OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Nine-month period ended September 30, 2012

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Contents

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Report on review of interim condensed consolidated financial statements

To the Shareholders and Board of Directors OAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OAO TMK and its subsidiaries ("Group"), comprising the interim consolidated statement of financial position as at 30 September 2012 and the related interim consolidated statements of income and comprehensive income for the three and nine months then ended, statements of changes in equity and cash flows for the nine months 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

26 November 2012

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Unaudited Interim Consolidated Income Statement

Nine-month period ended September 30, 2012

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

	NOTES	Nine-month period ended September 30, 2012	Nine-month period ended September 30, 2011	Three-month period ended September 30, 2012	Three-month period ended September 30, 2011
Revenue:	1	5,056,271	5,151,351	1,616,991	1,604,132
Sales of goods		*4,973,569*	*5,068,028*	*1,594,947*	*1,580,859*
Rendering of services		*82,702*	*83,323*	*22,044*	*23,273*
Cost of sales	2	(3,904,206)	(4,036,359)	(1,265,468)	(1,303,388)
Gross profit		**1,152,065**	**1,114,992**	**351,523**	**300,744**
Selling and distribution expenses	3	(336,469)	(304,620)	(108,183)	(98,644)
Advertising and promotion expenses	4	(7,607)	(6,027)	(2,460)	(1,303)
General and administrative expenses	5	(213,585)	(208,362)	(71,342)	(68,806)
Research and development expenses	6	(12,203)	(12,825)	(2,583)	(4,572)
Other operating expenses	7	(50,927)	(40,547)	(22,455)	(15,456)
Other operating income	8	7,238	10,291	2,673	946
Impairment of goodwill		–	(3,368)	–	–
Foreign exchange gain/(loss), net		17,713	(4,846)	12,573	(37,798)
Finance costs		(221,779)	(234,239)	(72,734)	(74,785)
Finance income	9	17,373	24,531	5,067	9,137
(Loss)/gain on changes in fair value of derivative financial instrument	22	(610)	44,227	1,449	28,950
Share of profit of associates	10	25	69	302	69
Gain on disposal of assets classified as held for sale	11	–	19,184	–	–
Profit before tax		**351,234**	**398,460**	**93,830**	**38,482**
Income tax expense	12	(100,778)	(119,653)	(25,216)	(17,338)
Profit for the period		**250,456**	**278,807**	**68,614**	**21,144**
Attributable to:					
Equity holders of the parent entity		247,194	276,909	68,074	21,304
Non-controlling interests		3,262	1,898	540	(160)
		250,456	**278,807**	**68,614**	**21,144**
Earnings per share attributable to equity holders of the parent entity (in US dollars)					
Basic	13	0.29	0.32	0.08	0.02
Diluted	13	0.28	0.28	0.06	0.02

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

Unaudited Interim Consolidated Statement of Comprehensive Income

Nine-month period ended September 30, 2012

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30, 2012	Nine-month period ended September 30, 2011	Three-month period ended September 30, 2012	Three-month period ended September 30, 2011
Profit for the period		**250,456**	**278,807**	**68,614**	**21,144**
Exchange differences on translation to presentation currency [(a)]		11,690	(40,729)	48,100	(90,776)
Foreign currency gain/(loss) on hedged net investment in foreign operation [(b)]	25 (v)	42,007	(55,863)	64,410	(151,549)
Income tax [(b)]	25 (v)	(8,401)	11,173	(12,882)	30,310
		33,606	**(44,690)**	**51,528**	**(121,239)**
Movement on cash flow hedges [(a)]	25 (vii)	(4,147)	–	(1,237)	–
Income tax [(a)]	25 (vii)	984	–	305	–
		(3,163)	**–**	**(932)**	**–**
Other comprehensive income/(loss) for the period, net of tax		**42,133**	**(85,419)**	**98,696**	**(212,015)**
Total comprehensive income/(loss) for the period, net of tax		**292,589**	**193,388**	**167,310**	**(190,871)**
Attributable to:					
Equity holders of the parent entity		286,413	195,238	161,622	(178,532)
Non-controlling interests		6,176	(1,850)	5,688	(12,339)
		292,589	**193,388**	**167,310**	**(190,871)**

(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:

	Nine-month period ended September 30, 2012	Nine-month period ended September 30, 2011	Three-month period ended September 30, 2012	Three-month period ended September 30, 2011
Exchange differences on translation to presentation currency attributable to:				
Equity holders of the parent entity	8,754	(36,981)	42,960	(78,597)
Non-controlling interests	2,936	(3,748)	5,140	(12,179)
	11,690	**(40,729)**	**48,100**	**(90,776)**
Movement on cash flow hedges attributable to:				
Equity holders of the parent entity	(3,141)	–	(940)	–
Non-controlling interests	(22)	–	8	–
	(3,163)	**–**	**(932)**	**–**

(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 unaudited interim condensed consolidated financial statements.

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Unaudited Interim Consolidated Statement of Financial Position

At September 30, 2012

(All amounts in thousands of US dollars)

	NOTES	September 30, 2012		December 31, 2011	
ASSETS					
Current assets					
Cash and cash equivalents	15, 23	126,506		230,593	
Trade and other receivables		891,643		766,155	
Accounts receivable from related parties	23	4,766		5,526	
Inventories	16	1,334,825		1,418,455	
Prepayments and input VAT		145,576		170,708	
Prepaid income taxes		6,560		29,580	
Other financial assets		4,114	**2,513,990**	4,047	**2,625,064**
Non-current assets					
Investments in associates	10	1,815		1,717	
Property, plant and equipment	17	3,566,415		3,347,648	
Goodwill	18	552,848		547,211	
Intangible assets	18	370,323		413,263	
Deferred tax asset		68,999		97,880	
Other non-current assets		131,702	**4,692,102**	99,458	**4,507,177**
TOTAL ASSETS			**7,206,092**		**7,132,241**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	19	748,380		862,940	
Advances from customers		95,017		188,861	
Accounts payable to related parties	23	25,226		733	
Provisions and accruals	20	45,222		46,075	
Interest-bearing loans and borrowings	21, 22	917,718		597,551	
Finance lease liability		3,073		1,826	
Derivative financial instruments		4,029		3,024	
Dividends payable		348		323	
Income tax payable		6,377	**1,845,390**	4,078	**1,705,411**
Non-current liabilities					
Interest-bearing loans and borrowings	21, 22	2,846,249		3,153,274	
Finance lease liability		49,202		34,290	
Deferred tax liability		299,096		304,785	
Provisions and accruals	20	29,484		25,336	
Employee benefits liability		55,546		51,836	
Other liabilities		36,608	**3,316,185**	32,525	**3,602,046**
Total liabilities			**5,161,575**		**5,307,457**
Equity	25				
Parent shareholders' equity					
Issued capital		326,417		326,417	
Treasury shares		(327,339)		(327,339)	
Additional paid-in capital		385,735		384,581	
Reserve capital		16,390		16,390	
Retained earnings		1,598,369		1,421,437	
Foreign currency translation reserve		(46,191)		(88,551)	
Unrealised gain/(loss) on financial instruments		(3,141)	1,950,240	–	1,732,935
Non-controlling interests			94,277		91,849
Total equity			**2,044,517**		**1,824,784**
TOTAL EQUITY AND LIABILITIES			**7,206,092**		**7,132,241**

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

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Unaudited Interim Consolidated Statement of Changes in Equity

Nine-month period ended September 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	–	–	–	–	247,194	–	–	**247,194**	3,262	**250,456**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	42,360	(3,141)	**39,219**	2,914	**42,133**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**247,194**	**42,360**	**(3,141)**	**286,413**	**6,176**	**292,589**
Dividends declared by the parent entity to its shareholders (Note 25 ii)	–	–	–	–	(70,262)	–	–	**(70,262)**	–	**(70,262)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 25 iii)	–	–	–	–	–	–	–	**–**	(1,571)	**(1,571)**
Acquisition of non-controlling interests in subsidiaries (Note 25 iv)	–	–	469	–	–	–	–	**469**	(1,419)	**(950)**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 25 vi)	–	–	685	–	–	–	–	**685**	(685)	**–**
Derecognition of non-controlling interests due to the expiration of subscription rights (Note 25 viii)	–	–	–	–	–	–	–	**–**	(73)	**(73)**
At September 30, 2012	**326,417**	**(327,339)**	**385,735**	**16,390**	**1,598,369**	**(46,191)**	**(3,141)**	**1,950,240**	**94,277**	**2,044,517**

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

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Unaudited Interim Consolidated Statement of Changes in Equity

Nine-month period ended September 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	–	–	–	–	276,909	–	**276,909**	1,898	**278,807**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(81,671)	**(81,671)**	(3,748)	**(85,419)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**276,909**	**(81,671)**	**195,238**	**(1,850)**	**193,388**
Purchase of treasury shares	–	(8,988)	–	–	–	–	**(8,988)**	–	**(8,988)**
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 25 iii)	–	–	–	–	–	–	**–**	(338)	**(338)**
Sale of non-controlling interests	–	–	–	–	(42)	–	**(42)**	9,307	**9,265**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	9,582	–	–	–	**9,582**	(9,582)	**–**
Acquisition of non-controlling interests in subsidiaries	–	–	411	–	(14)	–	**397**	(1,642)	**(1,245)**
Increase in non-controlling interests from contributions of assets by the Group	–	–	–	–	(186)	–	**(186)**	186	**–**
At September 30, 2011	326,417	(327,339)	386,478	15,387	1,345,261	(63,395)	1,682,809	90,610	1,773,419

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

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Unaudited Interim Consolidated Cash Flow Statement

Nine-month period ended September 30, 2012

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30, 2012	2011
Operating activities			
Profit before tax		351,234	398,460
Adjustments to reconcile profit before tax to operating cash flows:			
Depreciation of property, plant and equipment		198,223	204,991
Amortisation of intangible assets	18	44,764	51,921
Loss on disposal of property, plant and equipment	7	13,276	2,222
Impairment of goodwill		–	3,368
Foreign exchange (gain)/loss, net		(17,713)	4,846
Finance costs		221,779	234,239
Finance income	9	(17,373)	(24,531)
Loss/(gain) on changes in fair value of derivative financial instrument	22	610	(44,227)
Gain on disposal of assets classified as held for sale	11	–	(19,184)
Share of profit of associates	10	(25)	(69)
Allowance for net realisable value of inventory		993	215
Allowance for doubtful debts		10,968	9,433
Movement in other provisions		3,055	5,008
Operating cash flows before working capital changes		**809,791**	**826,692**
Working capital changes:			
Decrease/(increase) in inventories		121,601	(222,276)
Increase in trade and other receivables		(119,433)	(97,919)
Decrease/(increase) in prepayments		24,051	(19,249)
(Decrease)/increase in trade and other payables		(136,700)	172,669
(Decrease)/increase in advances from customers		(99,294)	5,208
Cash generated from operations		**600,016**	**665,125**
Income taxes paid		(61,595)	(85,159)
Net cash flows from operating activities		**538,421**	**579,966**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(306,981)	(313,043)
Proceeds from sale of property, plant and equipment		865	1,101
Purchase of ownership interest in associate		–	(4,004)
Acquisition of subsidiaries, net of cash acquired	14	(6,177)	–
Issuance of loans		(2,083)	(1,213)
Proceeds from repayment of loans issued		1,302	640
Interest received		5,125	1,686
Dividends received		10,821	20,707
Net cash flows used in investing activities		**(297,128)**	**(294,126)**
Financing activities			
Purchase of treasury shares		–	(8,988)
Proceeds from borrowings		410,840	2,636,056
Repayment of borrowings		(483,871)	(2,673,036)
Interest paid		(203,733)	(228,719)
Reimbursement of interest paid		545	–
Payment of finance lease liabilities		(3,503)	(2,173)
Acquisition of non-controlling interest		(1,270)	(1,245)
Proceeds from sale of non-controlling interests		–	9,265
Dividends paid to equity holders of the parent		(67,890)	(23,292)
Dividends paid to non-controlling interest shareholders		(3,120)	(1,507)
Net cash flows used in financing activities		**(352,002)**	**(293,639)**
Net decrease in cash and cash equivalents		(110,709)	(7,799)
Net foreign exchange difference		6,622	3,567
Cash and cash equivalents at January 1		230,593	157,524
Cash and cash equivalents at September 30		**126,506**	**153,292**

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 nine-month period ended September 30, 2012 were authorised for issue in accordance with a resolution of the General Director on November 26, 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 September 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 nine-month period ended September 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 nine-month period ended September 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 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 nine-month periods ended September 30, 2012 and 2011, respectively.

Nine-month period ended September 30, 2012	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	3,501,473	1,297,562	257,236	**5,056,271**
Cost of sales	(2,654,018)	(1,055,018)	(195,170)	**(3,904,206)**
GROSS PROFIT	**847,455**	**242,544**	**62,066**	**1,152,065**
Selling, general and administrative expenses	(432,285)	(109,669)	(27,910)	**(569,864)**
Other operating income/(expenses), net	(31,968)	(10,722)	(999)	**(43,689)**
OPERATING PROFIT	**383,202**	**122,153**	**33,157**	**538,512**
ADD BACK:				
Depreciation and amortisation	166,954	66,767	9,266	**242,987**
Loss/(gain) on disposal of property, plant and equipment	8,101	4,579	596	**13,276**
Allowance for net realisable value of inventory	(339)	1,358	(26)	**993**
Allowance for doubtful debts	11,022	(677)	623	**10,968**
Movement in other provisions	1,768	2,235	(948)	**3,055**
	187,506	**74,262**	**9,511**	**271,279**
ADJUSTED EBITDA	**570,708**	**196,415**	**42,668**	**809,791**

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

1) Segment Information (continued)

Nine-month period ended September 30, 2012	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**570,708**	**196,415**	**42,668**	**809,791**
Reversal of adjustments from operating profit to EBITDA	(187,506)	(74,262)	(9,511)	**(271,279)**
OPERATING PROFIT	**383,202**	**122,153**	**33,157**	**538,512**
Foreign exchange gain/(loss), net	20,453	1,538	(4,278)	**17,713**
OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**403,655**	**123,691**	**28,879**	**556,225**
Finance costs				**(221,779)**
Finance income				**17,373**
Loss on changes in fair value of derivative financial instrument				**(610)**
Share of profit of associates				**25**
PROFIT BEFORE TAX				**351,234**

Nine-month period ended September 30, 2011	Russia	Americas	Europe	TOTAL
Revenue	3,703,512	1,150,087	297,752	**5,151,351**
Cost of sales	(2,901,594)	(917,365)	(217,400)	**(4,036,359)**
GROSS PROFIT	**801,918**	**232,722**	**80,352**	**1,114,992**
Selling, general and administrative expenses	(392,867)	(108,358)	(30,609)	**(531,834)**
Other operating income/(expenses), net	(28,577)	1,937	(3,616)	**(30,256)**
OPERATING PROFIT	**380,474**	**126,301**	**46,127**	**552,902**
ADD BACK:				
Depreciation and amortisation	175,090	75,113	6,709	**256,912**
Loss/(gain) on disposal of property, plant and equipment	2,158	(49)	113	**2,222**
Allowance for net realisable value of inventory	(622)	901	(64)	**215**
Allowance for doubtful debts	9,372	18	43	**9,433**
Movement in other provisions	5,851	(950)	107	**5,008**
	191,849	**75,033**	**6,908**	**273,790**
ADJUSTED EBITDA	**572,323**	**201,334**	**53,035**	**826,692**

Nine-month period ended September 30, 2011	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**572,323**	**201,334**	**53,035**	**826,692**
Reversal of adjustments from operating profit to EBITDA	(191,849)	(75,033)	(6,908)	**(273,790)**
OPERATING PROFIT	**380,474**	**126,301**	**46,127**	**552,902**
Impairment of goodwill	(3,368)	–	–	**(3,368)**
Foreign exchange gain/(loss), net	(9,101)	(2,105)	6,360	**(4,846)**
OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**368,005**	**124,196**	**52,487**	**544,688**
Finance costs				**(234,239)**
Finance income				**24,531**
Gain on changes in fair value of derivative financial instrument				**44,227**
Share of profit of associate				**69**
Gain on disposal of assets classified as held for sale				**19,184**
PROFIT BEFORE TAX				**398,460**

(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 September 30, 2012 and December 31, 2011:

Segment assets	**Russia**	**Americas**	**Europe**	**TOTAL**
At September 30, 2012	4,930,753	1,896,306	379,033	**7,206,092**
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 nine-month periods ended September 30, 2012 and 2011, respectively:

Sales to external customers	**Seamless pipes**	**Welded pipes**	**Other operations**	**TOTAL**
Nine-month period ended September 30, 2012	3,135,742	1,688,747	231,782	**5,056,271**
Nine-month period ended September 30, 2011	2,942,231	1,973,776	235,344	**5,151,351**

2) Cost of Sales

Cost of sales consisted of the following:

	Nine-month period ended September 30,		**Three-month period ended September 30,**	
	2012	**2011**	**2012**	**2011**
Raw materials and consumables	2,536,871	2,842,581	762,499	916,703
Staff costs including social security	506,005	494,775	155,251	161,464
Energy and utilities	278,611	305,336	87,181	92,665
Depreciation and amortisation	188,878	196,997	62,670	68,733
Repairs and maintenance	105,155	115,487	35,310	46,756
Contracted manufacture	69,652	47,441	10,054	12,002
Freight	47,215	47,506	13,876	17,072
Taxes	39,320	38,317	13,061	12,429
Professional fees and services	27,151	18,538	8,801	7,663
Rent	8,310	7,974	2,693	2,891
Travel	2,141	1,895	764	687
Communications	822	849	215	354
Insurance	756	631	236	179
Other	4,305	2,186	1,217	773
Total production cost	**3,815,192**	**4,120,513**	**1,153,828**	**1,340,371**
Change in own finished goods and work in progress	56,326	(135,330)	97,227	(39,697)
Cost of sales of externally purchased goods	21,521	53,404	7,897	6,340
Obsolete stock, write-offs/(reversal of write-offs)	11,167	(2,228)	6,516	(3,626)
Cost of sales	**3,904,206**	**4,036,359**	**1,265,468**	**1,303,388**

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

3) Selling and Distribution Expenses

Selling and distribution expenses consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2012	**2011**	**2012**	**2011**
Freight	196,655	159,227	63,785	52,226
Staff costs including social security	46,149	44,202	14,254	13,393
Depreciation and amortisation	40,019	49,178	13,347	16,378
Consumables	16,128	15,382	5,467	4,551
Professional fees and services	11,570	11,934	4,675	4,672
Bad debt expense	11,400	9,522	1,592	2,252
Rent	5,668	6,142	2,040	2,196
Travel	3,443	3,199	1,078	1,107
Utilities and maintenance	1,606	1,635	553	344
Communications	1,015	950	341	316
Insurance	1,001	1,240	385	411
Other	1,815	2,009	666	798
	336,469	**304,620**	**108,183**	**98,644**

4) Advertising and Promotion Expenses

Advertising and promotion expenses consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2012	**2011**	**2012**	**2011**
Exhibits and catalogues	3,497	3,449	916	48
Outdoor advertising	2,691	1,581	920	869
Media	638	568	203	179
Other	781	429	421	207
	7,607	**6,027**	**2,460**	**1,303**

5) General and Administrative Expenses

General and administrative expenses consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2012	**2011**	**2012**	**2011**
Staff costs including social security	120,008	117,785	38,014	37,258
Professional fees and services	40,522	40,094	14,353	13,355
Depreciation and amortisation	11,973	9,952	4,228	3,332
Travel	8,059	8,470	3,128	3,107
Utilities and maintenance	6,902	6,890	2,118	2,981
Insurance	4,971	3,856	1,715	1,587
Rent	4,920	3,753	2,387	1,250
Transportation	4,637	4,692	1,582	1,715
Communications	4,471	3,879	1,248	1,302
Consumables	3,138	3,119	1,266	1,217
Taxes	2,511	4,012	749	1,030
Other	1,473	1,860	554	672
	213,585	**208,362**	**71,342**	**68,806**

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

6) Research and Development Expenses

Research and development expenses consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2012	2011	2012	2011
Staff costs including social security	8,130	8,644	1,608	2,964
Professional fees and services	1,171	1,151	341	476
Travel	771	491	275	191
Consumables	591	629	165	258
Depreciation and amortisation	558	776	46	263
Other	982	1,134	148	420
	12,203	**12,825**	**2,583**	**4,572**

7) Other Operating Expenses

Other operating expenses consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2012	2011	2012	2011
Social and social infrastructure maintenance expenses	14,277	11,303	5,499	4,083
Loss on disposal of property, plant and equipment	13,276	2,222	6,392	976
Sponsorship and charitable donations	10,317	13,402	3,499	6,010
Penalties, fines and claims	9,456	10,289	4,650	2,703
Other	3,601	3,331	2,415	1,684
	50,927	**40,547**	**22,455**	**15,456**

8) Other Operating Income

Other operating income consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2012	2011	2012	2011
Gain from penalties and fines	3,734	3,319	1,776	98
Gain on sales of current assets	338	534	27	504
Reimbursement from insurance company	–	1,272	–	314
Other	3,166	5,166	870	30
	7,238	**10,291**	**2,673**	**946**

9) Finance Income

Finance income consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2012	2011	2012	2011
Dividends	11,866	22,413	3,413	8,395
Interest income - bank accounts and deposits	5,507	2,118	1,654	742
	17,373	**24,531**	**5,067**	**9,137**

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

10) Investments in Associates

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

	Volgograd River Port	Lhoist-TMK B.V.	Total
Investments in associates as at January 1, 2012	1,662	55	1,717
Share of profit/(loss) of associates	84	(59)	25
Currency translation adjustment	69	4	73
Investments in associates as at September 30, 2012	**1,815**	**–**	**1,815**

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 nine-month period ended September 30, 2011.

12) Income Tax

Income tax expense consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2012	2011	2012	2011
Current income tax expense	87,366	91,734	26,440	25,920
Current income tax benefit	(158)	(538)	–	(451)
Adjustments in respect of income tax of previous periods	1,895	81	1,922	(356)
Deferred income tax expense/(benefit) related to origination and reversal of temporary differences	11,675	28,376	(3,146)	(7,775)
Total income tax expense	**100,778**	**119,653**	**25,216**	**17,338**

(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 22).

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

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2012	**2011**	**2012**	**2011**
Profit for the period attributable to the equity holders of the parent entity	247,194	276,909	68,074	21,304
Effect of convertible bonds, net of tax (if dilutive)	15,303	(10,276)	(12,184)	–
Profit for the period attributable to the equity holders of the parent entity adjusted for the effect of dilution	262,497	266,633	55,890	21,304
Weighted average number of ordinary shares outstanding	863,165,598	865,586,481	863,165,598	864,752,666
Weighted average number of ordinary shares outstanding adjusted for the effect of dilution (where convertible bonds were dilutive)	936,117,044	937,297,025	937,130,094	864,752,666
Earnings per share attributable to the equity holders of the parent entity (in US dollars)				
Basic	0.29	0.32	0.08	0.02
Diluted	0.28	0.28	0.06	0.02

14) Acquisition of Subsidiaries

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 3,437, including property, plant and equipment in the amount of 3,296. The excess in the amount of 2,693 of the purchase consideration over the fair value of net assets of Uralskiy Dvor was recognised as goodwill. In the nine-month period ended September 30, 2012, cash flows on acquisition amounted to 6,177, net of cash acquired of 449.

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

15) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	September 30, 2012	December 31, 2011
Russian rouble	92,043	164,695
US dollar	21,680	60,980
Euro	11,413	3,235
Romanian lei	427	1,205
Other currencies	943	478
	126,506	**230,593**

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

As at September 30, 2012, the amount of cash and cash equivalents included 30,953 which is available to finance investing activities only (December 31, 2011: 42,291).

16) Inventories

Inventories consisted of the following:

	September 30, 2012	December 31, 2011
Raw materials and supplies	586,301	614,031
Finished goods and work in process	765,836	820,250
Gross inventories	**1,352,137**	**1,434,281**
Allowance for net realisable value of inventory	(17,312)	(15,826)
Net inventories	**1,334,825**	**1,418,455**

17) Property, Plant and Equipment

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

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improve-ments	Construc-tion in progress	TOTAL
<u>COST</u>							
Balance at January 1, 2012	1,251,585	2,664,393	59,453	54,878	12,860	495,403	**4,538,572**
Additions	–	–	–	–	–	324,568	**324,568**
Assets put into operation	36,925	168,650	3,622	8,169	5,457	(222,823)	**–**
Disposals	(3,109)	(19,608)	(502)	(630)	–	(330)	**(24,179)**
Increase due to acquisition of subsidiaries (Note 14)	3,296	–	–	–	–	–	**3,296**
Currency translation adjustments	39,880	76,059	983	1,774	71	18,242	**137,009**
BALANCE AT SEPTEMBER 30, 2012	**1,328,577**	**2,889,494**	**63,556**	**64,191**	**18,388**	**615,060**	**4,979,266**
<u>ACCUMULATED DEPRECIATION AND IMPAIRMENT</u>							
Balance at January 1, 2012	(206,163)	(922,159)	(26,792)	(32,430)	(3,380)	–	**(1,190,924)**
Depreciation charge	(28,386)	(159,053)	(3,093)	(6,007)	(533)	–	**(197,072)**
Disposals	943	10,564	418	516	–	–	**12,441**
Currency translation adjustments	(6,214)	(29,459)	(520)	(1,087)	(16)	–	**(37,296)**
BALANCE AT SEPTEMBER 30, 2012	**(239,820)**	**(1,100,107)**	**(29,987)**	**(39,008)**	**(3,929)**	**–**	**(1,412,851)**
NET BOOK VALUE AT SEPTEMBER 30, 2012	**1,088,757**	**1,789,387**	**33,569**	**25,183**	**14,459**	**615,060**	**3,566,415**
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)

18) Goodwill and Other Intangible Assets

Movement in intangible assets was as follows in the nine-month period ended September 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	142	–	568	–	–	–	1,479	**2,189**
Disposals	(16)	–	(8)	–	–	–	(1,288)	**(1,312)**
Increase due to acquisition of subsidiaries (Note 14)	–	2,693	–	–	–	–	–	**2,693**
Currency translation adjustments	24	3,589	882	–	–	–	236	**4,731**
BALANCE AT SEPTEMBER 30, 2012	**209,691**	**569,105**	**22,984**	**472,300**	**14,100**	**8,500**	**6,701**	**1,303,381**
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	(57)	–	(3,663)	(38,475)	(1,322)	–	(1,247)	**(44,764)**
Disposals	16	–	8	–	–	–	378	**402**
Currency translation adjustments	(4)	(645)	(523)	–	–	–	(70)	**(1,242)**
BALANCE AT SEPTEMBER 30, 2012	**(339)**	**(16,257)**	**(16,481)**	**(328,549)**	**(7,583)**	**(8,500)**	**(2,501)**	**(380,210)**
NET BOOK VALUE AT SEPTEMBER 30, 2012	**209,352**	**552,848**	**6,503**	**143,751**	**6,517**	**–**	**4,200**	**923,171**
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:

	September 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
Oilfield division	31,196	–	29,957	–
European division	6,179	–	6,185	–
Kaztrubprom Plant	5,065	–	4,863	–
Other cash-generating units	37,440	–	33,238	–
	552,848	**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 September 30, 2012, there were no indicators of impairment of cash generating units.

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

19) Trade and Other Payables

Trade and other payables consisted of the following:

	September 30, 2012	December 31, 2011
Trade payables	547,895	653,100
Accounts payable for property, plant and equipment	50,055	42,282
Liabilities for VAT	35,550	55,103
Payroll liabilities	26,556	30,348
Liabilities for property tax	15,004	13,399
Accrued and withheld taxes on payroll	14,657	16,204
Liabilities under put options of non-controlling interest shareholders in subsidiaries	12,426	14,051
Sales rebate payable	9,141	7,926
Notes issued to third parties	6,772	8,408
Liabilities for other taxes	2,678	3,442
Other payables	27,646	18,677
	748,380	**862,940**

20) Provisions and Accruals

Provisions and accruals consisted of the following:

	September 30, 2012	December 31, 2011
Current:		
Provision for bonuses	19,459	21,488
Accrual for long-service benefit	10,855	10,209
Accrual for unused annual leaves, current portion	6,680	10,549
Current portion of employee benefits liability	4,273	2,693
Environmental provision, current portion	388	932
Other provisions	3,567	204
	45,222	**46,075**
Non-current:		
Accrual for unused annual leaves	21,848	20,930
Environmental provision	4,051	4,406
Provision for bonuses	2,725	–
Other provisions	860	–
	29,484	**25,336**

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

21) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	September 30, 2012	December 31, 2011
Current:		
Bank loans	59,147	242,830
Interest payable	21,072	27,981
Current portion of non-current borrowings	436,995	329,009
Current portion of bearer coupon debt securities	404,293	–
Unamortised debt issue costs	(3,789)	(2,269)
Total short-term loans and borrowings	**917,718**	**597,551**
Non-current:		
Bank loans	2,634,070	2,459,613
Bearer coupon debt securities	1,066,017	1,043,806
Unamortised debt issue costs	(12,550)	(21,136)
Less: current portion of non-current borrowings	(436,995)	(329,009)
Less: current portion of bearer coupon debt securities	(404,293)	–
Total long-term loans and borrowings	**2,846,249**	**3,153,274**

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

	Interest rates for the period ended	September 30, 2012	Interest rates for the period ended	December 31, 2011
Russian rouble	Fixed 8.25%-9.6%	1,783,445	Fixed 6.7%-9.5%	1,712,829
US dollar	Fixed 5.25%	405,502	Fixed 5.25%	385,981
	Fixed 7.75%	503,611	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:	512,483	Variable:	440,304
	Libor (1m) + 2%-2.5%		Libor (1m) + 2.25%-4.15%	
	Libor (3m - 12m) + 0.8%-3.5%		Libor (3m - 13m) + 1%-2.75%	
Euro	Fixed 5.19%	52,740	Fixed 5.19%	74,510
	Variable:	105,240	Variable:	170,953
	Euribor (1m) + 3.5%-4%		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%	181	Robor (6m) + 3%	348
		3,763,967		**3,750,825**

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

Unutilised Borrowing Facilities

As at September 30, 2012, the Group had unutilised borrowing facilities in the amount of 1,273,007 (December 31, 2011: 736,163).

22) 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 September 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 nine-month period ended September 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 321 bps and 1,094 bps as at September 30, 2012 and December 31, 2011, respectively. As at September 30, 2012, the fair value of the Embedded Conversion Option was 3,634 (December 31, 2011: 3,024). The change in the fair value of the embedded derivative during the reporting period resulted in a loss of 610, which has been recorded as loss on changes in fair value of derivative financial instrument in the income statement for the nine-month period ended September 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 September 30, 2012, the carrying value of the host component was 405,502 (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 September 30, 2012.

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

23) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totaling 31 persons as at September 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 10,593 for the nine-month period ended September 30, 2012 (nine-month period ended September 30, 2011: 9,738).
- Provision for performance bonuses which are dependant on operating results for 2012 year in the amount of 4,167 for the nine-month period ended September 30, 2012 (nine-month period ended September 30, 2011: 5,077).

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

In the periods ended September 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 1,167 as at September 30, 2012 (December 31, 2011: 1,103).

The Group guaranteed debts of key management personnel outstanding as at September 30, 2012 in the amount of 2,818 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. In August 2012, these dividends were paid in full amount.

Transactions with Associates

During the nine-month period ended September 30, 2012, the Group received shipment services from its associate in the amount of 368 (nine-month period ended September 30, 2011: 224).

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

23) Related Parties Disclosures (continued)

Transactions with Other Related Parties

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

	September 30, 2012	December 31, 2011
Cash and cash equivalents	12,158	125,687
Accounts receivable	3,424	5,417
Prepayments	1,342	109
Accounts payable	(25,226)	(733)

Accounts payable to related parties included accounts payable for raw materials in the amount of 24,314 as at September 30, 2012.

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

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2012	2011	2012	2011
Sales revenue	11,380	8,005	3,454	2,053
Purchases of goods and services	483,339	6,586	177,810	2,162
Interest income from loans and borrowings	636	415	75	108
Interest expenses from loans and borrowings	–	240	–	80

Purchases of goods and services from related parties during the nine-month period ended September 30, 2012 included purchases of raw materials in the amount of 477,331.

24) Contingencies and Commitments

Operating Environment of the Group

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

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

The US economy 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.

24) 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.

Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings had not been finalised for the claims in the amount of 43,426 thousand Russian roubles (1,405 at the exchange rate as at September 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 nine-month period ended September 30, 2012.

Contractual Commitments and Guarantees

As at September 30, 2012, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 3,884,207 thousand Russian roubles (125,634 at the exchange rate as at September 30, 2012), 63,233 thousand euros (81,767 at the exchange rate as at September 30, 2012), 9,397 thousand Romanian lei (2,683 at the exchange rate as at September 30, 2012) and 33,940 thousand US dollars for the total amount of 244,024 (all amounts of contractual commitments are expressed net of VAT). As at September 30, 2012, the Group had advances of 94,543 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 31,511 (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.

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.

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

24) Contingencies and Commitments (continued)

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding at September 30, 2012 in the amount of 3,532 (December 31, 2011: 3,378).

25) Equity

i) Share Capital

	September 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 nine-month period ended September 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) Acquisition of Non-controlling Interests in Subsidiaries

In the nine-month period ended September 30, 2012, the Company purchased additional 0.18% of OAO "Seversky Tube Works" shares, 0.17% of OAO "Sinarsky Pipe Plant" shares and 0.01% of OAO "Taganrog Metallurgical Works" shares for cash consideration of 950. The excess in the amount of 469 of the carrying values of net assets attributable to the acquired interests over the consideration paid was recorded in additional paid-in capital.

v) 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 September 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)

25) Equity (continued)

v) 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 nine-month period ended September 30, 2012, the effective portion of net gains from spot rate changes in the amount of 1,291,819 thousand Russian roubles (42,007 at historical exchange rate), net of income tax of 258,364 thousand Russian roubles (8,401 at historical exchange rate), was recognised in other comprehensive income.

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

In the nine-month period ended September 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 685. This amount was recognised 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 nine-month period ended September 30, 2012 are presented in the following table:

	Currency forward contracts	Interest rate swap contracts	Total
Cash flow hedges			
Loss arising during the period	(608)	(3,795)	(4,403)
Recognition of realised results in the income statement	256	–	256
Movement on cash flow hedges	**(352)**	**(3,795)**	**(4,147)**
Income tax	56	928	984
Movement on cash flow hedges, net of tax	**(296)**	**(2,867)**	**(3,163)**

viii) Derecognition of Non-controlling Interests Due to the Expiration of Subscription Rights

In the nine-month period ended September 30, 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.

26) Subsequent Events

Interim Dividends Declared by the Parent Entity to its Shareholders

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 1.5 Russian roubles per share (0.05 US dollars per share).