243,108**	32,525	**3,602,046**
Total liabilities			**5,518,339**		**5,307,457**
Equity	32				
Parent shareholders' equity					
Issued capital		326,417		326,417	
Treasury shares		(319,149)		(327,339)	
Additional paid-in capital		388,335		384,581	
Reserve capital		16,390		16,390	
Retained earnings		1,586,794		1,421,437	
Foreign currency translation reserve		(9,796)		(88,551)	
Unrealised gain/(loss) on financial instruments		(3,023)	1,985,968	–	1,732,935
Non-controlling interests			95,927		91,849
Total equity			**2,081,895**		**1,824,784**
TOTAL EQUITY AND LIABILITIES			**7,600,234**		**7,132,241**

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, 2012

(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**	**Unrealised gain/(loss) on financial instruments**	**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**
Profit for the year	–	–	–	–	276,897	–	–	**276,897**	5,182	**282,079**
Other comprehensive income/(loss) for the year, net of tax	–	–	–	–	–	78,755	(3,023)	**75,732**	4,479	**80,211**
Total comprehensive income/(loss) for the year, net of tax	**–**	**–**	**–**	**–**	**276,897**	**78,755**	**(3,023)**	**352,629**	**9,661**	**362,290**
Dividends declared by the parent entity to its shareholders (Note 32 iii)	–	–	–	–	(111,540)	–	–	**(111,540)**	–	**(111,540)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 32 iv)	–	–	–	–	–	–	–	**–**	(1,571)	**(1,571)**
Acquisition of non-controlling interests in subsidiaries (Note 32 v)	–	–	1,711	–	–	–	–	**1,711**	(5,871)	**(4,160)**
Acquisition of non-controlling interests in subsidiaries in exchange for treasury shares (Note 32 vi)	–	8,190	4,900	–	–	–	–	**13,090**	(13,090)	**–**
Acquisition of subsidiaries (Note 14)	–	–	–	–	–	–	–	**–**	(666)	**(666)**
Contribution from non-controlling interest owners (Note 32 vii)	–	–	–	–	–	–	–	**–**	16,245	**16,245**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 32 ix)	–	–	(2,857)	–	–	–	–	**(2,857)**	(557)	**(3,414)**
Derecognition of non-controlling interests due to the expiration of subscription rights (Note 32 xi)	–	–	–	–	–	–	–	**–**	(73)	**(73)**
At December 31, 2012	**326,417**	**(319,149)**	**388,335**	**16,390**	**1,586,794**	**(9,796)**	**(3,023)**	**1,985,968**	**95,927**	**2,081,895**

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, 2012 (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**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2011 (as reported)	**326,417**	**(318,351)**	**362,898**	**15,387**	**1,122,771**	**18,276**	**1,527,398**	**109,509**	**1,636,907**
Voluntary change in accounting policy	–	–	–	–	(28,210)	–	**(28,210)**	(1,393)	**(29,603)**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	13,587	–	–	–	**13,587**	(13,587)	**–**
At January 1, 2011 (as restated)	**326,417**	**(318,351)**	**376,485**	**15,387**	**1,094,561**	**18,276**	**1,512,775**	**94,529**	**1,607,304**
Profit for the year	–	–	–	–	380,130	–	**380,130**	4,567	**384,697**
Other comprehensive income/(loss) for the year, net of tax	–	–	–	–	–	(106,827)	**(106,827)**	(5,010)	**(111,837)**
Total comprehensive income/(loss) for the year, net of tax	**–**	**–**	**–**	**–**	**380,130**	**(106,827)**	**273,303**	**(443)**	**272,860**
Purchase of treasury shares (Note 32 x)	–	(8,988)	–	–	–	–	**(8,988)**	–	**(8,988)**
Increase in reserve capital (Note 32 ii)	–	–	–	1,003	(1,003)	–	**–**	–	**–**
Dividends declared by the parent entity to its shareholders	–	–	–	–	(51,993)	–	**(51,993)**	–	**(51,993)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 32 iv)	–	–	–	–	–	–	**–**	(338)	**(338)**
Sale of non-controlling interests (Note 32 viii)	–	–	–	–	(42)	–	**(42)**	9,307	**9,265**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 32 ix)	–	–	7,657	–	–	–	**7,657**	(9,609)	**(1,952)**
Acquisition of non-controlling interests in subsidiaries (Note 32 v)	–	–	439	–	(14)	–	**425**	(1,799)	**(1,374)**
Increase in non-controlling interests from contributions of assets by the Group (Note 32 xii)	–	–	–	–	(202)	–	**(202)**	202	**–**
At December 31, 2011	**326,417**	**(327,339)**	**384,581**	**16,390**	**1,421,437**	**(88,551)**	**1,732,935**	**91,849**	**1,824,784**

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, 2012

(All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2012	2011
Operating activities			
Profit before tax		404,713	544,138
Adjustments to reconcile profit before tax to operating cash flows:			
Depreciation of property, plant and equipment		266,449	266,537
Amortisation of intangible assets	20	59,613	69,234
Loss on disposal of property, plant and equipment	7	17,255	2,319
Impairment of goodwill	20	–	3,368
Impairment of property, plant and equipment	19	8,406	–
Reversal of impairment of property, plant and equipment	19	–	(73,417)
Impairment of investment in associate	10	–	1,833
Foreign exchange (gain)/loss, net		(22,597)	1,254
Finance costs		297,099	302,786
Finance income	9	(22,329)	(32,063)
Loss/(gain) on changes in fair value of derivative financial instruments		7,436	(44,792)
Gain on disposal of assets classified as held for sale	11	–	(19,184)
Share of (profit)/loss of associates	10	(41)	185
Allowance for net realisable value of inventory	17	6,399	(662)
Allowance for doubtful debts		9,711	19,551
Movement in other provisions		7,701	9,039
Operating cash flows before working capital changes		**1,039,815**	**1,050,126**
Working capital changes:			
Decrease/(increase) in inventories		123,152	(280,232)
Increase in trade and other receivables		(101,650)	(110,210)
Decrease/(increase) in prepayments		6,005	(26,862)
(Decrease)/increase in trade and other payables		(53,482)	172,369
(Decrease)/increase in advances from customers		(7,866)	88,875
Cash generated from operations		**1,005,974**	**894,066**
Income taxes paid		(77,455)	(106,926)
Net cash flows from operating activities		**928,519**	**787,140**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(445,296)	(402,459)
Proceeds from sale of property, plant and equipment		1,137	1,431
Purchase of ownership interest in associate		–	(4,004)
Acquisition of subsidiaries, net of cash acquired	14	(33,017)	–
Issuance of loans		(2,959)	(1,333)
Proceeds from repayment of loans issued		2,420	962
Interest received		6,240	2,638
Dividends received		14,256	25,425
Receipt of government grants	28	2,290	–
Net cash flows used in investing activities		**(454,929)**	**(377,340)**
Financing activities			
Purchase of treasury shares	32 (x)	–	(8,988)
Proceeds from borrowings		649,222	2,768,477
Repayment of borrowings		(797,045)	(2,764,149)
Interest paid		(263,701)	(287,533)
Reimbursement of interest paid		545	1,272
Payment of finance lease liabilities		(4,789)	(3,014)
Acquisition of non-controlling interests		(4,160)	(1,374)
Proceeds from sale of non-controlling interests	32 (viii)	–	9,265
Contributions from non-controlling interest owners	32 (vii)	10,265	–
Dividends paid to equity holders of the parent		(75,985)	(47,313)
Dividends paid to non-controlling interest shareholders		(3,184)	(1,531)
Net cash flows used in financing activities		**(488,832)**	**(334,888)**
Net (decrease)/increase in cash and cash equivalents		(15,242)	74,912
Net foreign exchange difference		9,710	(1,843)
Cash and cash equivalents at January 1		230,593	157,524
Cash and cash equivalents at December 31		**225,061**	**230,593**

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

Corporate Information

These consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the year ended December 31, 2012 were authorised for issue in accordance with a resolution of the General Director on March 5, 2013.

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

As at December 31, 2012, 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

Statement of Compliance

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

Basis of Accounting

Group companies maintain their accounting records in their local currency and prepare their statutory financial statements in accordance with the regulations on accounting and reporting of the country in which the particular subsidiary is resident. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in compliance with IFRS. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation of unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) use of fair values, (6) business combinations and (7) translation to the presentation currency.

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 companies and associates have a December 31 accounting year-end.

Basis of Preparation of the Financial Statements (continued)

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.

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.

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

Significant Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation of uncertainty at the end of reporting period that have a significant risk of causing a material adjustment to the carrying amounts 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 units to which the item is allocated. The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management.

Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the recoverable value and ultimately the amount of any 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.

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 a change in an accounting estimate 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.

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

Significant Estimates and Assumptions (continued)

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill and intangible assets with indefinite useful lives are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

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.

Allowances

The Group makes allowances for doubtful debts. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts, such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful debts recorded in the consolidated financial statements.

The Group makes allowances for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods, work in process and raw materials of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence 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.

Significant Estimates and Assumptions (continued)

Litigations

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may differ from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of external consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results of the Group.

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, 2012, 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.

Deferred Income Tax

Management judgment is required for the calculation of deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilisation of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates are adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss.

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

Significant Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those judgments involving estimates, which have a significant effect on the amounts recognised in the consolidated financial statements:

Consolidation of Special Purpose Entities

The Group determined that the substance of the relationship between the Group and TMK Capital S.A., a special purpose entity, indicates that the Group controls TMK Capital S.A. In January 2011, TMK Capital S.A. issued notes due January 2018 to provide financing to the Group's companies.

The Group determined that the substance of the relationship between the Group and TMK Bonds S.A., a special purpose entity, indicates that the Group controls TMK Bonds S.A. In February 2010, TMK Bonds S.A. completed the offering of convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAO TMK to provide financing to the Group's companies.

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, 2012:

- IFRS 7 *Financial Instruments: Disclosures* (amended);
- IAS 12 *Income Taxes* (amended) – Deferred Tax: Recovery of Underlying Assets.

The principle effect of these changes in policies is discussed below.

<u>IFRS 7 *Financial Instruments: Disclosures* (amended)</u>

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable users of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable users to evaluate the nature of, and risks associated with, the Group's continuing involvement in those derecognised assets. The amendment affects disclosure only and did not have any impact on the financial position or performance of the Group.

Changes in Accounting Policies (continued)

Application of New and Amended IFRS and IFRIC (continued)

IAS 12 *Income Taxes* (amended) – Deferred Tax: Recovery of Underlying Assets

The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment 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. This 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 7 *Financial Instruments: Disclosures* (amended) – Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after January 1, 2013)

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. These amendments will not impact the Group's financial position or performance.

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

The standard as issued reflects the first phase of the International Accounting Standards Boards work on the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial assets and financial liabilities. In subsequent phases, the International Accounting Standards Board will address impairment methodology and hedge accounting. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

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Notes to the Consolidated Financial Statements (continued)

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

Changes in Accounting Policies (continued)

New Accounting Pronouncements (continued)

IFRS 10 *Consolidated Financial Statements* (effective for financial years beginning on or after January 1, 2013)

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group expects that the adoption of the new standard will not have a significant impact on its financial position or performance in the period of initial application.

IFRS 11 *Joint Arrangements* (effective for financial years beginning on or after January 1, 2013)

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 Group expects that the adoption of the new standard will not have a significant impact on its financial position or performance in the period of initial application.

IFRS 12 *Disclosure of Involvement in Other Entities* (effective for financial years beginning on or after January 1, 2013)

IFRS 12 includes all of the disclosures that were previously in IAS 27 *Consolidated and Separate Financial Statements* related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 *Interests in Joint Ventures* and IAS 28 *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The amendment affects disclosures only and will have no impact on the Group's financial position or performance.

IFRS 13 *Fair Value Measurement* (effective for financial years beginning on or after January 1, 2013)

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. The Group is currently assessing the impact that this standard will have on the financial position and performance.

Changes in Accounting Policies (continued)

New Accounting Pronouncements (continued)

IAS 1 *Financial Statement Presentation* (amended) – Presentation of Items of Other Comprehensive Income (effective for financial years beginning on or after July 1, 2012)

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

IAS 19 *Employee Benefits* (revised) (effective for financial years beginning on or after January 1, 2013)

The revision includes a number of changes that range from fundamental changes such as removing the "corridor" mechanism (the revised standard requires actuarial gains and losses to be recognised in other comprehensive income when they occur) and the concept of expected returns on plan assets to new and revised disclosure requirements and simple clarifications and re-wording. The Group is currently assessing the impact that this standard will have on the financial position and performance.

IAS 27 *Separate Financial Statements* (revised) (effective for financial years beginning on or after January 1, 2013)

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 will have no impact on the consolidated financial statements of the Group.

IAS 28 *Investments in Associates and Joint Ventures* (revised) (effective for financial years beginning on or after January 1, 2013)

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 Group expects that 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 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.

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Notes to the Consolidated Financial Statements (continued)

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

Changes in Accounting Policies (continued)

New Accounting Pronouncements (continued)

Improvements to IFRSs (effective for financial years beginning on or after January 1, 2013)

In May 2012, the International Accounting Standards Board issued "Improvements to IFRSs", primarily with a view of removing inconsistencies and clarifying wording. These are separate transitional provisions for each standard. The document sets out amendments to International Financial Reporting Standards, which are mainly related to changes for presentation, recognition or management purposes terminology or editorial changes. These amendments will not have any impact on the financial position or performance of the Group.

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Notes to the Consolidated Financial Statements (continued)
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Significant Accounting Policies (continued)

A) Basis of Consolidation

A subsidiary is an entity in which the Group has an interest of more than one-half of the voting rights or otherwise has power to exercise control over its operations. Subsidiaries are consolidated from the date when control over their activities is transferred to the Company and are no longer consolidated from the date when control ceases.

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

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

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

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

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

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

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

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

Significant Accounting Policies (continued)

A) Basis of Consolidation (continued)

When the Group loses control over a subsidiary, it:

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

B) Business Combination and Goodwill

Acquisition of Subsidiaries

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

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

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

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

Goodwill

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

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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)

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.

Acquisition of Subsidiaries from Entities under Common Control

Purchases of subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in the financial statements at the historical cost of the controlling entity (the "Predecessor"). Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to equity. The financial statements, including corresponding figures, are presented as if the Company had acquired the subsidiary on the date it was initially acquired by the Predecessor.

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.

Significant Accounting Policies (continued)

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.

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.

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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)

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. During the period, the Group did not hold any investments in this category.

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.

Derivatives Designated as Hedging Instruments

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.

For the purpose of hedge accounting, derivatives are designated as instruments hedging the Group's exposure to changes in the fair value of a recognised asset or liability (fair value hedges), as instruments hedging the Group's 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) and as hedges of a net investment in a foreign operation.

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'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. The objective of the hedge is to protect future cash flows against unfavorable variations of interest rates and exchange rates.

The Group assesses effectiveness of such hedges at inception and verifies at regular intervals and at least on a quarterly basis, using prospective and retrospective testing. The effective part of the changes in fair value of hedging instruments is recognised in other comprehensive income while any ineffective part is recognised immediately in the income statement. When forecasted transaction occurs, the gains or losses previously recognised in other comprehensive income are transferred to the income statement. If the forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the income statement.

Significant Accounting Policies (continued)

D) Financial Assets (continued)

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 the present value of estimated future cash flows. 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.

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.

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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)

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
Transport and motor vehicles	4-15 years
Furniture and fixtures	2-10 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.

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.

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

Significant Accounting Policies (continued)

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

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.

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.

OAO TMK
Notes to the Consolidated Financial Statements (continued)

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

Significant Accounting Policies (continued)

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 balance sheet 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, together with adjustments for unrecognised past-service costs. 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.

Actuarial gains and losses are recognised in the income statement in the period in which they occurred. Past service costs are charged immediately to the income statement to the extent that the benefits have vested, and are otherwise recognised on a straight-line basis over the average period until the benefits vest.

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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)

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.

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.

Consolidated Income Statement

Consolidated Statement of Comprehensive Income

Consolidated Statement of Financial Position

Consolidated Statement of Changes in Equity

Consolidated Statement of Cash Flows

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Corporate Information

Basis of Preparation of the Financial Statements

Significant Estimates and Assumptions

Significant Judgments

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Significant Accounting Policies

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Significant Accounting Policies (continued)

O) Equity (continued)

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 declared after the end of the reporting period but before the financial statements are authorised for issue.

P) Revenue Recognition

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

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

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Notes to the Consolidated Financial Statements (continued)

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

Index to the Notes to the Consolidated Financial Statements

1) Segment Information

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

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

Management monitors the operating results of its 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, (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associates and other non-cash items. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments.

The following tables present revenue and profit information regarding the Group's reportable segments for the years ended December 31, 2012 and 2011, respectively.

Year ended December 31, 2012	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	4,713,913	1,650,007	323,820	**6,687,740**
Cost of sales	(3,589,873)	(1,365,341)	(249,101)	**(5,204,315)**
GROSS PROFIT	**1,124,040**	**284,666**	**74,719**	**1,483,425**
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	**514,184**	**121,888**	**36,615**	**672,687**
ADD BACK:				
Depreciation and amortisation	222,482	91,437	12,143	**326,062**
Loss/(gain) 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	4,130	2,933	638	**7,701**
	251,484	**100,578**	**15,066**	**367,128**
ADJUSTED EBITDA	**765,668**	**222,466**	**51,681**	**1,039,815**

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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	**Russia**	**Americas**	**Europe**	**TOTAL**
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**765,668**	**222,466**	**51,681**	**1,039,815**
Reversal of adjustments from operating profit to EBITDA	(251,484)	(100,578)	(15,066)	**(367,128)**
OPERATING PROFIT	**514,184**	**121,888**	**36,615**	**672,687**
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)	**529,480**	**123,254**	**34,144**	**686,878**
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				**404,713**

Year ended December 31, 2011	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	4,788,039	1,590,399	375,079	**6,753,517**
Cost of sales	(3,752,176)	(1,279,603)	(275,464)	**(5,307,243)**
GROSS PROFIT	**1,035,863**	**310,796**	**99,615**	**1,446,274**
Selling, general and administrative expenses	(529,741)	(149,305)	(42,885)	**(721,931)**
Other operating income/(expenses), net	(38,780)	2,255	(3,710)	**(40,235)**
OPERATING PROFIT	**467,342**	**163,746**	**53,020**	**684,108**
ADD BACK:				
Depreciation and amortisation	228,405	98,476	8,890	**335,771**
Loss/(gain) on disposal of property, plant and equipment	2,083	(49)	285	**2,319**
Allowance for net realisable value of inventory	(426)	(107)	(129)	**(662)**
Allowance for doubtful debts	17,819	897	835	**19,551**
Movement in other provisions	5,408	2,427	1,204	**9,039**
	253,289	**101,644**	**11,085**	**366,018**
ADJUSTED EBITDA	**720,631**	**265,390**	**64,105**	**1,050,126**

Year ended December 31, 2011	**Russia**	**Americas**	**Europe**	**TOTAL**
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**720,631**	**265,390**	**64,105**	**1,050,126**
Reversal of adjustments from operating profit to EBITDA	(253,289)	(101,644)	(11,085)	**(366,018)**
OPERATING PROFIT	**467,342**	**163,746**	**53,020**	**684,108**
Impairment of goodwill	(3,368)	–	–	**(3,368)**
Impairment of investment in associate	(1,833)	–	–	**(1,833)**
Reversal of impairment of property, plant and equipment	–	–	73,417	**73,417**
Foreign exchange gain/(loss), net	(2,021)	(2,738)	3,505	**(1,254)**
OPERATING PROFIT AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	**460,120**	**161,008**	**129,942**	**751,070**
Finance costs				**(302,786)**
Finance income				**32,063**
Gain on changes in fair value of derivative financial instruments				**44,792**
Share of loss of associates				**(185)**
Gain on disposal of assets classified as held for sale				**19,184**
PROFIT BEFORE TAX				**544,138**

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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 additional information of the Group's reportable segments as at December 31, 2012 and 2011:

Year ended December 31, 2012	**Russia**	**Americas**	**Europe**	**TOTAL**
Segment assets	5,297,910	1,863,149	439,175	**7,600,234**
Property, plant and equipment expenditure	346,728	95,046	45,432	**487,206**

Year ended December 31, 2011	**Russia**	**Americas**	**Europe**	**TOTAL**
Segment assets	4,771,557	1,957,104	403,580	**7,132,241**
Property, plant and equipment expenditure	247,629	64,322	14,047	**325,998**

The following table presents the revenues from external customers for each group of similar products and services for the years ended December 31, 2012 and 2011, respectively:

Sales to external customers	**Seamless pipes**	**Welded pipes**	**Other operations**	**TOTAL**
Year ended December 31, 2012	4,134,289	2,257,120	296,331	**6,687,740**
Year ended December 31, 2011	3,910,622	2,535,658	307,237	**6,753,517**

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, 2012	**Russia**	**Americas**	**Europe**	**Cent.Asia & Caspian Region**	**Middle East & Gulf Region**	**Asia & Far East**	**Africa**	**TOTAL**
Revenue	3,644,415	1,983,043	486,326	352,858	171,563	33,557	15,978	**6,687,740**
Non-current assets	3,117,967	1,300,327	274,980	24,142	39,986	–	10	**4,757,412**

Year ended December 31, 2011	**Russia**	**Americas**	**Europe**	**Cent.Asia & Caspian Region**	**Middle East & Gulf Region**	**Asia & Far East**	**Africa**	**TOTAL**
Revenue	4,070,519	1,801,174	589,397	197,276	67,671	23,243	4,237	**6,753,517**
Non-current assets	2,746,620	1,296,053	243,757	21,633	42	–	17	**4,308,122**

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Notes to the Consolidated Financial Statements (continued)

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

2) Cost of Sales

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

	2012	**2011**
Raw materials and consumables	3,352,080	3,720,904
Staff costs including social security	669,356	661,764
Energy and utilities	383,754	400,169
Depreciation and amortisation	253,048	257,589
Repairs and maintenance	142,893	162,434
Contracted manufacture	81,829	55,625
Freight	58,149	63,741
Taxes	52,464	51,777
Professional fees and services	34,132	25,841
Rent	11,098	10,450
Travel	3,043	2,596
Communications	1,040	1,173
Insurance	1,008	803
Other	7,418	3,798
Total production cost	**5,051,312**	**5,418,664**
Change in own finished goods and work in progress	102,759	(147,035)
Cost of sales of externally purchased goods	24,479	33,235
Obsolete stock, write-offs	25,765	2,379
Cost of sales	**5,204,315**	**5,307,243**

3) Selling and Distribution Expenses

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

	2012	**2011**
Freight	246,801	212,425
Staff costs including social security	63,004	58,807
Depreciation and amortisation	53,312	65,536
Consumables	21,453	20,020
Professional fees and services	17,262	14,701
Bad debt expense	11,612	19,618
Rent	7,748	7,953
Travel	4,747	4,501
Utilities and maintenance	2,217	2,169
Communications	1,354	1,294
Insurance	1,350	1,731
Other	2,383	2,497
	433,243	**411,252**

4) Advertising and Promotion Expenses

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

	2012	**2011**
Exhibits and catalogues	5,036	5,451
Outdoor advertising	4,132	2,256
Media	927	877
Other	965	620
	11,060	**9,204**

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

5) General and Administrative Expenses

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

	2012	2011
Staff costs including social security	163,134	158,573
Professional fees and services	57,587	55,056
Depreciation and amortisation	16,110	13,224
Travel	11,319	12,928
Utilities and maintenance	9,469	9,126
Insurance	6,664	5,366
Rent	6,356	5,294
Transportation	6,240	6,130
Communications	6,160	5,307
Consumables	4,354	4,123
Taxes	3,029	5,174
Other	2,117	2,484
	292,539	**282,785**

6) Research and Development Expenses

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

	2012	2011
Staff costs including social security	9,535	11,669
Professional fees and services	3,227	2,999
Travel	1,021	731
Consumables	793	860
Depreciation and amortisation	634	1,003
Other	1,382	1,428
	16,592	**18,690**

7) Other Operating Expenses

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

	2012	2011
Social and social infrastructure maintenance expenses	19,133	16,859
Loss on disposal of property, plant and equipment	17,255	2,319
Sponsorship and charitable donations	15,201	17,579
Penalties, fines and claims	14,142	12,567
Other	2,280	4,001
	68,011	**53,325**

8) Other Operating Income

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

	2012	2011
Gain from penalties and fines	5,314	4,235
Gain on sales of current assets	360	43
Reimbursement from insurance company	8	1,272
Other	5,025	7,540
	10,707	**13,090**

9) Finance Income

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

	2012	2011
Dividends	15,609	27,481
Interest income – bank accounts and deposits	6,720	3,333
Gain on disposal of other investments	–	1,249
	22,329	**32,063**

10) Investments in Associates

The movement in investments in associates was as follows:

	Volgograd River Port	Lhoist-TMK B.V.	Total
Investments in associates as at January 1, 2011	–	–	–
Acquisition of share in associate	4,004	55	4,059
Share of loss of associate	(185)	–	(185)
Impairment of investment in associate	(1,833)	–	(1,833)
Currency translation adjustment	(324)	–	(324)
Investments in associates as at December 31, 2011	**1,662**	**55**	**1,717**
Share of profit/(loss) of associates	98	(57)	41
Currency translation adjustment	102	2	104
Investments in associates as at December 31, 2012	**1,862**	**–**	**1,862**

11) Gain on Disposal of Assets Classified as Held for Sale

On May 27, 2011, the Group sold 100% ownership interest in TMK Hydroenergy Power S.R.L.

As at the date of disposal the carrying amounts of assets and liabilities were as follows:

	May 27, 2011
Cash and cash equivalents	12
Trade receivables	685
Inventories	59
Prepayments	12
Current assets	**768**
Property, plant and equipment	8,702
Intangible assets	105
Deferred tax asset	138
Non-current assets	**8,945**
Total assets	**9,713**
Trade and other payables	(170)
Total liabilities	**(170)**
Net assets	**9,543**

Gain from the sale of TMK Hydroenergy Power S.R.L. in the amount of 19,184 was included in the income statement for the year ended December 31, 2011.

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

12) Income Tax

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

	2012	2011
Current income tax expense	99,338	98,034
Adjustments in respect of income tax of previous years	2,203	(634)
Deferred tax expenses arising from write-down of deferred tax assets	207	2,193
Deferred tax expenses related to origination and reversal of temporary differences	20,886	59,848
Total income tax expense	**122,634**	**159,441**

Profit before tax for financial reporting purposes is reconciled to tax expense as follows:

	2012	2011
Profit before tax	404,713	544,138
Theoretical tax charge at statutory rate in Russia of 20%	80,943	108,828
Adjustments in respect of income tax of previous years	2,203	(634)
Effect of items which are not deductible for taxation purposes or not taxable	18,562	17,333
Effect of different tax rates in countries other than Russia	21,913	25,228
Tax on dividends distributed by the Group's subsidiaries to parent company	2,432	11,537
Effect of differences in tax rates on dividend income	(1,716)	(3,023)
Effect of change of US (state) effective tax rate	671	(1,909)
Deferred tax expenses arising from write-down of deferred tax assets	207	2,193
Effect of unrecognised tax credits, tax losses and temporary differences of previous years	(2,000)	152
Other	(581)	(264)
Total income tax expense	**122,634**	**159,441**

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

	2012	Change recognised in income statement	Change recognised in other comprehen-sive income	Increase due to acquisition of subsidiaries	Currency translation adjustments	2011
Valuation and depreciation of property, plant and equipment	(295,963)	(1,263)	–	(233)	(11,726)	(282,741)
Valuation and amortization of intangible assets	(38,985)	7,693	–	–	8	(46,686)
Valuation of accounts receivable	(5,832)	500	–	–	(347)	(5,985)
Prepayments and other current assets	(1,048)	(543)	–	–	24	(529)
Tax losses available for offset	51,703	(38,802)	(12,085)	–	4,541	98,049
Provisions and accruals	17,041	2,086	–	–	514	14,441
Trade and other payable	3,817	(1,572)	–	–	(4)	5,393
Finance lease obligations	9,520	2,352	–	–	459	6,709
Impairment of accounts receivable	7,962	2,113	–	–	372	5,477
Valuation of inventory	523	3,562	–	–	(79)	(2,960)
Other	5,661	2,781	972	–	(19)	1,927
	(245,601)	**(21,093)**	**(11,113)**	**(233)**	**(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	56,713	(33,791)	(11,701)	–	4,325	97,880

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Notes to the Consolidated Financial Statements (continued)

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

12) Income Tax (continued)

Deferred income tax assets and liabilities, their movements for the year ended December 31, 2011 were as follows:

	2011	Change recognised in income statement	Change recognised in other comprehen-sive income	Currency translation adjustments	2010
Valuation and depreciation of property, plant and equipment	(282,741)	(22,522)	–	11,557	(271,776)
Valuation and amortization of intangible assets	(46,686)	12,615	–	(16)	(59,285)
Valuation of accounts receivable	(5,985)	(34)	–	339	(6,290)
Prepayments and other current assets	(529)	1,976	–	(11)	(2,494)
Tax losses available for offset	98,049	(42,957)	13,554	(4,244)	131,696
Provisions and accruals	14,441	1,350	–	(457)	13,548
Trade and other payable	5,393	565	–	39	4,789
Finance lease obligations	6,709	71	–	(381)	7,019
Impairment of accounts receivable	5,477	3,354	–	(423)	2,546
Valuation of inventory	(2,960)	(12,401)	–	131	9,310
Other	1,927	(4,058)	–	225	5,760
	(206,905)	**(62,041)**	**13,554**	**6,759**	**(165,177)**
Reflected in the statement of financial position as follows:					
Deferred tax liability	(304,785)	(14,313)	–	10,012	(300,484)
Deferred tax asset	97,880	(47,728)	13,554	(3,253)	135,307

In the context of the Group's current structure, tax losses and current tax assets of the different companies are not offset against taxable profits and current tax liability of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one subsidiary of the Group is not offset against the deferred tax liability of another subsidiary.

As at December 31, 2012, the deferred tax asset for 3,646 (December 31, 2011: 3,439) 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 2 years.

The Group recognised the deferred tax assets for the companies with net loss. The Group believes that this tax loss will be recovered as future taxable profits will exceed recognised tax asset on tax loss.

As at December 31, 2012, the Group has not recognised deferred tax liability in respect of 1,358,448 (December 31, 2011: 1,301,486) 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.

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

13) Earnings per Share

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

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

In calculation of diluted earnings per share, the denominator represents the weighted average number of ordinary shares which could be outstanding assuming that all of the convertible bonds were converted into ordinary shares (Note 25).

	Year ended December 31,	
	2012	2011
Profit for the period attributable to the equity holders of the parent entity	276,897	380,130
Effect of convertible bonds, net of tax (if dilutive)	–	(1,710)
Profit for the period attributable to the equity holders of the parent entity adjusted for the effect of dilution	276,897	378,420
Weighted average number of ordinary shares outstanding	863,306,943	864,976,286
Weighted average number of ordinary shares outstanding adjusted for the effect of dilution (where convertible bonds were dilutive)	863,306,943	936,751,609
Earnings per share attributable to the equity holders of the parent entity (in US dollars)		
Basic	0.32	0.44
Diluted	0.32	0.40
Earnings per share attributable to equity holders of the parent entity (in Russian roubles)		
Basic	9.97	12.91
Diluted	9.97	11.87

In the year ended December 31, 2012, the convertible bonds were antidilutive as the interest expense and other gains and losses for the period, net of tax, relating to convertible bonds divided by the number of ordinary shares obtainable on the conversion of the convertible bonds exceeded basic earnings per share.

14) Acquisition 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. As a result of the acquisition, the Group is expected to increase its presence in Middle East and Gulf region.

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

	December 2, 2012
Cash and cash equivalents	591
Property, plant and equipment	89,646
Trade and other receivables	8,326
Inventories	2,256
Total assets	**100,819**
Trade and other payables	(3,782)
Advances from customers	(27)
Provisions and accruals	(197)
Interest-bearing loans and borrowings	(97,690)
Employee benefits liability	(603)
Total liabilities	**(102,299)**
Total identifiable net liabilities at fair value	**(1,480)**
Non-controlling interests	(666)
Goodwill arising on acquisition	**39,945**
Purchase consideration	(39,131)

The fair value of the trade and other receivables amounted to 8,326. The gross contractual amount for trade receivables due was 8,890, of which 564 was expected to be uncollectible.

Since the valuation of the assets and liabilities of GIPI is still in process, the values are determined provisionally.

Goodwill arising from the acquisition of GIPI in the amount of 39,945 related to the expected synergy from integration of the acquired subsidiary into the Group. Goodwill was allocated to the Middle East division cash-generating unit, that also includes TMK Middle East FZCO and Threading & Mechanical Key Premium L.L.C. None of the goodwill recognised is expected to be deductible for income tax purposes.

The non-controlling interests were measured based on their proportionate share in the recognised amounts of GIPI's net liabilities and comprised 666 at the acquisition date.

The cash flows on acquisition were as follows:

Net cash acquired with the subsidiary	591
Cash paid	(27,431)
Net cash outflow	**(26,840)**

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

14) Acquisition of Subsidiaries (continued)

Acquisition of Gulf International Pipe Industry LLC (continued)

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. As at December 31, 2012 the unpaid amount of the purchase consideration was 11,700.

From the date of acquisition, GIPI contributed 16,075 to the revenue and 1,135 to the profit before tax of the Group. If the combination had taken place at the beginning of the year, revenue from the Group's operations would have been 6,726,188 and profit before tax of the Group would have been 399,508. These amounts were determined based on the assumption that the fair value adjustments at the acquisition date would have been the same as at January 1, 2012.

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.

15) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	2012	2011
Russian rouble	171,689	164,695
US dollar	36,604	60,980
Euro	14,124	3,235
Romanian lei	707	1,205
Other currencies	1,937	478
	225,061	**230,593**

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

As at December 31, 2012, the amount of cash and cash equivalents included 22,862 which was available to finance investing activities only (December 31, 2011: 42,291).

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

16) Trade and Other Receivables

Trade and other receivables consisted of the following:

	2012	2011
Trade receivables	903,083	758,343
Officers and employees	2,200	1,964
Other accounts receivable	27,449	37,630
Gross accounts receivable	**932,732**	**797,937**
Allowance for doubtful debts	(20,405)	(31,782)
Net accounts receivable	**912,327**	**766,155**

Accounts receivables in the amount of 99,908 were pledged as security for borrowings as at December 31, 2012 (December 31, 2011: 103,851) (Note 24).

17) Inventories

Inventories consisted of the following:

	2012	2011
Raw materials	402,994	389,140
Work in process	395,017	373,423
Finished goods and finished goods in transit	339,044	429,573
Goods for resale	4,545	17,254
Supplies	227,747	224,891
Gross inventories	**1,369,347**	**1,434,281**
Allowance for net realisable value of inventory	(23,044)	(15,826)
Net inventories	**1,346,303**	**1,418,455**

The carrying amount of inventories carried at net realisable value amounted to 265,926 as at December 31, 2012 (December 31, 2011: 330,008).

As at December 31, 2012, certain items of inventory with a carrying amount of 100,000 (December 31, 2011: 121,365) were pledged as security for borrowings (Note 24).

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

	2012	2011
Balance at the beginning of the year	15,826	17,112
Increase/(decrease) in allowance	6,399	(662)
Currency translation adjustments	819	(624)
Balance at the end of the year	**23,044**	**15,826**

18) Prepayments and Input VAT

Prepayments and input VAT consisted of the following:

	2012	2011
Prepayment for VAT, input VAT	115,777	111,459
Prepayment for services, inventories	45,632	51,435
Prepayment for insurance	4,115	3,708
Prepayment for other taxes	706	931
Prepayment for property tax	416	698
Prepayment for rent	304	256
Other prepayments	952	2,221
	167,902	**170,708**

19) Property, Plant and Equipment

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 improvements	Construction 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 14)	21,573	71,127	90	152	–	–	**92,942**
Currency translation adjustments	64,967	126,812	2,612	2,790	107	29,621	**226,909**
BALANCE AT DECEMBER 31, 2012	**1,397,843**	**3,062,740**	**65,938**	**69,257**	**18,920**	**697,932**	**5,312,630**
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	**1,135,716**	**1,895,506**	**34,488**	**27,514**	**14,756**	**697,932**	**3,805,912**
NET BOOK VALUE AT JANUARY 1, 2012	**1,045,422**	**1,742,234**	**32,661**	**22,448**	**9,480**	**495,403**	**3,347,648**

Movement in property, plant and equipment for the year ended December 31, 2011 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
COST							
Balance at January 1, 2011	1,248,487	2,536,920	60,317	47,585	9,911	554,106	**4,457,326**
Additions	–	–	–	–	–	325,998	**325,998**
Assets put into operation	71,153	272,618	3,784	10,820	3,051	(361,426)	**–**
Disposals	(3,977)	(15,739)	(1,723)	(662)	–	(376)	**(22,477)**
Currency translation adjustments	(64,078)	(129,406)	(2,925)	(2,865)	(102)	(22,899)	**(222,275)**
BALANCE AT DECEMBER 31, 2011	**1,251,585**	**2,664,393**	**59,453**	**54,878**	**12,860**	**495,403**	**4,538,572**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2011	(181,734)	(834,077)	(25,587)	(26,576)	(2,692)	–	**(1,070,666)**
Depreciation charge	(37,687)	(217,261)	(4,267)	(8,252)	(711)	–	**(268,178)**
Reversal of impairment	–	73,417	–	–	–	–	**73,417**
Disposals	2,048	10,755	1,645	619	–	–	**15,067**
Currency translation adjustments	11,210	45,007	1,417	1,779	23	–	**59,436**
BALANCE AT DECEMBER 31, 2011	**(206,163)**	**(922,159)**	**(26,792)**	**(32,430)**	**(3,380)**	**–**	**(1,190,924)**
NET BOOK VALUE AT DECEMBER 31, 2011	**1,045,422**	**1,742,234**	**32,661**	**22,448**	**9,480**	**495,403**	**3,347,648**
NET BOOK VALUE AT JANUARY 1, 2011	**1,066,753**	**1,702,843**	**34,730**	**21,009**	**7,219**	**554,106**	**3,386,660**

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Notes to the Consolidated Financial Statements (continued)

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

19) Property, Plant and Equipment (continued)

As at December 31, 2012, bank borrowings were secured by properties and equipment with a carrying value of 401,813 (December 31, 2011: 391,897) (Note 24).

As at December 31, 2012, 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 that test, the Group determined that the carrying value of this property exceeds their recoverable amount. Resulting impairment loss of 8,406 was recognised in the income statement for the year ended December 31, 2012.

As at December 31, 2011, the Group determined that the value in use of European division cash-generating unit significantly exceeded its carrying value. The Group used pre-tax discount rate of 13.36% for the calculation of the value in use of this cash-generating unit. The increase of its recoverable amount was mostly due to the increase of the share of the most profitable products in total production and sales volume of European division cash-generating unit. As a result, the Group reversed the impairment loss recognised in 2008-2009 in respect of property, plant and equipment of European division cash-generating unit in the amount of 73,417.

Capitalised Borrowing Costs

The Group started to capitalise borrowing costs for all eligible assets where construction was commenced on or after January 1, 2009. The amount of borrowing costs capitalised during the year ended December 31, 2012 was 3,274 (2011: 4,682). The rate of the specific borrowing used to determine the amount of borrowing costs eligible for capitalisation was 5.19% in the year ended December 31, 2012 (2011: 5.19%).

20) Goodwill and Other Intangible Assets

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 14)	–	43,233	–	–	–	–	–	**43,233**
Currency translation adjustments	46	5,390	1,296	–	–	–	1,280	**8,012**
BALANCE AT DECEMBER 31, 2012	**209,746**	**611,446**	**23,420**	**472,300**	**14,104**	**–**	**7,380**	**1,338,396**
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**	**594,898**	**5,395**	**130,926**	**6,080**	**–**	**4,825**	**951,500**
NET BOOK VALUE AT JANUARY 1, 2012	**209,247**	**547,211**	**9,239**	**182,226**	**7,839**	**–**	**4,712**	**960,474**

Movement in intangible assets for the year ended December 31, 2011 was as follows:

	Patents and trademarks	Goodwill	Software	Customer relation-ships	Proprietary technology	Backlog	Other	TOTAL
COST								
Balance at January 1, 2011	209,578	567,681	16,972	472,300	14,100	8,500	7,265	**1,296,396**
Additions	11	–	6,850	–	–	–	1,861	**8,722**
Disposals	(4)	–	(861)	–	–	–	(2,537)	**(3,402)**
Currency translation adjustments	(44)	(4,858)	(1,419)	–	–	–	(315)	**(6,636)**
BALANCE AT DECEMBER 31, 2011	**209,541**	**562,823**	**21,542**	**472,300**	**14,100**	**8,500**	**6,274**	**1,295,080**
ACCUMULATED AMORTISATION AND IMPAIRMENT								
Balance at January 1, 2011	(231)	(13,328)	(11,963)	(226,389)	(4,499)	(8,500)	(2,342)	**(267,252)**
Amortisation charge	(81)	–	(2,309)	(63,685)	(1,762)	–	(1,397)	**(69,234)**
Impairment	–	(3,368)	–	–	–	–	–	**(3,368)**
Disposals	1	–	849	–	–	–	2,117	**2,967**
Currency translation adjustments	17	1,084	1,120	–	–	–	60	**2,281**
BALANCE AT DECEMBER 31, 2011	**(294)**	**(15,612)**	**(12,303)**	**(290,074)**	**(6,261)**	**(8,500)**	**(1,562)**	**(334,606)**
NET BOOK VALUE AT DECEMBER 31, 2011	**209,247**	**547,211**	**9,239**	**182,226**	**7,839**	**–**	**4,712**	**960,474**
NET BOOK VALUE AT JANUARY 1, 2011	**209,347**	**554,353**	**5,009**	**245,911**	**9,601**	**–**	**4,923**	**1,029,144**

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

20) Goodwill and Other Intangible Assets (continued)

Customer relationships represent non-contracted interactions with clients. Remaining amortisation period for customer relationships is 4-6 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 (2011: 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:

	2012		2011	
	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 (Note 14)	39,945	–	–	–
Oilfield division	31,755	–	29,957	–
European division	6,329	–	6,185	–
Kaztrubprom Plant	5,155	–	4,863	–
Other cash-generating units	38,746	–	33,238	–
	594,898	**208,700**	**547,211**	**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, 2012. As a result of the test, the Group determined that the carrying values of all cash-generating units did not exceed their recoverable amounts. Consequently, no impairment losses were recognised in respect of goodwill and intangible assets with indefinite useful lives in the year ended December 31, 2012.

As at June 30, 2011, there were indicators of impairment of Kaztrubprom Plant cash-generating unit, therefore, the Group performed an impairment test at that date in respect of this unit. As a result of that test, the Group determined that the carrying value of Kaztrubprom Plant cash-generating unit exceeds its recoverable amount. Consequently, the Group recognised impairment of Kaztrubprom Plant cash-generating unit's goodwill in the amount of 3,368.

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

20) Goodwill and Other Intangible Assets (continued)

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	12.11
Oilfield division	5	12.66
European division	5	13.19
Kaztrubprom Plant	5	11.79
Other cash-generating units	5	12.23

The recoverable amounts of American division, European division and Oilfield division are based on the business plans approved by management. The reasonably possible deviation of assumptions from these plans could lead to an impairment. The calculation of value in use of these cash-generating units was the most sensitive to the following assumptions:

Costs

If costs of American division were 5% higher than those assumed in the impairment test during the period of forecast, this would lead to an impairment of goodwill in the amount of 396,895.

If costs of European division were 5% higher than those assumed in the impairment test during the period of forecast, this would lead to the full impairment of goodwill in the amount of 6,329.

If costs of Oilfield division were 5% higher than those assumed in the impairment test during the period of forecast, this would lead to an impairment of goodwill in the amount of 29,505.

Sales Prices

If prices of American division during the forecasted period were 5% lower than those assumed in the impairment test, this would lead to the full impairment of goodwill in the amount of 472,968.

If prices of European division during the forecasted period were 5% lower than those assumed in the impairment test, this would lead to the full impairment of goodwill in the amount of 6,329.

If prices of Oilfield division during the forecasted period were 5% lower than those assumed in the impairment test, this would lead to an impairment of goodwill in the amount of 30,507.

Volume of Production of Billets and Pipes

If the quantities of the units sold by American division were 5% lower than those assumed in the impairment test during the period of forecast, this would lead to an impairment of goodwill in the amount of 98,288.

20) Goodwill and Other Intangible Assets (continued)

With regard to the assessment of value in use of Kaztrubprom Plant and other cash-generating units no reasonably possible changes in the key assumptions would cause their carrying values to exceed their recoverable amounts.

21) Other Non-Current Assets

Other non-current assets consisted of the following:

	2012	**2011**
Prepayments for acquisition of property, plant and equipment	93,576	80,389
Long-term trade receivables	18,272	71
Loans to employees	6,958	5,840
Restricted cash deposits for fulfillment of guaranties	2,749	7,850
Other	14,990	5,308
	136,545	**99,458**
Allowance for doubtful debts	(22,354)	–
	114,191	**99,458**

22) Trade and Other Payables

Trade and other payables consisted of the following:

	2012	**2011**
Trade payables	612,038	653,100
Liabilities for VAT	58,709	55,103
Accounts payable for property, plant and equipment	47,748	42,282
Payroll liabilities	31,064	30,348
Accrued and withheld taxes on payroll	17,628	16,204
Liabilities for property tax	14,314	13,399
Liabilities under put options of non-controlling interest shareholders in subsidiaries	12,433	14,051
Sales rebate payable	9,152	7,926
Notes issued to third parties	5,386	8,408
Liabilities for other taxes	2,903	3,442
Other payables	44,194	18,677
	855,569	**862,940**

23) Provisions and Accruals

Provisions and accruals consisted of the following:

	2012	**2011**
Current:		
Provision for bonuses	26,527	21,488
Accrual for long-service benefit	14,447	10,209
Current portion of employee benefits liability	5,042	2,693
Accrual for unused annual leaves, current portion	3,930	10,549
Environmental provision, current portion	964	932
Other provisions	4,610	204
	55,520	**46,075**
Non-current:		
Accrual for unused annual leaves	22,245	20,930
Provision for bonuses	3,277	–
Environmental provision	3,094	4,406
Other provisions	677	–
	29,293	**25,336**

24) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	2012	2011
Current:		
Bank loans	44,398	242,830
Interest payable	30,019	27,981
Current portion of non-current borrowings	418,738	329,009
Current portion of bearer coupon debt securities	574,569	–
Unamortised debt issue costs	(2,680)	(2,269)
Total short-term loans and borrowings	**1,065,044**	**597,551**
Non-current:		
Bank loans	2,697,918	2,459,613
Bearer coupon debt securities	1,074,568	1,043,806
Unamortised debt issue costs	(11,552)	(21,136)
Less: current portion of non-current borrowings	(418,738)	(329,009)
Less: current portion of bearer coupon debt securities	(574,569)	–
Total long-term loans and borrowings	**2,767,627**	**3,153,274**

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

	Interest rates for the year	2012	Interest rates for the year	2011
Russian rouble	Fixed 8.5% - 9.6%	1,776,496	Fixed 6.7% - 9.5%	1,712,829
US Dollar	Fixed 5.25%	412,401	Fixed 5.25%	385,981
	Fixed 7.75%	513,423	Fixed 7.75%	512,935
	Fixed 7%	401,222	Fixed 3.15% - 7%	447,541
	Cost of funds + 3% (*)	2,939	Cost of funds + 1.75% - 2.5% (*)	5,424
	Variable:	527,617	Variable:	440,304
	Libor (1m) + 2% - 3%		Libor (1m) + 2.25% - 4.15%	
	Libor (3m - 12m) + 0.8% - 4%		Libor (3m - 13m) + 1% - 2.75%	
Euro	Fixed 5.19%	55,084	Fixed 5.19%	74,510
	Variable:	136,627	Variable:	170,953
	Euribor (1m) + 3.5% - 4%		Euribor (1m) + 1.6% - 4.05%	
	Euribor (3m) + 1.7% - 4%		Euribor (3m) + 2.7% - 3.5%	
	Euribor (6m) + 0.26% - 0.9%		Euribor (6m) + 0.26% - 0.3%	
			Euribor (10m - 15m) + 1.1%	
Romanian Lei	Robor (6m) + 3%	147	Robor (6m) + 3%	348
Omani Rial	Fixed 8%	6,715		–
		3,832,671		**3,750,825**

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

Unutilised Borrowing Facilities

As at December 31, 2012, the Group had unutilised borrowing facilities in the amount of 1,536,687 (December 31, 2011: 736,163).

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25) Convertible Bonds

On February 11, 2010, TMK Bonds S.A., the Group's special purpose entity, completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts ("GDR") 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. The conversion could be exercised at the option of bondholders on any date during the period commencing 41 days following the February 11, 2010 and ending on the date falling seven London business days prior to the maturity date or, if earlier, ending on the seventh day prior to any earlier date fixed for redemption of the Convertible bonds. As at December 31, 2012, the bonds are convertible into GDRs at conversion price of 22.308 US dollars per GDR (December 31, 2011: 22.927 US dollars per GDR). The conversion price was adjusted in the year ended December 31, 2012 as a result of dividends in respect of 2011 distributed by the parent entity.

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

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

The Embedded Conversion Option in foreign currency was classified as financial instrument at fair value through profit or loss. The Embedded Conversion Option was initially recognised at the fair value of 35,455. The Group used binomial options pricing model for initial and subsequent measurement of fair value of this embedded derivative. For the purposes of this model, the Group assessed that the credit spread comprised 673 bps and 1,094 bps as at December 31, 2012 and 2011, respectively. As at December 31, 2012, the fair value of the Embedded Conversion Option was 10,490 (December 31, 2011: 3,024). The change in the fair value of the embedded derivative during the year ended December 31, 2012 resulted in a loss of 7,466 (2011: gain of 44,792), which has been recorded as (loss)/gain 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, 2012, the carrying value of the host component was 412,401 (December 31, 2011: 385,981). Due to the bondholder's right to request redemption of the bonds on the third anniversary following the issue date, the bond liability was included to short-term loans and borrowings as at December 31, 2012.

There were no conversions of the bonds during the year ended December 31, 2012.

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

26) 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:

	2012	2011
Machinery and equipment	42,761	26,030
Transport and motor vehicles	651	609
	43,412	**26,639**

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

Future minimum lease payments under finance leases with the present value of the net 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**

Future minimum lease payments under finance leases with the present value of the net minimum lease payments were as follows as at December 31, 2011:

	Minimum payments	Present value of payments
2012	3,011	1,826
2013-2016	11,563	7,500
after 2016	32,456	26,790
Total minimum lease payments	**47,030**	**36,116**
Less amounts representing finance charges	(10,914)	
Present value of minimum lease payments	**36,116**	**36,116**

In the year ended December 31, 2012, the average interest rate under the finance lease liabilities was 4% (2011: 3%).

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27) 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.

The following table summarises the components of net benefit expense/(income) recognised in the consolidated income statement and amounts recognised in the consolidated statement of financial position by country:

	Russia		USA		Others		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Movement in the benefit liability:								
At January 1	51,496	52,855	1,521	956	1,512	1,651	54,529	55,462
Benefit expense/(income)	1,373	3,371	1,036	707	502	(47)	2,911	4,031
Benefit paid	(4,047)	(1,768)	–	(142)	(245)	(83)	(4,292)	(1,993)
Other	–	–	–	–	201	–	201	–
Increase due to acquisition of subsidiaries (Note 14)	–	–	–	–	603	–	603	–
Currency translation adjustment	3,052	(2,962)	–	–	11	(9)	3,063	(2,971)
At December 31	**51,874**	**51,496**	**2,557**	**1,521**	**2,584**	**1,512**	**57,015**	**54,529**
Short-term	**4,671**	**2,596**	**–**	**–**	**371**	**97**	**5,042**	**2,693**
Long-term	**47,203**	**48,900**	**2,557**	**1,521**	**2,213**	**1,415**	**51,973**	**51,836**
Current service cost	1,909	1,065	509	380	62	88	2,480	1,533
Interest cost on benefit obligation	4,517	2,092	73	55	130	150	4,720	2,297
Net actuarial (gain)/loss recognised in the period	(5,271)	(484)	454	272	257	(263)	(4,560)	(475)
Past service cost	218	698	–	–	53	(22)	271	676
Net benefit expense/(income)	**1,373**	**3,371**	**1,036**	**707**	**502**	**(47)**	**2,911**	**4,031**

Net benefit expense/(income) 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, 2012 and 2011.

	2012	2011
Present value of defined benefit obligation	58,948	56,455
Unrecognised past service cost	(1,933)	(1,926)
Benefit liability as at December 31	**57,015**	**54,529**

The Group had no plan assets and unrecognised actuarial gains or losses in the years ended December 31, 2012 and 2011.

27) Employee Benefits Liability (continued)

The following table is a summary of the present value of the benefit obligation and experience adjustments as at December 31:

	2012	2011
Defined benefit obligation as at December 31	**58,948**	**56,455**
Experience adjustments on plan liabilities	(2,609)	325

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

	Russia		USA		Others	
	2012	2011	2012	2011	2012	2011
Discount rate	7.3%	8.3%	4.4%	4.9%	6.3%	7.2%
Average long-term rate of compensation increase	6.4%	6.7%	3.5%	3.5%	4.3% - 4.5%	4.4%

28) Other Non-Current Liabilities

Other non-current liabilities consisted of the following:

	2012	2011
Liabilities under put options of non-controlling interest shareholders in subsidiaries	25,648	20,898
Derivative financial instruments	3,950	–
Deferred government grants	2,334	–
Other long-term liabilities	10,924	11,627
	42,856	**32,525**

During the year ended December 31, 2012, the Group received grants from the government for the purchase of certain equipment. As at December 31, 2012, there was a reasonable assurance that the Group will comply with all conditions attached to grants. Consequently, government grants were included in non-current liabilities as deferred government grants.

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

29) Principal Subsidiaries

Company	Location	Effective ownership interest	
		December 31, 2012	December 31, 2011
Manufacturing facilities			
OAO "Seversky Tube Works"	Russia	96.33%	94.63%
OAO "Sinarsky Pipe Plant"	Russia	97.28%	94.40%
OAO "Taganrog Metallurgical Works"	Russia	96.38%	96.13%
OAO "Volzhsky Pipe Plant"	Russia	100.00%	100.00%
OOO "TMK-INOX" *	Russia	49.61%	48.15%
ZAO "TMK-CPW" *	Russia	49.13%	48.26%
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%	92.66%
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%	0.00%
Services for oilfield and gas industries			
OOO "TMK-Premium Services"	Russia	100.00%	100.00%
OOO "Predpriyatiye "Truboplast"	Russia	100.00%	100.00%
ZAO "Pipe Repair Department"	Russia	100.00%	100.00%
OOO "Central Pipe Yard"	Russia	100.00%	100.00%
OOO "TMK Oilfield Services"	Russia	100.00%	100.00%
OFS International LLC	USA	75.00%	0.00%
Threading & Mechanical Key Premium L.L.C **	UAE	49.00%	0.00%
Trading companies			
ZAO "Trade House TMK"	Russia	100.00%	100.00%
OOO "Skladskoy Kompleks TMK"	Russia	100.00%	100.00%
TMK IPSCO INTERNATIONAL, L.L.C.	USA	100.00%	100.00%
TMK North America Inc.	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%
TMK Africa Tubulars (PTY) Ltd.	South Africa	100.00%	100.00%
Research and development			
OAO "Russian Research Institute of the Tube and Pipe Industries"	Russia	97.36%	97.36%
Financing and other activities			
OAO "Sinarskaya heat and power plant"	Russia	66.92%	64.93%
OOO "Accounting services center"	Russia	100.00%	100.00%
OOO "Pokrovka 40"	Russia	100.00%	100.00%
OOO "Blagoustroystvo"	Russia	100.00%	100.00%
OOO "Uralskiy Dvor"	Russia	100.00%	0.00%
OOO "SinaraTransAvto"	Russia	97.28%	94.40%
OOO "TMK-Trans"	Russia	100.00%	100.00%
TMK NSG L.L.C. (former NS Group, Inc.)	USA	100.00%	100.00%
UPOS GP L.L.C.	USA	100.00%	100.00%
UPOS L.L.C.	USA	100.00%	100.00%
Blytheville Finance Corporation	USA	100.00%	100.00%
TMK Capital S.A.	Luxembourg	0.00%	0.00%
TMK Bonds S.A.	Luxembourg	0.00%	0.00%
TMK Holdings S.a r.l.	Luxembourg	100.00%	0.00%
OFS Development S.a r.l.	Luxembourg	75.00%	0.00%
Rockarrow Investments Ltd.	Cyprus	100.00%	100.00%
Capitoline Holdings Limited	Cyprus	100.00%	0.00%
TMK Real Estate SRL (former Sinara Imobiliare SRL)	Romania	100.00%	0.00%
TMK Assets SRL (former SNR Properties SRL)	Romania	100.00%	0.00%
TMK Land S.A. (former Aranis Developments SRL)	Romania	100.00%	0.00%

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

** The Group has power to exercise control over the subsidiary's operations.

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

30) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totaling 31 persons as at December 31, 2012 (29 persons as at December 31, 2011).

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

- Wages, salaries, social security contributions and other benefits in the amount of 14,855 for the year ended December 31, 2012 (2011: 15,211);
- Provision for performance bonuses which are dependent on operating results for 2012 year in the amount of 5,032 for the year ended December 31, 2012 (2011: 4,335).

The amounts disclosed above are recognised as general and administrative expenses in the income statement for the years ended December 31, 2012 and 2011.

In the years ended December 31, 2012 and 2011, the Group did not provide compensation to key management personnel in the form of post-employment benefits, other long-term benefits, share-based payment or termination benefits.

The balance of loans issued to key management personnel amounted to 1,194 as at December 31, 2012 (December 31, 2011: 1,103).

The Group guaranteed debts of key management personnel outstanding as at December 31, 2012 in the amount of 2,582 with maturity in 2014-2016 (December 31, 2011: 2,574).

Transactions with the Parent of the Company and Entities under Common Control with the Parent of the Company

In June 2012, the Group approved the distribution of final dividends in respect of 2011, from which 1,763,813 thousand Russian roubles (53,176 at the exchange rate at the date of approval) related to the parent of the Company and entities under common control with the parent of the Company. In August 2012, these dividends were paid in full amount.

In November 2012, the Group approved the distribution of interim dividends in respect of 2012, from which 1,008,046 thousand Russian roubles (32,138 at the exchange rate at the date of approval) related to the parent of the Company and entities under common control with the parent of the Company. As at December 31, 2012 no interim dividends were paid to the parent of the Company and entities under common control with the parent of the Company.

Transactions with Associates

During the year ended December 31, 2012, the Group rendered no services to its associates and received services from its associates in the amount of 566 (2011: 415 and 532, respectively).

30) Related Parties Disclosures (continued)

Transactions with Other Related Parties

The following table provides balances with other related parties as at December 31:

	2012	2011
Cash and cash equivalents	43,548	125,687
Accounts receivable	1,992	5,417
Prepayments	16	109
Accounts payable	(53,914)	(733)

Accounts payable to related parties included accounts payable for raw materials in the amount of 41,383 as at December 31, 2012.

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 will be paid 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 other related parties for the years ended December 31:

	2012	2011
Sales revenue	14,217	12,440
Purchases of goods and services	688,405	8,700
Interest income from loans and borrowings	647	614
Interest expenses from loans and borrowings	27	235

Purchases of goods and services from related parties during the year ended December 31, 2012 included purchases of raw materials in the amount of 680,321.

31) 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.

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

31) Contingencies and Commitments (continued)

Operating Environment of the Group (continued)

The US economy stays on a moderate growth path: activity in the industrial sector remains tenuous, businesses keep hiring at a modest pace. The specialists forecast little improvement in consumption growth, significantly reduced growth in investments in equipment and software and reduced growth in industrial production. An uncertainty over the US economic growth could have a negative impact on the Group's future financial position, results of operations and business prospects.

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

Taxation

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

Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 46,263 thousand Russian roubles (1,523 at the exchange rate as at December 31, 2012). 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, 2012.

Contractual Commitments and Guarantees

The Group had contractual commitments for the acquisition of property, plant and equipment from third parties in the amounts of 263,743 and 192,954 as at December 31, 2012 and 2011, respectively (contractual commitments were expressed net of VAT). As at December 31, 2012, the Group had advances of 93,576 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2011: 80,389). These advances were included in other non-current assets.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 33,492 (December 31, 2011: 8,739).

Insurance Policies

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

31) Contingencies and Commitments (continued)

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 Company.

Guarantees of Debts of Others

The Group guaranteed debts of others outstanding as at December 31, 2012 in the amount of 3,275 (December 31, 2011: 3,378).

32) Equity

i) Share Capital

	2012	2011
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.

In 2011, the Company increased reserve capital by 32,292 Russian roubles (1,003 at the exchange rate as at December 31, 2011) to the amount of 5% of the share capital per the Russian statutory accounts. No additional appropriation of profit to the reserve was required as at December 31, 2012.

iii) Dividends Declared by the Parent Entity to its Shareholders

On June 26, 2012, the annual shareholder meeting approved final dividends in respect of 2011 in the amount of 2,531,482 thousand Russian roubles (76,320 at the exchange rate at the date of approval) or 2.70 Russian roubles per share (0.08 US dollars per share), from which 200,935 thousand Russian roubles (6,058 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

On November 2, 2012, the extraordinary shareholders' meeting approved interim dividends in respect of six months 2012 in the amount of 1,406,379 thousand Russian roubles (44,837 at the exchange rate at the date of approval) or 1.50 Russian roubles per share (0.05 US dollars per share), from which 111,631 thousand Russian roubles (3,559 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

32) Equity (continued)

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

During the years ended December 31, 2012 and 2011, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 1,571 and 338, 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.

In the year ended December 31, 2011, the Company purchased additional 0.26% of OAO "Seversky Tube Works" shares, 0.13% of OAO "Sinarsky Pipe Plant" shares, 0.03% of OAO "Taganrog Metallurgical Works" shares. The total cash consideration for the shares amounted to 1,374. The excess in the amount of 14 of the consideration given for the shares over the carrying values of net assets attributable to interest in OAO "Taganrog Metallurgical Works" was charged to accumulated profit. The excess in the amount of 439 of the carrying values of net assets attributable to interest in OAO "Seversky Tube Works" and OAO "Sinarsky Pipe Plant" over the consideration paid for such non-controlling interest 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 32 x) 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.

viii) Sale of Non-controlling Interests

In the year ended December 31, 2011, the Group increased share capital of OOO "TMK-INOX". The share capital increase was partially financed by the non-controlling interest shareholder. Cash consideration received from the non-controlling interest shareholder amounted to 298,500 thousand Russian roubles (9,265 at historical exchange rate). The difference between the consideration received and the carrying values of net assets attributable to non-controlling interests in the amount of 42 was charged to accumulated profit.

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Notes to the Consolidated Financial Statements (continued)

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

32) Equity (continued)

ix) 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 an equity transaction:the Group derecognised the non-controlling interest's share of profit in OOO "TMK-INOX", net of dividends attributable, in the amount of 557 in the year ended December 31, 2012 as if it was acquired at that date (2011: change in non-controlling interests amounted to 9,609, including 302 of the non-controlling interest's share of profit, net of dividends attributable);
- 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 2,857 in additional paid-in capital (2011: 7,657).

x) Treasury Shares

	2012		2011	
	Number of shares	**Cost**	**Number of shares**	**Cost**
Outstanding as at January 1	74,420,496	327,339	71,575,796	318,351
Treasury shares purchased during the year	–	–	2,844,700	8,988
Treasury shares transferred as consideration for the acquisition of non-controlling interests (Note 32 vi)	(1,860,868)	(8,190)	–	–
Outstanding as at December 31	**72,559,628**	**319,149**	**74,420,496**	**327,339**

xi) 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.

xii) Increase in Non-controlling Interests from Contribution of Assets by the Group

During the year ended December 31, 2011, the Group made additional contribution of assets to the capital of OAO "Sinarskaya heat and power plant". As a result of the transaction, net assets attributable to non-controlling interests increased by 202. The effect of the increase of non-controlling interests in the amount of 202 was charged to accumulated profit.

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

32) Equity (continued)

xiii) Hedges of Net Investment in Foreign Operations

At the date of the acquisition of controlling interests in NS Group, Inc. and IPSCO Tubulars, Inc. the Group hedged its net investment in these operations against foreign currency risk using borrowings in US dollars made by Russian companies of the Group. As at December 31, 2012, the Group designated US dollar denominated loans in the amount of 1,158,610 (December 31, 2011: 1,158,610) as the hedging instrument. The aim of the hedging was to eliminate foreign currency risk associated with the repayment of these liabilities resulting from changes in US dollar/Russian rouble spot rates.

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, 2012, the effective portion of net gains from spot rate changes in the amount of 1,864,262 thousand Russian roubles (60,427 at historical exchange rates), net of income tax of 372,852 thousand Russian roubles (12,085 at historical exchange rates), was recognised in other comprehensive income.

xiv) 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 year ended December 31, 2012 are presented in the following table:

	Currency forward contracts	Interest rate swap contracts	Total
Cash flow hedges			
Loss arising during the period	(665)	(3,950)	(4,615)
Recognition of realised results in the income statement	617	–	617
Movement on cash flow hedges	**(48)**	**(3,950)**	**(3,998)**
Income tax	5	967	972
Movement on cash flow hedges, net of tax	**(43)**	**(2,983)**	**(3,026)**

33) 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.

33) Financial Risk Management Objectives and Policies (continued)

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.

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 11% of the total loan portfolio at the end of 2012, after taking into account the effect of interest rate swaps (16% at the end of 2011).

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, 2012		
Increase in LIBOR	5	(128)
Decrease in LIBOR	(5)	128
Increase in EURIBOR	16	(225)
Decrease in EURIBOR	(16)	225
As at December 31, 2011		
Increase in LIBOR	15	(660)
Decrease in LIBOR	(15)	660
Increase in EURIBOR	15	(262)
Decrease in EURIBOR	(15)	262

33) Financial Risk Management Objectives and Policies (continued)

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:

	2012	2011
USD/RUR	(1,320,539)	(1,336,893)
EUR/RUR	(144,625)	(198,643)
USD/EUR	3,864	(17,634)
USD/RON	(12,699)	(11,445)
EUR/RON	(59,464)	(70,128)
KZT/RUR	3,414	5,621
USD/CAD	(5,458)	(12,040)

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 borrowings related to the effective portion of the hedge of net investments in foreign operations (Note 32 xiii). In estimating reasonably possible changes for 2012 and 2011 the Group assessed the volatility of foreign exchange rates during the three years preceding the end of the reporting period.

	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	9.01%	-9.01%	(492)	492	–	–

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Notes to the Consolidated Financial Statements (continued)

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33) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

	As at December 31, 2011					
	Volatility range		Effect on profit before tax		Effect on other comprehensive income	
	Low	High	Low	High	Low	High
USD/RUR	12.57%	-12.57%	(22,410)	22,410	(145,637)	145,637
EUR/RUR	9.96%	-9.96%	(19,785)	19,785	–	–
USD/EUR	11.44%	-11.44%	(2,017)	2,017	–	–
USD/RON	14.24%	-14.24%	(1,630)	1,630	–	–
EUR/RON	5.04%	-5.04%	(3,537)	3,537	–	–
KZT/RUR	16.88%	-16.88%	949	(949)	–	–
USD/CAD	11.61%	-11.61%	70	(70)	–	–

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.

The Group's exposure to other price risk relates to changes of the fair value of the Embedded Conversion Option (Note 25) 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, 2012. A 38.01% increase to the value of GDR as at December 31, 2012 would reduce profit before tax by 42,047. A 38.01% decrease from the value of GDR as at December 31, 2012 would result in the increase of profit before tax by 10,490.

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.

33) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

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.

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, 2012	Less than 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	641,487	70,523	–	–	–	–	**712,010**
Accounts payable to related parties	84,351	2,752	–	–	–	–	**87,103**
Interest-bearing loans and borrowings:							
Principal	543,101	497,158	761,742	586,044	631,393	800,000	**3,819,438**
Interest	68,635	172,921	172,557	133,389	86,714	60,418	**694,634**
Finance lease liability	1,561	3,589	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**
	1,351,871	**746,943**	**939,587**	**724,635**	**724,040**	**943,075**	**5,430,151**

As at December 31, 2011	Less than 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	716,807	5,521	–	–	–	–	**722,328**
Accounts payable to related parties	733	–	–	–	–	–	**733**
Interest-bearing loans and borrowings:							
Principal	142,967	428,872	793,248	695,260	325,084	1,384,810	**3,770,241**
Interest	73,140	178,017	203,328	139,538	108,805	140,762	**843,590**
Finance lease liability	774	2,237	2,709	2,931	2,701	35,678	**47,030**
Dividends payable	323	–	–	–	–	–	**323**
Liabilities under put options of non-controlling interest shareholders in subsidiaries	14,051	–	–	–	–	20,898	**34,949**
Other non-current liabilities	–	–	403	595	1,129	9,500	**11,627**
	948,795	**614,647**	**999,688**	**838,324**	**437,719**	**1,591,648**	**5,430,821**

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 trade accounts receivable.

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Notes to the Consolidated Financial Statements (continued)
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33) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

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.

As at December 31, 2012, accounts receivable from the three biggest debtors of the Group amounted to 270,423 (December 31, 2011: 256,961). Management determines concentration by reference to receivables from particular customers as percentage of total accounts receivable.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which are disclosed below:

	2012	2011
Cash and cash equivalents	225,061	230,593
Trade and other receivables	922,932	766,226
Accounts receivable from related parties	1,992	5,417
Other financial assets	4,008	4,047
Other	9,807	13,690
	1,163,800	**1,019,973**

The ageing analysis of trade and other receivables, accounts receivable from related parties and other financial assets is presented in the table below:

	2012		2011	
	Gross amount	Impairment	Gross amount	Impairment
Current trade and other receivables – not past due	679,590	(420)	636,820	(2,345)
Current trade and other receivables – past due			–	–
less than 30 days	137,564	(884)	77,758	(990)
between 30 and 90 days	60,129	(630)	24,139	(3,489)
over 90 days	55,449	(18,471)	59,220	(24,958)
Accounts receivable from related parties – not past due	1,992	–	5,417	–
Non-current trade and other receivables – not past due	32,959	(22,354)	71	–
Other – not past due	9,807	–	13,690	–
	977,490	**(42,759)**	**817,115**	**(31,782)**

33) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

Movement in allowance for doubtful debts was as follows:

	2012	2011
Balance at the beginning of the year	31,782	17,947
Utilised during the year	(2,068)	(3,431)
Additional increase in allowance	11,061	19,551
Currency translation adjustment	1,984	(2,285)
Balance at the end of the year	**42,759**	**31,782**

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 2012, 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.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, such as cash and cash equivalents, short-term investments, short-term accounts receivable and short-term loans approximate their fair value.

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

	As at December 31, 2012		As at December 31, 2011	
	Net carrying amount	Fair value	Net carrying amount	Fair value
Financial liabilities				
Fixed rate long-term bank loans	2,046,239	2,043,917	1,778,324	1,776,743
Variable rate long-term bank loans	397,937	386,896	467,749	439,413
Russian bonds due 2013	164,622	164,786	155,298	155,143
5.25 per cent convertible bonds	409,946	411,560	388,508	384,054
7.75 per cent loan participation notes due 2018	500,000	527,000	500,000	429,690

OAO TMK

Notes to the Consolidated Financial Statements (continued)

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

33) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

The fair value of the bonds and notes was determined based on market quotations. The fair value of fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at prevailing interest rates of 9%, 7% and 5% per annum for loans denominated in Russian rouble, US dollar and euro, respectively, as at December 31, 2012 (9%, 7% and 5% per annum for loans denominated in Russian rouble, US dollar and euro, respectively, as at December 31, 2011).

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 that have a significant effect on the recorded fair value that are not based on observable market data.

As at December 31, 2012 and 2011, the Group held the following financial instruments measured at fair value:

	2012	Level 2	2011	Level 2
Foreign exchange forward contracts	15	15	–	–
Total current assets measured at fair value	**15**	**15**	**–**	**–**
Embedded Conversion Option	(10,490)	(10,490)	(3,024)	(3,024)
Foreign exchange forward contracts	(30)	(30)	–	–
Total current derivative financial instruments	**(10,520)**	**(10,520)**	**(3,024)**	**(3,024)**
				–
Interest rate swaps	(3,950)	(3,950)	–	–
Total non-current derivative financial instruments	**(3,950)**	**(3,950)**	**–**	**–**

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

34) Subsequent Events

Convertible Bonds

According to the Terms and Conditions of the convertible bonds the issuer had to redeem the bonds at the option of the bondholder on February 11, 2013. To exercise such option the holder should have duly submitted such bond for redemption within particular period of time. Up to the date of these financial statements have been authorised for issuance no Bonds were redeemed and full issue was left outstanding.

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

34) Subsequent Events (continued)

Acquisition of Gulf International Pipe Industry LLC

In January-February 2013, the Group paid 8,000 of purchase consideration for the acquisition of Gulf International Pipe Industry LLC. As at the date of authorisation of these consolidated financial statements for issuance, the unpaid amount of the purchase consideration was 3,700.

Major Transactions And Related Party Transactions Executed

By OAO TMK In 2012

Major Transactions

No major transactions were carried out in 2012.

Related Party Transactions

All transactions with related parties were carried out at arm's length.

Сделки, одобренные Общим собранием акционеров ОАО «ТМК»

№ п/п	Parties to the transaction	Subject of the transaction and material terms	Related parties
1	Bank – OAO URALSIB, Principal – ZAO TMK Trade House, Guarantor – OAO TMK	Surety agreement to secure the obligations of the Principal under loan facility agreements. Amount: RUB 4,000,000,000 Term: 22 March 2017	Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.; Members of the Management Board: Semerikov, K.A., Petrosyan, T.I.
2	Lender – OAO TMK, Borrower – ZAO Seversky Tube Works	Loan agreement Amount: RUB 3,000,000,000 Term: 26 January 2014	Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.; Members of the Management Board: Klachkov, A.A., Petrosyan, T.I.
3	Lender – OAO TMK, Borrower – ZAO Volzhsky Pipe Plant	Loan agreement Amount: RUB 3,000,000,000 Term: 25 January 2014	Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.; Members of the Management Board: Lyalkov, A.G., Petrosyan, T.I.

Transactions approved by the Board of Directors of OAO TMK

№ п/п	Parties to the transaction	Subject of the transaction and material terms	Related parties
1	Bank – OAO URALSIB, Borrower – ZAO TMK Trade House, Guarantor – OAO TMK	Surety agreement to secure the obligations of the Principal under loan facility agreements. Amount: RUB 8,000,000 Term: 22 March 2015	Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.; Members of the Management Board: Semerikov, K.A., Petrosyan, T.I.
2	Lender – Sonatrach (Algeria), Borrower – TMK Global SA, Guarantor – OAO TMK	Surety agreement in favour of the Lender for the full amount of Borrower's obligations. Amount: RUB 6,760,047,454.56	OAO TMK
3	Lender – Credit Suisse AG, Borrower – TMK M.E. FZCO; Guarantor – OAO TMK	Surety/guarantee agreement to secure Borrower's obligations to the Lender under the loan facility agreement. Amount: RUB 1,468,001,000 Term: 31 July 2015	OAO TMK
4	Agent – OAO TMK, Principal – ZAO Seversky Tube Works	Agency agreement.	Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.; Members of the Management Board: Klachkov, A.A., Petrosyan, T.I.
5	OAO TMK, OAO Volzhsky Pipe Plant	Addendum to the Agreement on 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 634,368,000 Term: till 1 January 2015	Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.; Members of the Management Board: Lyalkov, A.G., Petrosyan, T.I.
6	OAO TMK, OAO Sinarsky Pipe Plant	Addendum to the Agreement on 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 634,368,000 Term: till 1 January 2015	Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.; Members of the Management Board: Lyalkov, A.G., Petrosyan, T.I.
7	OAO TMK, OAO Seversky Tube Works	Addendum to the Agreement on 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 634,368,000 Term: till 1 January 2015	Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.; Members of the Management Board: Klachkov, A.A., Petrosyan, T.I.

8	OAO TMK, OAO TAGMET	Addendum to the Agreement on 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 634,368,000 Term: till 1 January 2015	Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.; Members of the Management Board: Petrosyan, T.I.
9	Company – OAO TNK-BP Holding, Guarantor – OAO TMK, Debtor – ZAO TMK Trade House	Addendum to the Surety agreement to secure Debtor's obligations to refund advance payments. Amount: RUB 1,950,000,000 Term: till 30 June 2013	Members of the Board of Directors: Kaplunov, A.Yu., Shiryaev, A.G.; Members of the Management Board: Petrosyan, T.I.
10	Bank – Gazprombank (Switzerland), Guarantor – OAO TMK, Borrower – TMK Middle East	Guarantee Agreement to secure obligations of TMK Middle East under the L/C and loan facility agreement. Amount: RUB 1,366,771,500 Term: 29 December 2015	OAO TMK

Glossary
And Contacts

Glossary

Casing pipes – Steel pipes used to line the walls of a well.

Drill pipes – Pipes used to drill oil and gas wells; these pipes make up the drill string with tool joints. Drill pipes are used for lowering and raising the drill bit, transmitting rotational force, creating axial load on the tool and sending drilling mud or compressed air into the well.

EBITDA – Earnings before Interest, Taxes, Depreciation, and Amortization.

FQM – Fine Quality Mill is a retained mandrel mill that uses the state-of-the-art process for seamless tube rolling, featuring 3-roll stands. The mill produces tubes of the highest quality up to 18” in a wider range of sizes and steel grades, as compared with the traditional two-roll process. The mill is based on a compact and simplified design, with a high degree of component standardization, and allows easy and quick roll changes (www.danieli.com).

ISO 13679 standards – Series of standards for tests and criteria for acceptance for joints of casing and tubing pipes used in oil and gas industry (www.iso.org).

ISO 14000 standards – Series of standards for ecological management system (www.iso.org).

ISO 9000 standards – Series of standards for quality management systems (www.iso.org).

Large diameter pipes (LDP) – This type of pipes is used in the construction of trunk pipeline systems for the long distance transportation of natural gas, crude oil and petroleum products. TMK produces longitudinal and spiral large-diameter welded pipes with diameters ranging from 457 mm to 2,520 mm, wall thickness of up to 42 mm and in strength groups of up to X100.

Line pipes – Line pipes are used in the construction of oil and gas pipelines for the short-distance transportation of crude oil, oil products and natural gas from deposits to storage reservoirs, oil terminals, and loading and distribution centers. TMK produces both welded and seamless line pipe.

OCTG – Oil country tubular goods are threaded pipes used in the oil and gas industry including, drill pipe, casing, and tubing. TMK produces both welded and seamless OCTG.

OHSAS 18001 standards – Series of standards for labor protection management system (www.iso.org).

Seamless pipes – Pipes manufactured through the insertion of a solid billet in a press or a piercing mill (with subsequent hot or cold working). As its name implies, this type of pipe has no weld seam.

Tubing – Pipes that are inserted inside the casing string to bring oil or gas to the surface.

Welded pipes – Pipes that are made from metal coil, plate, strip or sheet, rolled and welded, manufactured on a tube welding mill.

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