OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 2012

OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 2012

Contents

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

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

Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors OAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OAO TMK and its subsidiaries ("Group"), comprising the interim consolidated statement of financial position as at 30 June 2012 and the related interim consolidated statements of income, comprehensive income for the three and six months then ended, statements of changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

August 29, 2012

OAO TMK

Unaudited Interim Consolidated Income Statement

Six-month period ended June 30, 2012

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

	NOTES	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011	Three-month period ended June 30, 2012	Three-month period ended June 30, 2011
Revenue:	1	3,439,280	3,547,219	1,780,698	1,878,649
Sales of goods		*3,378,622*	*3,487,169*	*1,752,428*	*1,853,659*
Rendering of services		*60,658*	*60,050*	*28,270*	*24,990*
Cost of sales	2	(2,638,738)	(2,732,971)	(1,391,536)	(1,455,578)
Gross profit		**800,542**	**814,248**	**389,162**	**423,071**
Selling and distribution expenses	3	(228,286)	(205,976)	(108,591)	(107,204)
Advertising and promotion expenses	4	(5,147)	(4,724)	(3,191)	(3,165)
General and administrative expenses	5	(142,243)	(139,556)	(70,167)	(73,735)
Research and development expenses	6	(9,620)	(8,253)	(5,054)	(4,369)
Other operating expenses	7	(28,472)	(25,091)	(17,585)	(12,194)
Other operating income	8	4,565	9,345	2,329	4,682
Impairment of goodwill		–	(3,368)	–	(3,368)
Foreign exchange gain/(loss), net		5,140	32,952	(26,222)	118
Finance costs		(149,045)	(159,454)	(71,736)	(78,424)
Finance income	9	12,306	15,394	10,058	6,524
(Loss)/gain on changes in fair value of derivative financial instrument	21	(2,059)	15,277	7,105	32,337
Share of (loss)/profit of associates	10	(277)	–	67	–
Gain on disposal of assets classified as held for sale	11	–	19,184	–	19,184
Profit before tax		**257,404**	**359,978**	**106,175**	**203,457**
Income tax expense	12	(75,562)	(102,315)	(29,716)	(49,930)
Profit for the period		**181,842**	**257,663**	**76,459**	**153,527**
Attributable to:					
Equity holders of the parent entity		179,120	255,605	75,358	152,645
Non-controlling interests		2,722	2,058	1,101	882
		181,842	**257,663**	**76,459**	**153,527**
Earnings per share attributable to equity holders of the parent entity (in US dollars)					
Basic	13	**0.21**	**0.30**	**0.09**	**0.18**
Diluted	13	**0.21**	**0.24**	**0.09**	**0.13**

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

OAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income

Six-month period ended June 30, 2012

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011	Three-month period ended June 30, 2012	Three-month period ended June 30, 2011
Profit for the period		**181,842**	**257,663**	**76,459**	**153,527**
Exchange differences on translation to presentation currency [a]		(36,410)	50,047	(100,808)	5,868
Foreign currency (loss)/gain on hedged net investment in foreign operation [b]	24 (iv)	(22,403)	95,686	(132,195)	14,622
Income tax [b]	24 (iv)	4,481	(19,137)	26,439	(2,924)
		(17,922)	**76,549**	**(105,756)**	**11,698**
Movement on cash flow hedges [a]	24 (vii)	(2,910)	–	(3,011)	–
Income tax [a]	24 (vii)	679	–	645	–
		(2,231)	**–**	**(2,366)**	**–**
Other comprehensive income/(loss) for the period, net of tax		**(56,563)**	**126,596**	**(208,930)**	**17,566**
Total comprehensive income/(loss) for the period, net of tax		**125,279**	**384,259**	**(132,471)**	**171,093**
Attributable to:					
Equity holders of the parent entity		124,791	373,770	(123,001)	169,945
Non-controlling interests		488	10,489	(9,470)	1,148
		125,279	**384,259**	**(132,471)**	**171,093**

(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:

	Six-month period ended June 30, 2012	Six-month period ended June 30, 2011	Three-month period ended June 30, 2012	Three-month period ended June 30, 2011
Exchange differences on translation to presentation currency attributable to:				
Equity holders of the parent entity	(34,206)	41,616	(90,288)	5,602
Non-controlling interests	(2,204)	8,431	(10,520)	266
	(36,410)	**50,047**	**(100,808)**	**5,868**
Movement on cash flow hedges attributable to:				
Equity holders of the parent entity	(2,201)	–	(2,315)	–
Non-controlling interests	(30)	–	(51)	–
	(2,231)	**–**	**(2,366)**	**–**

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

OAO TMK

Unaudited Interim Consolidated Statement of Financial Position

At June 30, 2012

(All amounts in thousands of US dollars)

	NOTES	June 30, 2012		December 31, 2011	
ASSETS					
Current assets					
Cash and cash equivalents	14, 22	137,366		230,593	
Trade and other receivables		867,906		766,155	
Accounts receivable from related parties	22	3,714		5,526	
Inventories	15	1,363,613		1,418,455	
Prepayments and input VAT		123,884		170,708	
Prepaid income taxes		2,800		29,580	
Other financial assets		4,060	**2,503,343**	4,047	**2,625,064**
Non-current assets					
Investments in associates	10	1,427		1,717	
Intangible assets	17	385,254		413,263	
Property, plant and equipment	16	3,342,877		3,347,648	
Goodwill	17	545,756		547,211	
Deferred tax asset		85,296		97,880	
Other non-current assets		136,985	**4,497,595**	99,458	**4,507,177**
TOTAL ASSETS			**7,000,938**		**7,132,241**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	18	726,182		862,940	
Advances from customers		116,973		188,861	
Accounts payable to related parties	22	79,669		733	
Provisions and accruals	19	37,214		46,075	
Interest-bearing loans and borrowings	20, 21	985,186		597,551	
Finance lease liability		2,965		1,826	
Derivative financial instruments		5,644		3,024	
Dividends payable		20,545		323	
Income tax payable		8,629	**1,983,007**	4,078	**1,705,411**
Non-current liabilities					
Interest-bearing loans and borrowings	20, 21	2,672,912		3,153,274	
Finance lease liability		49,395		34,290	
Deferred tax liability		299,413		304,785	
Provisions and accruals	19	31,672		25,336	
Employee benefits liability		51,283		51,836	
Other liabilities		35,446	**3,140,121**	32,525	**3,602,046**
Total liabilities			**5,123,128**		**5,307,457**
Equity	24				
Parent shareholders' equity					
Issued capital		326,417		326,417	
Treasury shares		(327,339)		(327,339)	
Additional paid-in capital		385,107		384,581	
Reserve capital		16,390		16,390	
Retained earnings		1,530,295		1,421,437	
Foreign currency translation reserve		(140,679)		(88,551)	
Unrealised gain/(loss) on financial instruments		(2,201)	1,787,990	–	1,732,935
Non-controlling interests			89,820		91,849
Total equity			**1,877,810**		**1,824,784**
TOTAL EQUITY AND LIABILITIES			**7,000,938**		**7,132,241**

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

OAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity

Six-month period ended June 30, 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 period	–	–	–	–	179,120	–	–	**179,120**	2,722	**181,842**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(52,128)	(2,201)	**(54,329)**	(2,234)	**(56,563)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**179,120**	**(52,128)**	**(2,201)**	**124,791**	**488**	**125,279**
Dividends declared by the parent entity to its shareholders (Note 24 ii)	–	–	–	–	(70,262)	–	–	**(70,262)**	–	**(70,262)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 24 iii)	–	–	–	–	–	–	–	**–**	(1,571)	**(1,571)**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 24 v)	–	–	386	–	–	–	–	**386**	(386)	**–**
Acquisition of non-controlling interests in subsidiaries (Note 24 vi)	–	–	140	–	–	–	**–**	**140**	(560)	**(420)**
At June 30, 2012	**326,417**	**(327,339)**	**385,107**	**16,390**	**1,530,295**	**(140,679)**	**(2,201)**	**1,787,990**	**89,820**	**1,877,810**

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

OAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity

Six-month period ended June 30, 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 period	–	–	–	–	255,605	–	**255,605**	2,058	**257,663**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	118,165	**118,165**	8,431	**126,596**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**255,605**	**118,165**	**373,770**	**10,489**	**384,259**
Dividends declared by the parent entity to its shareholders	–	–	–	–	(25,967)	–	**(25,967)**	–	**(25,967)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 24 iii)	–	–	–	–	–	–	**–**	(338)	**(338)**
Acquisition of non-controlling interests in subsidiaries	–	–	384	–	(14)	–	**370**	(1,509)	**(1,139)**
Increase in non-controlling interests from contributions of assets by the Group	–	–	–	–	(186)	–	**(186)**	186	**–**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	17	–	–	–	**17**	(17)	**–**
At June 30, 2011	**326,417**	**(318,351)**	**376,886**	**15,387**	**1,323,999**	**136,441**	**1,860,779**	**103,340**	**1,964,119**

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

OAO TMK

Unaudited Interim Consolidated Cash Flow Statement

Six-month period ended June 30, 2012

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30, 2012	2011
Operating activities			
Profit before tax		257,404	359,978
Adjustments to reconcile profit before tax to operating cash flows:			
Depreciation of property, plant and equipment		130,957	135,455
Amortisation of intangible assets	17	29,931	34,664
Loss on disposal of property, plant and equipment	7	6,884	1,246
Impairment of goodwill		–	3,368
Foreign exchange gain, net		(5,140)	(32,952)
Finance costs		149,045	159,454
Finance income	9	(12,306)	(15,394)
Loss/(gain) on changes in fair value of derivative financial instrument	21	2,059	(15,277)
Gain on disposal of assets classified as held for sale	11	–	(19,184)
Share of loss of associates	10	277	–
Allowance for net realisable value of inventory		(667)	2,272
Allowance for doubtful debts		9,616	7,121
Movement in other provisions		(1,264)	4,726
Operating cash flows before working capital changes		**566,796**	**625,477**
Working capital changes:			
Decrease/(increase) in inventories		47,536	(140,890)
Increase in trade and other receivables		(131,643)	(254,313)
Decrease/(increase) in prepayments		39,974	(837)
(Decrease)/increase in trade and other payables		(110,057)	188,877
Decrease in advances from customers		(72,537)	(4,119)
Cash generated from operations		**340,069**	**414,195**
Income taxes paid		(28,133)	(36,534)
Net cash flows from operating activities		**311,936**	**377,661**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(197,724)	(189,997)
Proceeds from sale of property, plant and equipment		315	425
Purchase of ownership interest in associate		–	(4,004)
Prepayment for acquisition of subsidiary		(5,411)	–
Issuance of loans		(1,800)	(1,219)
Proceeds from repayment of loans issued		884	417
Interest received		3,542	1,028
Dividends received		4,525	9,810
Net cash flows used in investing activities		**(195,669)**	**(183,540)**
Financing activities			
Proceeds from borrowings		152,119	1,906,608
Repayment of borrowings		(226,456)	(1,942,409)
Interest paid		(133,404)	(141,937)
Payment of finance lease liabilities		(2,279)	(1,419)
Acquisition of non-controlling interests		(324)	(1,139)
Dividends paid to non-controlling interest shareholders		(243)	(74)
Net cash flows used in financing activities		**(210,587)**	**(180,370)**
Net (decrease)/increase in cash and cash equivalents		(94,320)	13,751
Net foreign exchange difference		1,093	(1,215)
Cash and cash equivalents at January 1		230,593	157,524
Cash and cash equivalents at June 30		**137,366**	**170,060**

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

Corporate Information

These interim condensed consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the six-month period ended June 30, 2012 were authorised for issue in accordance with a resolution of the General Director on August 29, 2012.

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

As at June 30, 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

Basis of Preparation

These interim condensed consolidated financial statements for the six-month period ended June 30, 2012 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Accordingly, these interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements for the year ended December 31, 2011. Operating results for the six-month period ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

Changes in Accounting Policies

In the preparation of these interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the annual consolidated financial statements for the year ended December 31, 2011, except for the effect of adoption of new International Financial Reporting Standards ("IFRS") and revision of existing IAS none of which had a significant effect on the financial position or performance of the Group. The changes in accounting policies of the Group, which became effective on January 1, 2012, result from adoption of the following amended standards:

Basis of Preparation (continued)

Changes in Accounting Policies (continued)

IFRS 7 *Financial Instruments: Disclosures* (amended)

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 year-end disclosures only and did not have any impact on the financial position or performance of the Group.

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.

Index to the Notes

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

1) Segment Information

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

- Russia segment represents the results of operations and financial position of plants located in Russian Federation, a finishing facility in Kazakhstan, Oilfield service companies and traders located in Russia, Kazakhstan, the United Arab Emirates, Switzerland, South Africa.
- 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 six-month periods ended June 30, 2012 and 2011, respectively.

Six-month period ended June 30, 2012	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	2,369,851	887,227	182,202	**3,439,280**
Cost of sales	(1,804,141)	(698,909)	(135,688)	**(2,638,738)**
GROSS PROFIT	**565,710**	**188,318**	**46,514**	**800,542**
Selling, general and administrative expenses	(293,329)	(72,113)	(19,854)	**(385,296)**
Other operating income/(expenses), net	(18,077)	(5,380)	(450)	**(23,907)**
OPERATING PROFIT	**254,304**	**110,825**	**26,210**	**391,339**
ADD BACK:				
Depreciation and amortisation	111,650	43,204	6,034	**160,888**
Loss/(gain) on disposal of property, plant and equipment	3,851	2,839	194	**6,884**
Allowance for net realisable value of inventory	(346)	(315)	(6)	**(667)**
Allowance for doubtful debts	9,759	(775)	632	**9,616**
Movement in other provisions	995	(1,421)	(838)	**(1,264)**
	125,909	**43,532**	**6,016**	**175,457**
ADJUSTED EBITDA	**380,213**	**154,357**	**32,226**	**566,796**

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

1) Segment Information (continued)

Six-month period ended June 30, 2012	**Russia**	**Americas**	**Europe**	**TOTAL**
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**380,213**	**154,357**	**32,226**	**566,796**
Reversal of adjustments from operating profit to EBITDA	(125,909)	(43,532)	(6,016)	**(175,457)**
OPERATING PROFIT	**254,304**	**110,825**	**26,210**	**391,339**
Foreign exchange gain/(loss), net	5,798	778	(1,436)	**5,140**
OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**260,102**	**111,603**	**24,774**	**396,479**
Finance costs				**(149,045)**
Finance income				**12,306**
Loss on changes in fair value of derivative financial instrument				**(2,059)**
Share of loss of associates				**(277)**
PROFIT BEFORE TAX				**257,404**

Six-month period ended June 30, 2011	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	2,589,430	765,086	192,703	**3,547,219**
Cost of sales	(2,008,189)	(585,288)	(139,494)	**(2,732,971)**
GROSS PROFIT	**581,241**	**179,798**	**53,209**	**814,248**
Selling, general and administrative expenses	(266,913)	(71,128)	(20,468)	**(358,509)**
Other operating income/(expenses), net	(15,069)	1,553	(2,230)	**(15,746)**
OPERATING PROFIT	**299,259**	**110,223**	**30,511**	**439,993**
ADD BACK:				
Depreciation and amortisation	115,797	49,786	4,536	**170,119**
Loss/(gain) on disposal of property, plant and equipment	1,178	(49)	117	**1,246**
Allowance for net realisable value of inventory	314	1,988	(30)	**2,272**
Allowance for doubtful debts	7,030	(23)	114	**7,121**
Movement in other provisions	6,501	(1,723)	(52)	**4,726**
	130,820	**49,979**	**4,685**	**185,484**
ADJUSTED EBITDA	**430,079**	**160,202**	**35,196**	**625,477**

Six-month period ended June 30, 2011	**Russia**	**Americas**	**Europe**	**TOTAL**
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**430,079**	**160,202**	**35,196**	**625,477**
Reversal of adjustments from operating profit to EBITDA	(130,820)	(49,979)	(4,685)	**(185,484)**
OPERATING PROFIT	**299,259**	**110,223**	**30,511**	**439,993**
Impairment of goodwill	(3,368)	–	–	**(3,368)**
Foreign exchange gain/(loss), net	23,037	(578)	10,493	**32,952**
OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**318,928**	**109,645**	**41,004**	**469,577**
Finance costs				**(159,454)**
Finance income				**15,394**
Gain on changes in fair value of derivative financial instrument				**15,277**
Gain on disposal of assets classified as held for sale				**19,184**
PROFIT BEFORE TAX				**359,978**

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

1) Segment Information (continued)

The following table presents additional information of the Group's reportable segments as at June 30, 2012 and December 31, 2011:

Segment assets	Russia	Americas	Europe	TOTAL
At June 30, 2012	4,598,455	1,985,101	417,382	**7,000,938**
At December 31, 2011	4,771,557	1,957,104	403,580	**7,132,241**

The following table presents the revenues from external customers for each group of similar products and services for the six-month periods ended June 30, 2012 and 2011, respectively:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Six-month period ended June 30, 2012	2,143,070	1,141,912	154,298	**3,439,280**
Six-month period ended June 30, 2011	2,021,304	1,370,250	155,665	**3,547,219**

2) Cost of Sales

Cost of sales consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2012	**2011**	**2012**	**2011**
Raw materials and consumables	1,774,372	1,925,878	860,268	981,368
Staff costs including social security	350,754	333,311	172,578	171,523
Energy and utilities	191,430	212,671	84,500	96,581
Depreciation and amortisation	126,208	128,264	62,553	66,674
Repairs and maintenance	69,845	68,731	34,783	36,900
Contracted manufacture	59,598	35,439	42,326	15,154
Freight	33,339	30,434	16,335	14,504
Taxes	26,259	25,888	13,184	13,333
Professional fees and services	18,350	10,875	7,779	5,548
Rent	5,617	5,083	2,781	2,503
Travel	1,377	1,208	793	684
Communications	607	495	254	317
Insurance	520	452	266	243
Other	3,088	1,413	1,879	775
Total production cost	**2,661,364**	**2,780,142**	**1,300,279**	**1,406,107**
Change in own finished goods and work in progress	(40,901)	(95,633)	79,762	13,353
Cost of sales of externally purchased goods	13,624	47,064	7,133	34,746
Obsolete stock, write-offs	4,651	1,398	4,362	1,372
Cost of sales	**2,638,738**	**2,732,971**	**1,391,536**	**1,455,578**

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

3) Selling and Distribution Expenses

Selling and distribution expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2012	**2011**	**2012**	**2011**
Freight	132,870	107,001	60,393	57,496
Staff costs including social security	31,895	30,809	15,430	14,824
Depreciation and amortisation	26,672	32,800	13,299	16,399
Consumables	10,661	10,831	5,253	5,497
Bad debt expense	9,808	7,270	5,619	4,797
Professional fees and services	6,895	7,262	3,960	3,398
Rent	3,628	3,946	1,798	1,917
Travel	2,365	2,092	1,254	1,213
Utilities and maintenance	1,053	1,291	448	664
Communications	674	634	334	334
Insurance	616	829	290	399
Taxes	221	656	114	266
Other	928	555	399	–
	228,286	**205,976**	**108,591**	**107,204**

4) Advertising and Promotion Expenses

Advertising and promotion expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2012	**2011**	**2012**	**2011**
Exhibits and catalogues	2,581	2,884	1,126	1,629
Outdoor advertising	1,771	712	1,771	712
Media	435	389	189	227
Other	360	739	105	597
	5,147	**4,724**	**3,191**	**3,165**

5) General and Administrative Expenses

General and administrative expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2012	**2011**	**2012**	**2011**
Staff costs including social security	81,994	80,527	40,431	42,044
Professional fees and services	26,169	26,739	12,943	15,060
Depreciation and amortisation	7,745	6,620	4,029	3,444
Travel	4,931	5,363	2,763	3,162
Utilities and maintenance	4,784	3,909	1,989	1,595
Insurance	3,256	2,269	1,547	1,159
Communications	3,223	2,577	1,596	1,149
Transportation	3,055	2,977	1,397	1,757
Rent	2,533	2,503	1,206	1,277
Consumables	1,872	1,902	1,040	1,128
Taxes	1,762	2,982	855	1,558
Other	919	1,188	371	402
	142,243	**139,556**	**70,167**	**73,735**

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

6) Research and Development Expenses

Research and development expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2012	**2011**	**2012**	**2011**
Staff costs including social security	6,522	5,680	3,418	2,851
Professional fees and services	830	542	558	393
Depreciation and amortisation	512	513	265	271
Travel	496	300	229	173
Consumables	426	371	231	213
Utilities and maintenance	424	333	150	147
Transportation	152	144	79	78
Other	258	370	124	243
	9,620	**8,253**	**5,054**	**4,369**

7) Other Operating Expenses

Other operating expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2012	**2011**	**2012**	**2011**
Social and social infrastructure maintenance expenses	8,778	7,220	4,990	3,386
Loss on disposal of property, plant and equipment	6,884	1,246	5,416	1,086
Sponsorship and charitable donations	6,818	7,392	2,907	3,578
Penalties, fines and expenses related to tax issues	4,806	7,586	3,860	3,510
Other	1,186	1,647	412	634
	28,472	**25,091**	**17,585**	**12,194**

8) Other Operating Income

Other operating income consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2012	**2011**	**2012**	**2011**
Gain from penalties and fines	1,958	4,097	1,198	3,241
Gain on sales of current assets	311	25	297	4
Other	2,296	5,223	834	1,437
	4,565	**9,345**	**2,329**	**4,682**

9) Finance Income

Finance income consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2012	2011	**2012**	**2011**
Dividends	8,453	14,018	8,453	5,723
Interest income – bank accounts and deposits	3,853	1,376	1,605	801
	12,306	**15,394**	**10,058**	**6,524**

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

10) Investments in Associates

Movement in investments in associates in the six-month period ended June 30, 2012, was as follows:

	Volgograd River Port	Lhoist-TMK B.V.	Total
Investments in associates as at January 1, 2012	1,662	55	1,717
Share of loss of associates	(218)	(59)	(277)
Currency translation adjustment	(17)	4	(13)
Investments in associates as at June 30, 2012	**1,427**	**–**	**1,427**

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

On May 27, 2011, the Group finalised the sale of a 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 six-month period ended June 30, 2011.

12) Income Tax

Income tax expense consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2012	2011	2012	2011
Current income tax expense	60,926	65,814	32,341	41,094
Current income tax benefit	(158)	(87)	–	(87)
Adjustments in respect of income tax of previous periods	(27)	437	(26)	43
Deferred income tax expense related to origination and reversal of temporary differences	14,821	36,151	(2,599)	8,880
Total income tax expense	**75,562**	**102,315**	**29,716**	**49,930**

(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 21).

Earnings per share attributable to the equity holders of the parent entity, basic and diluted were as follows:

	Six-month period ended June 30,		**Three-month period ended June 30,**	
	2012	**2011**	**2012**	**2011**
Profit for the period attributable to the equity holders of the parent entity	179,120	255,605	75,358	152,645
Effect of convertible bonds, net of tax (if dilutive)	–	(31,328)	–	(31,067)
Profit for the period attributable to the equity holders of the parent entity adjusted for the effect of dilution	179,120	224,277	75,358	121,578
Weighted average number of ordinary shares outstanding	863,165,598	866,010,298	863,165,598	866,010,298
Weighted average number of ordinary shares outstanding (adjusted for the effect of dilution, where convertible bonds were dilutive)	863,165,598	937,516,254	863,165,598	937,516,254
Earnings per share attributable to the equity holders of the parent entity (in US dollars)				
Basic	0.21	0.30	0.09	0.18
Diluted	0.21	0.24	0.09	0.13

14) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2012	**December 31, 2011**
Russian rouble	121,889	164,695
US dollar	10,816	60,980
Euro	3,538	3,235
Romanian lei	586	1,205
Other currencies	537	478
	137,366	**230,593**

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

14) Cash and Cash Equivalents (continued)

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

As at June 30, 2012, the amount of cash and cash equivalents included 33,644 which is available to finance investing activities only (December 31, 2011: 42,291).

15) Inventories

Inventories consisted of the following:

	June 30, 2012	December 31, 2011
Raw materials and supplies	534,532	614,031
Finished goods and work in process	844,080	820,250
Gross inventories	**1,378,612**	**1,434,281**
Allowance for net realisable value of inventory	(14,999)	(15,826)
Net inventories	**1,363,613**	**1,418,455**

16) Property, Plant and Equipment

Movement in property, plant and equipment was as follows in the six-month period ended June 30, 2012:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improve-ments	Construc-tion in progress	TOTAL
COST							
Balance at January 1, 2012	1,251,585	2,664,393	59,453	54,878	12,860	495,403	**4,538,572**
Additions	–	–	–	–	–	198,104	**198,104**
Assets put into operation	26,870	121,785	1,795	4,041	2,268	(156,759)	**–**
Disposals	(1,655)	(11,137)	(222)	(656)	–	(98)	**(13,768)**
Currency translation adjustments	(26,583)	(55,370)	(1,837)	(1,015)	(46)	(10,061)	**(94,912)**
BALANCE AT JUNE 30, 2012	**1,250,217**	**2,719,671**	**59,189**	**57,248**	**15,082**	**526,589**	**4,627,996**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2012	(206,163)	(922,159)	(26,792)	(32,430)	(3,380)	–	**(1,190,924)**
Depreciation charge	(18,847)	(105,943)	(2,086)	(3,971)	(342)	–	**(131,189)**
Disposals	519	7,195	189	452	–	–	**8,355**
Currency translation adjustments	5,289	21,716	863	762	9	–	**28,639**
BALANCE AT JUNE 30, 2012	**(219,202)**	**(999,191)**	**(27,826)**	**(35,187)**	**(3,713)**	**–**	**(1,285,119)**
NET BOOK VALUE AT JUNE 30, 2012	**1,031,015**	**1,720,480**	**31,363**	**22,061**	**11,369**	**526,589**	**3,342,877**
NET BOOK VALUE AT JANUARY 1, 2012	**1,045,422**	**1,742,234**	**32,661**	**22,448**	**9,480**	**495,403**	**3,347,648**

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

17) Goodwill and Other Intangible Assets

Movement in intangible assets was as follows in the six-month period ended June 30, 2012:

	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	143	–	709	–	–	–	1,259	**2,111**
Disposals	(16)	–	(8)	–	–	–	(188)	**(212)**
Currency translation adjustments	(30)	(1,752)	(456)	–	–	–	(176)	**(2,414)**
BALANCE AT JUNE 30, 2012	**209,638**	**561,071**	**21,787**	**472,300**	**14,100**	**8,500**	**7,169**	**1,294,565**
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	(38)	–	(2,483)	(25,650)	(881)	–	(879)	**(29,931)**
Disposals	16	–	8	–	–	–	176	**200**
Currency translation adjustments	11	297	398	–	–	–	76	**782**
BALANCE AT JUNE 30, 2012	**(305)**	**(15,315)**	**(14,380)**	**(315,724)**	**(7,142)**	**(8,500)**	**(2,189)**	**(363,555)**
NET BOOK VALUE AT JUNE 30, 2012	**209,333**	**545,756**	**7,407**	**156,576**	**6,958**	**–**	**4,980**	**931,010**
NET BOOK VALUE AT JANUARY 1, 2012	**209,247**	**547,211**	**9,239**	**182,226**	**7,839**	**–**	**4,712**	**960,474**

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

	June 30, 2012		December 31, 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
European division	6,017	–	6,185	–
Kaztrubprom Plant	4,772	–	4,863	–
Oilfield division	29,391	–	29,957	–
Other cash-generating units	32,608	–	33,238	–
	545,756	**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 that the carrying value may be impaired. At June 30, 2012, there were no indicators of impairment of cash generating units.

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

18) Trade and Other Payables

Trade and other payables consisted of the following:

	June 30, 2012	December 31, 2011
Trade payables	542,760	653,100
Accounts payable for property, plant and equipment	41,571	42,282
Liabilities for VAT	37,622	55,103
Payroll liabilities	27,037	30,348
Accrued and withheld taxes on payroll	16,271	16,204
Liabilities for property tax	13,013	13,399
Liabilities under put options of non-controlling interest shareholders in subsidiaries	12,399	14,051
Sales rebate payable	7,338	7,926
Liabilities for other taxes	3,377	3,442
Notes issued to third parties	3,029	8,408
Other payables	21,765	18,677
	726,182	**862,940**

19) Provisions and Accruals

Provisions and accruals consisted of the following:

	June 30, 2012	December 31, 2011
Current:		
Provision for bonuses	14,824	21,488
Accrual for unused annual leaves, current portion	10,937	10,549
Accrual for long-service benefit	6,882	10,209
Current portion of employee benefits liability	3,836	2,693
Environmental provision, current portion	535	932
Provision for tax and other fines	200	204
	37,214	**46,075**
Non-current:		
Accrual for unused annual leaves	25,356	20,930
Environmental provision	4,198	4,406
Provision for bonuses	2,118	–
	31,672	**25,336**

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

20) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	June 30, 2012	December 31, 2011
Current:		
Bank loans	128,214	242,830
Interest payable	27,531	27,981
Current portion of non-current borrowings	435,688	329,009
Current portion of bearer coupon debt securities	398,845	–
Unamortised debt issue costs	(5,092)	(2,269)
Total short-term loans and borrowings	**985,186**	**597,551**
Non-current:		
Bank loans	2,469,121	2,459,613
Bearer coupon debt securities	1,051,206	1,043,806
Unamortised debt issue costs	(12,882)	(21,136)
Less: current portion of non-current borrowings	(435,688)	(329,009)
Less: current portion of bearer coupon debt securities	(398,845)	–
Total long-term loans and borrowings	**2,672,912**	**3,153,274**

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

	Interest rates for the period ended	June 30, 2012	Interest rates for the period ended	December 31, 2011
Russian rouble	Fixed 8.25% - 9.5%	1,620,151	Fixed 6.7% - 9.5%	1,712,829
US Dollar	Fixed 5.25%	398,808	Fixed 5.25%	385,981
	Fixed 7.75%	513,174	Fixed 7.75%	512,935
	Fixed 7%	400,765	Fixed 3.15% - 7%	447,541
			Cost of funds + 1.75% - 2.5% (*)	5,424
	Variable:	534,706	Variable:	440,304
	Libor (1m) + 2.25% - 4.15%		Libor (1m) + 2.25% - 4.15%	
	Libor (3m - 12m) + 0.8% - 2.65%		Libor (3m - 13m) + 1% - 2.75%	
Euro	Fixed 5.19% - 5.75%	62,527	Fixed 5.19%	74,510
	Variable:	127,808	Variable:	170,953
	Euribor (1m) + 3.5% - 4.05%		Euribor (1m) + 1.6% - 4.05%	
	Euribor (3m) + 3.5%		Euribor (3m) + 2.7% - 3.5%	
	Euribor (6m) + 0.26% - 1.1%		Euribor (6m) + 0.26% - 0.3%	
			Euribor (10m - 15m) + 1.1%	
Romanian Lei	Robor (6m) + 3%	159	Robor (6m) + 3%	348
		3,658,098		**3,750,825**

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

Unutilised Borrowing Facilities

As at June 30, 2012, the Group had unutilised borrowing facilities in the amount of 819,322 (December 31, 2011: 736,163).

21) Convertible Bonds

On February 11, 2010, TMK Bonds S.A., the Group's special purposes entity, completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAO TMK. The bonds are listed on the London Stock Exchange. The bonds have nominal value of 100,000 US dollars each and were issued at 100% of their principal amount. The convertible bonds carry a coupon of 5.25% per annum, payable on a quarterly basis. As at June 30, 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 six-month period ended June 30, 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 and recorded as part of derivative financial instruments in the statement of financial position. 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 950 bps and 1,094 bps as at June 30, 2012 and December 31, 2011, respectively. As at June 30, 2012, the fair value of the Embedded Conversion Option was 5,083 (December 31, 2011: 3,024). The change in the fair value of the embedded derivative during the reporting period resulted in a loss of 2,059, which has been recorded as loss on changes in fair value of derivative financial instrument in the income statement for the six-month period ended June 30, 2012.

The fair value of the host component at the initial recognition date has been determined as a residual amount after deducting the fair value of the Embedded Conversion Option from the issue price of the convertible bonds adjusted for transaction costs. The host component is subsequently carried at the amortised cost using the effective interest method. As at June 30, 2012, the carrying value of the host component was 398,808 (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 June 30, 2012.

There were no conversions of the bonds during the six-month period ended June 30, 2012.

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

22) 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 30 persons as at June 30, 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 6,928 for the six-month period ended June 30, 2012 (six-month period ended June 30, 2011: 6,481).
- Provision for performance bonuses which are dependant on operating results for 2012 year in the amount of 2,555 for the six-month period ended June 30, 2012 (six-month period ended June 30, 2011: 3,399).

The amounts disclosed above are recognised as general and administrative expenses in the income statement for the six-month periods ended June 30, 2012 and June 30, 2011.

In the periods ended June 30, 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 payments or termination benefits.

The balance of loans issued to key management personnel amounted to 1,094 as at June 30, 2012 (December 31, 2011: 1,103).

The Group guaranteed debts of key management personnel outstanding as at June 30, 2012 in the amount of 2,909 with maturity in 2014-2017 (December 31, 2011: 2,574).

Transactions with the Parent Company and Entities under Common Control with the Parent 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 company and entities under common control with the parent company.

Transactions with Other Related Parties

The following table provides outstanding balances with other related parties as at June 30, 2012 and December 31, 2011:

	June 30, 2012	December 31, 2011
Cash and cash equivalents	27,024	125,687
Accounts receivable	3,632	5,417
Prepayments	82	109
Accounts payable	(25,922)	(733)

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

22) Related Parties Disclosures (continued)

Transactions with Other Related Parties (continued)

Accounts payable to related parties included accounts payable for raw materials in the amount of 25,133 as at June 30, 2012.

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

	Six-month period ended June 30,		Three-month period ended June 30,	
	2012	**2011**	**2012**	**2011**
Sales revenue	7,926	5,952	5,297	2,159
Purchases of goods and services	305,529	4,386	182,365	2,301
Interest income from loans and borrowings	561	307	35	195
Interest expenses from loans and borrowings	–	160	–	82

Purchases of goods and services from related parties during the six-month period ended June 30, 2012 included purchases of raw materials in the amount of 301,403.

23) Contingencies and Commitments

Operating Environment of the Group

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

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

The US economy is recovering moderately: job market continued to improve, both consumer confidence and consumer spending increased, credit conditions eased notably. However, 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.

23) Contingencies and Commitments (continued)

Taxation

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

Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings had not been finalised for the claims in the amount of 41,952 thousand Russian roubles (1,278 at the exchange rate as at June 30, 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 tax claims being contested by the Group were not accrued in the consolidated financial statements for the six-month period ended June 30, 2012.

Contractual Commitments and Guarantees

As at June 30, 2012, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 3,791,005 thousand Russian roubles (115,520 at the exchange rate as at June 30, 2012), 59,353 thousand Euros (74,737 at the exchange rate as at June 30, 2012), 4,773 thousand Romanian lei (1,352 at the exchange rate as at June 30, 2012) and 50,955 thousand US dollars for the total amount of 242,564 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 95,811 with respect to such commitments. 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 18,854 (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.

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

23) 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 has guaranteed debts of others outstanding at June 30, 2012 in the amount of 3,508 (December 31, 2011: 3,378).

24) Equity

i) Share Capital

	June 30, 2012	**December 31, 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) 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.

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

During the six-month period ended June 30, 2012 and 2011, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 1,571 and 338, respectively.

iv) Hedges of Net Investment in Foreign Operations

At the date of acquisition of controlling interests in NS Group, Inc. and IPSCO Tubulars, Inc. the Group hedged its net investment in these operations against foreign currency risk using borrowings in US dollars made by Russian companies of the Group. As at June 30, 2012, the Group designated US dollar denominated loans in the amount of 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.

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

24) Equity (continued)

iv) Hedges of Net Investment in Foreign Operations (continued)

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar/Russian rouble spot rates on the hedging instrument and on the hedged item. In the six-month period ended June 30, 2012, the effective portion of net losses from spot rate changes in the amount of 729,589 thousand Russian roubles (22,403 at historical exchange rate), net of income tax of 145,918 thousand Russian roubles (4,481 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

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

In the six-month period ended June 30, 2012, the non-controlling interest's share of profit in OOO "TMK-INOX", net of dividends attributable to the non-controlling interest shareholder, amounted to 386. This amount was recognised in additional paid-in capital.

vi) Acquisition of Non-controlling Interests in Subsidiaries

In the six-month period ended June 30, 2012, the Company purchased additional 0.06% of OAO "Seversky Tube Works" shares and 0.07% of OAO "Sinarsky Pipe Plant" shares for cash consideration of 420. The excess in the amount of 140 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.

vii) Movement on Cash Flow Hedges

The Group hedges its exposure to foreign currency risk using currency forwards and its exposure to variability in cash flows attributable to interest rate risk using interest rate swaps.

The details of movement on cash flow hedges during the six-month period ended June 30, 2012 are presented in the following table:

	Currency forward contracts	Interest rate swap contracts	Total
Cash flow hedges			
Loss arising during the period	(322)	(2,425)	(2,747)
Recognition of realised results in the income statement	(163)	–	(163)
Movement on cash flow hedges	**(485)**	**(2,425)**	**(2,910)**
Income tax	77	602	679
Movement on cash flow hedges, net of tax	**(408)**	**(1,823)**	**(2,231)**

25) Subsequent Events

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. In the six-month period ended June 30, 2012, the Group paid 160,000 thousand Russian roubles of purchase consideration. This payment was included in other non-current assets as at June 30, 2012.