OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Three-month period ended March 31, 2012

OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Three-month period ended March 31, 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 31 March 2012 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-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

30 May 2012

OAO TMK

Unaudited Interim Consolidated Income Statement

Three-month period ended March 31, 2012

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

	NOTES	Three-month period ended March 31, 2012	2011
Revenue:	1	1,658,582	1,668,570
Sales of goods		*1,626,194*	*1,633,510*
Rendering of services		*32,388*	*35,060*
Cost of sales	2	(1,247,202)	(1,277,393)
Gross profit		**411,380**	**391,177**
Selling and distribution expenses	3	(119,695)	(98,772)
Advertising and promotion expenses	4	(1,956)	(1,559)
General and administrative expenses	5	(72,076)	(65,821)
Research and development expenses	6	(4,566)	(3,884)
Other operating expenses	7	(10,887)	(12,897)
Other operating income	8	2,236	4,663
Foreign exchange gain, net		31,362	32,834
Finance costs		(77,309)	(81,030)
Finance income	9	2,248	8,870
Loss on changes in fair value of derivative financial instrument	20	(9,164)	(17,060)
Share of loss of associates	10	(344)	–
Profit before tax		**151,229**	**156,521**
Income tax expense	11	(45,846)	(52,385)
Profit for the period		**105,383**	**104,136**
Attributable to:			
Equity holders of the parent entity		103,762	102,960
Non-controlling interests		1,621	1,176
		105,383	**104,136**
Earnings per share attributable to equity holders of the parent entity (in US dollars)			
Basic	12	**0.12**	**0.12**
Diluted	12	**0.10**	**0.11**

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

OAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income

Three-month period ended March 31, 2012

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31, 2012	2011
Profit for the period		**105,383**	**104,136**
Exchange differences on translation to presentation currency [(a)]		64,398	44,179
Foreign currency gain on hedged net investment in foreign operation [(b)]	23 (ii)	109,792	81,064
Income tax [(b)]	23 (ii)	(21,958)	(16,213)
		87,834	**64,851**
Movement on cash flow hedges [(c)]	23 (v)	101	–
Income tax [(c)]	23 (v)	34	–
		135	–
Other comprehensive income for the period, net of tax		**152,367**	**109,030**
Total comprehensive income for the period, net of tax		**257,750**	**213,166**
Attributable to:			
Equity holders of the parent entity		247,792	203,825
Non-controlling interests		9,958	9,341
		257,750	**213,166**

(a) The amount of exchange differences on translation to presentation currency represents other comprehensive income of 56,082 (three-month period ended March 31, 2011: 36,014) attributable to equity holders of the parent entity and other comprehensive income of 8,316 (three-month period ended March 31, 2011: 8,165) attributable to non-controlling interests.

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

(c) The amount of movement on cash flow hedges, net of income tax, represents other comprehensive income of 114 (three-month period ended March 31, 2011: nil) attributable to equity holders of the parent entity and other comprehensive income of 21 (three-month period ended March 31, 2011: nil) attributable to non-controlling interests.

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

OAO TMK

Unaudited Interim Consolidated Statement of Financial Position

At March 31, 2012

(All amounts in thousands of US dollars)

	NOTES	March 31, 2012		December 31, 2011	
ASSETS					
Current assets					
Cash and cash equivalents	13, 21	218,559		230,593	
Trade and other receivables		835,581		766,155	
Accounts receivable from related parties	21	4,629		5,526	
Inventories	14	1,577,913		1,418,455	
Prepayments and input VAT		173,404		170,708	
Prepaid income taxes		16,530		29,580	
Other financial assets		4,414	**2,831,030**	4,047	**2,625,064**
Non-current assets					
Investments in associates	10	1,531		1,717	
Intangible assets	16	400,475		413,263	
Property, plant and equipment	15	3,641,240		3,347,648	
Goodwill	16	554,064		547,211	
Deferred tax asset		72,307		97,880	
Other non-current assets		114,110	**4,783,727**	99,458	**4,507,177**
TOTAL ASSETS			**7,614,757**		**7,132,241**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	17	875,777		862,940	
Advances from customers		218,612		188,861	
Accounts payable to related parties	21	14,909		733	
Provisions and accruals	18	30,580		46,075	
Interest-bearing loans and borrowings	19, 20	972,841		597,551	
Finance lease liability		3,406		1,826	
Derivative financial instruments		12,456		3,024	
Dividends payable		274		323	
Income tax payable		7,132	**2,135,987**	4,078	**1,705,411**
Non-current liabilities					
Interest-bearing loans and borrowings	19, 20	2,892,912		3,153,274	
Finance lease liability		50,847		34,290	
Deferred tax liability		328,577		304,785	
Provisions and accruals	18	34,166		25,336	
Employee benefits liability		54,006		51,836	
Other liabilities		35,803	**3,396,311**	32,525	**3,602,046**
Total liabilities			**5,532,298**		**5,307,457**
Equity	23				
Parent shareholders' equity					
Issued capital		326,417		326,417	
Treasury shares		(327,339)		(327,339)	
Additional paid-in capital		384,695		384,581	
Reserve capital		16,390		16,390	
Retained earnings		1,525,199		1,421,437	
Foreign currency translation reserve		55,365		(88,551)	
Unrealised gain/(loss) on financial instruments		114	1,980,841	–	1,732,935
Non-controlling interests			101,618		91,849
Total equity			**2,082,459**		**1,824,784**
TOTAL EQUITY AND LIABILITIES			**7,614,757**		**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

Three-month period ended March 31, 2012

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Unrealised gain/(loss) on financial instruments**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2012	**326,417**	**(327,339)**	**384,581**	**16,390**	**1,421,437**	**(88,551)**	**–**	**1,732,935**	**91,849**	**1,824,784**
Profit for the period	–	–	–	–	103,762	–	–	**103,762**	1,621	**105,383**
Other comprehensive income for the period, net of tax	–	–	–	–	–	143,916	114	**144,030**	8,337	**152,367**
Total comprehensive income for the period, net of tax	**–**	**–**	**–**	**–**	**103,762**	**143,916**	**114**	**247,792**	**9,958**	**257,750**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 23 iii)	–	–	98	–	–	–	–	**98**	(98)	**–**
Acquisition of non-controlling interests in subsidiaries (Note 23 iv)	–	–	16	–	–	–	–	**16**	(91)	**(75)**
At March 31, 2012	**326,417**	**(327,339)**	**384,695**	**16,390**	**1,525,199**	**55,365**	**114**	**1,980,841**	**101,618**	**2,082,459**

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

Unaudited Interim Consolidated Statement of Changes in Equity

Three-month period ended March 31, 2012 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent								
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2011 (as reported)	**326,417**	**(318,351)**	**362,898**	**15,387**	**1,122,771**	**18,276**	**1,527,398**	**109,509**	**1,636,907**
Voluntary change in accounting policy	–	–	–	–	(28,210)	–	**(28,210)**	(1,393)	**(29,603)**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction	–	–	13,587	–	–	–	**13,587**	(13,587)	**–**
At January 1, 2011 (as restated)	**326,417**	**(318,351)**	**376,485**	**15,387**	**1,094,561**	**18,276**	**1,512,775**	**94,529**	**1,607,304**
Profit for the period	–	–	–	–	102,960	–	**102,960**	1,176	**104,136**
Other comprehensive income for the period, net of tax	–	–	–	–	–	100,865	**100,865**	8,165	**109,030**
Total comprehensive income for the period, net of tax	**–**	**–**	**–**	**–**	**102,960**	**100,865**	**203,825**	**9,341**	**213,166**
Increase in non-controlling interests from contributions of assets by the Group	–	–	–	–	(141)	–	**(141)**	141	**–**
Acquisition of non-controlling interests in subsidiaries	–	–	5	–	–	–	**5**	(41)	**(36)**
At March 31, 2011	**326,417**	**(318,351)**	**376,490**	**15,387**	**1,197,380**	**119,141**	**1,716,464**	**103,970**	**1,820,434**

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

OAO TMK

Unaudited Interim Consolidated Cash Flow Statement

Three-month period ended March 31, 2012

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31, 2012	2011
Operating activities			
Profit before tax		151,229	156,521
Adjustments to reconcile profit before tax to operating cash flows:			
Depreciation of property, plant and equipment		65,458	63,469
Amortisation of intangible assets	16	15,004	17,331
Loss on disposal of property, plant and equipment	7	1,468	160
Foreign exchange gain, net		(31,362)	(32,834)
Finance costs		77,309	81,030
Finance income	9	(2,248)	(8,870)
Loss on changes in fair value of derivative financial instrument	20	9,164	17,060
Share of loss of associates	10	344	–
Allowance for net realisable value of inventory		84	1,674
Allowance for doubtful debts		4,056	2,484
Movement in other provisions		(13,579)	(4,814)
Operating cash flows before working capital changes		**276,927**	**293,211**
Working capital changes:			
Increase in inventories		(56,272)	(72,459)
Increase in trade and other receivables		(10,208)	(137,818)
Decrease in prepayments		9,599	4,426
(Decrease)/increase in trade and other payables		(17,837)	69,269
Increase in advances from customers		17,652	12,571
Cash generated from operations		**219,861**	**169,200**
Income taxes paid		(10,701)	(9,340)
Net cash flows from operating activities		**209,160**	**159,860**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(96,880)	(85,793)
Proceeds from sale of property, plant and equipment		302	219
Issuance of loans		(352)	(1,192)
Proceeds from repayment of loans issued		384	274
Interest received		2,084	413
Net cash flows used in investing activities		**(94,462)**	**(86,079)**
Financing activities			
Proceeds from borrowings		73,511	1,190,313
Repayment of borrowings		(132,619)	(1,173,672)
Interest paid		(74,755)	(78,459)
Payment of finance lease liabilities		(1,162)	(715)
Acquisition of non-controlling interest		(75)	(342)
Dividends paid to non-controlling interest shareholders		–	(5)
Net cash flows used in financing activities		**(135,100)**	**(62,880)**
Net (decrease)/increase in cash and cash equivalents		(20,402)	10,901
Net foreign exchange difference		8,368	3,340
Cash and cash equivalents at January 1		230,593	157,524
Cash and cash equivalents at March 31		**218,559**	**171,765**

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 three-month period ended March 31, 2012 were authorised for issue in accordance with a resolution of the General Director on May 30, 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 March 31, 2012, the Company's controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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

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

Basis of Preparation

Basis of Preparation

These interim condensed consolidated financial statements for the three-month period ended March 31, 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 three-month period ended March 31, 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 three-month periods ended March 31, 2012 and 2011, respectively.

Three-month period ended March 31, 2012	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	1,132,654	439,563	86,365	**1,658,582**
Cost of sales	(848,903)	(333,575)	(64,724)	**(1,247,202)**
GROSS PROFIT	**283,751**	**105,988**	**21,641**	**411,380**
Selling, general and administrative expenses	(152,636)	(35,856)	(9,801)	**(198,293)**
Other operating income/(expenses), net	(7,511)	(1,001)	(139)	**(8,651)**
OPERATING PROFIT	**123,604**	**69,131**	**11,701**	**204,436**
ADD BACK:				
Depreciation and amortisation	54,250	23,060	3,152	**80,462**
Loss/(gain) on disposal of property, plant and equipment	355	1,051	62	**1,468**
Allowance for net realisable value of inventory	701	(594)	(23)	**84**
Allowance for doubtful debts	4,257	(749)	548	**4,056**
Movement in other provisions	(7,045)	(5,950)	(584)	**(13,579)**
	52,518	**16,818**	**3,155**	**72,491**
ADJUSTED EBITDA	**176,122**	**85,949**	**14,856**	**276,927**

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

1) Segment Information (continued)

Three-month period ended March 31, 2012	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**176,122**	**85,949**	**14,856**	**276,927**
Reversal of adjustments from operating profit to EBITDA	(52,518)	(16,818)	(3,155)	**(72,491)**
OPERATING PROFIT	**123,604**	**69,131**	**11,701**	**204,436**
Foreign exchange gain/(loss), net	31,799	930	(1,367)	**31,362**
OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**155,403**	**70,061**	**10,334**	**235,798**
Finance costs				**(77,309)**
Finance income				**2,248**
Loss on changes in fair value of derivative financial instrument				**(9,164)**
Share of loss of associates				**(344)**
PROFIT BEFORE TAX				**151,229**

Three-month period ended March 31, 2011	Russia	Americas	Europe	TOTAL
Revenue	1,241,343	345,222	82,005	**1,668,570**
Cost of sales	(960,772)	(256,449)	(60,172)	**(1,277,393)**
GROSS PROFIT	**280,571**	**88,773**	**21,833**	**391,177**
Selling, general and administrative expenses	(124,773)	(36,508)	(8,755)	**(170,036)**
Other operating income/(expenses), net	(8,979)	1,304	(559)	**(8,234)**
OPERATING PROFIT	**146,819**	**53,569**	**12,519**	**212,907**
ADD BACK:				
Depreciation and amortisation	54,288	24,490	2,022	**80,800**
Loss/(gain) on disposal of property, plant and equipment	208	(49)	1	**160**
Allowance for net realisable value of inventory	1,495	171	8	**1,674**
Allowance for doubtful debts	2,313	129	42	**2,484**
Movement in other provisions	(889)	(4,324)	399	**(4,814)**
	57,415	**20,417**	**2,472**	**80,304**
ADJUSTED EBITDA	**204,234**	**73,986**	**14,991**	**293,211**

Three-month period ended March 31, 2011	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**204,234**	**73,986**	**14,991**	**293,211**
Reversal of adjustments from operating profit to EBITDA	(57,415)	(20,417)	(2,472)	**(80,304)**
OPERATING PROFIT	**146,819**	**53,569**	**12,519**	**212,907**
Foreign exchange gain/(loss), net	23,304	58	9,472	**32,834**
OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**170,123**	**53,627**	**21,991**	**245,741**
Finance costs				**(81,030)**
Finance income				**8,870**
Loss on changes in fair value of derivative financial instrument				**(17,060)**
PROFIT BEFORE TAX				**156,521**

(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 March 31, 2012 and December 31, 2011:

Segment assets	Russia	Americas	Europe	TOTAL
At March 31, 2012	5,143,139	2,042,661	428,957	**7,614,757**
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 three-month periods ended March 31, 2012 and 2011, respectively:

Sales to external customers	Seamless pipes	Welded pipes	Other operations	TOTAL
Three-month period ended March 31, 2012	1,059,231	526,182	73,169	**1,658,582**
Three-month period ended March 31, 2011	927,770	666,395	74,405	**1,668,570**

2) Cost of Sales

Cost of sales for the three-month period ended March 31 consisted of the following:

	2012	2011
Raw materials and consumables	914,104	944,510
Staff costs including social security	178,176	161,788
Energy and utilities	106,930	116,090
Depreciation and amortisation	63,655	61,590
Repairs and maintenance	35,062	31,831
Contracted manufacture	17,272	20,285
Freight	17,004	15,930
Taxes	13,075	12,555
Professional fees and services	10,571	5,327
Rent	2,836	2,580
Travel	584	524
Communications	353	178
Insurance	254	209
Other	1,209	638
Total production cost	**1,361,085**	**1,374,035**
Change in own finished goods and work in progress	(120,663)	(108,986)
Cost of sales of externally purchased goods	6,491	12,318
Obsolete stock, write-offs	289	26
Cost of sales	**1,247,202**	**1,277,393**

.

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

3) Selling and Distribution Expenses

Selling and distribution expenses for the three-month period ended March 31 consisted of the following:

	2012	2011
Freight	72,477	49,505
Staff costs including social security	16,465	15,985
Depreciation and amortisation	13,373	16,401
Consumables	5,408	5,334
Bad debt expense	4,189	2,434
Professional fees and services	2,935	3,864
Rent	1,830	2,029
Travel	1,111	879
Utilities and maintenance	605	627
Communications	340	300
Insurance	326	430
Taxes	107	390
Other	529	594
	119,695	**98,772**

4) Advertising and Promotion Expenses

Advertising and promotion expenses for the three-month period ended March 31 consisted of the following:

	2012	2011
Exhibits and catalogues	1,455	1,255
Media	246	162
Other	255	142
	1,956	**1,559**

5) General and Administrative Expenses

General and administrative expenses for the three-month period ended March 31 consisted of the following:

	2012	2011
Staff costs including social security	41,563	38,483
Professional fees and services	13,226	11,679
Depreciation and amortisation	3,716	3,176
Utilities and maintenance	2,795	2,314
Travel	2,168	2,201
Insurance	1,709	1,110
Transportation	1,658	1,220
Communications	1,627	1,428
Rent	1,327	1,226
Taxes	907	1,424
Consumables	832	774
Other	548	786
	72,076	**65,821**

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

6) Research and Development Expenses

Research and development expenses for the three-month period ended March 31 consisted of the following:

	2012	2011
Staff costs including social security	3,104	2,829
Utilities and maintenance	274	186
Professional fees and services	272	149
Travel	267	127
Depreciation and amortisation	247	242
Consumables	195	158
Transportation	73	66
Other	134	127
	4,566	**3,884**

7) Other Operating Expenses

Other operating expenses for the three-month period ended March 31 consisted of the following:

	2012	2011
Sponsorship and charitable donations	3,911	3,814
Social and social infrastructure maintenance expenses	3,788	3,834
Loss on disposal of property, plant and equipment	1,468	160
Penalties, fines and expenses related to tax issues	946	4,076
Other	774	1,013
	10,887	**12,897**

8) Other Operating Income

Other operating income for the three-month period ended March 31 consisted of the following:

	2012	2011
Gain from penalties and fines	760	856
Assets received for free	105	–
Gain on sales of current assets	14	21
Other	1,357	3,786
	2,236	**4,663**

9) Finance Income

Finance income for the three-month period ended March 31 consisted of the following:

	2012	2011
Dividends	–	8,295
Interest income – bank accounts and deposits	2,248	575
	2,248	**8,870**

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

10) Investments in Associates

Movement in investments in associates during three-month period ended March 31, 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	(285)	(59)	(344)
Currency translation adjustment	154	4	158
Investments in associates as at March 31, 2012	**1,531**	**–**	**1,531**

11) Income Tax

Income tax expense for the three-month period ended March 31 consisted of the following:

	2012	2011
Current income tax expense	28,585	24,720
Current income tax benefit	(158)	–
Adjustments in respect of income tax of previous periods	(1)	394
Deferred income tax expense related to origination and reversal of temporary differences	17,420	27,271
Total income tax expense	**45,846**	**52,385**

12) 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 20).

Earnings per share attributable to equity holders of the parent entity, basic and diluted for the three-month period ended March 31 were as follows:

	2012	2011
Profit for the period attributable to the equity holders of the parent entity	103,762	102,960
Effect of convertible bonds, net of tax	(12,938)	(261)
Profit for the period attributable to the equity holders of the parent entity adjusted for the effect of dilution	90,824	102,699
Weighted average number of ordinary shares outstanding	863,165,598	866,010,298
Weighted average number of ordinary shares outstanding adjusted for the effect of dilution	935,133,146	937,516,254
Earnings per share attributable to equity holders of the parent entity, basic and diluted in US dollars		
Basic	0.12	0.12
Diluted	0.10	0.11

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

13) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	March 31, 2012	December 31, 2011
Russian rouble	187,705	164,695
US dollar	24,865	60,980
Euro	4,311	3,235
Romanian lei	1,275	1,205
Other currencies	403	478
	218,559	**230,593**

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

As at March 31, 2012, the amount of cash and cash equivalents included 44,874 which is available to finance investing activities only (December 31, 2011: 42,291).

14) Inventories

Inventories consisted of the following:

	March 31, 2012	December 31, 2011
Raw materials and supplies	605,223	614,031
Finished goods and WIP	989,743	820,250
Gross inventories	**1,594,966**	**1,434,281**
Allowance for net realisable value of inventory	(17,053)	(15,826)
Net inventories	**1,577,913**	**1,418,455**

15) Property, Plant and Equipment

Movement in property, plant and equipment was as follows in the three-month period ended March 31, 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	–	–	–	–	–	93,612	**93,612**
Assets put into operation	16,881	82,736	449	856	1,520	(102,442)	**–**
Disposals	(312)	(4,103)	(93)	(270)	–	(17)	**(4,795)**
Currency translation adjustments	105,661	206,297	4,495	4,364	166	42,541	**363,524**
BALANCE AT MARCH 31, 2012	**1,373,815**	**2,949,323**	**64,304**	**59,828**	**14,546**	**529,097**	**4,990,913**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2012	(206,163)	(922,159)	(26,792)	(32,430)	(3,380)	–	**(1,190,924)**
Depreciation charge	(9,416)	(53,312)	(1,051)	(1,999)	(169)	–	**(65,947)**
Disposals	65	3,380	83	192	–	–	**3,720**
Currency translation adjustments	(17,180)	(74,492)	(2,110)	(2,707)	(33)	–	**(96,522)**
BALANCE AT MARCH 31, 2012	**(232,694)**	**(1,046,583)**	**(29,870)**	**(36,944)**	**(3,582)**	**–**	**(1,349,673)**
NET BOOK VALUE AT MARCH 31, 2012	**1,141,121**	**1,902,740**	**34,434**	**22,884**	**10,964**	**529,097**	**3,641,240**
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)

16) Goodwill and Other Intangible Assets

Movement in intangible assets was as follows in the three-month period ended March 31, 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	–	–	555	–	–	–	347	**902**
Disposals	(13)	–	(8)	–	–	–	(115)	**(136)**
Currency translation adjustments	71	8,378	2,104	–	–	–	560	**11,113**
BALANCE AT MARCH 31, 2012	**209,599**	**571,201**	**24,193**	**472,300**	**14,100**	**8,500**	**7,066**	**1,306,959**
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	(19)	–	(1,254)	(12,825)	(441)	–	(465)	**(15,004)**
Disposals	13	–	8	–	–	–	115	**136**
Currency translation adjustments	(21)	(1,525)	(1,231)	–	–	–	(169)	**(2,946)**
BALANCE AT MARCH 31, 2012	**(321)**	**(17,137)**	**(14,780)**	**(302,899)**	**(6,702)**	**(8,500)**	**(2,081)**	**(352,420)**
NET BOOK VALUE AT MARCH 31, 2012	**209,278**	**554,064**	**9,413**	**169,401**	**7,398**	**–**	**4,985**	**954,539**
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:

	March 31, 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	6,382	–	6,185	–
Kaztrubprom Plant	5,339	–	4,863	–
Oilfield division	32,887	–	29,957	–
Other cash-generating units	36,488	–	33,238	–
	554,064	**208,700**	**547,211**	**208,700**

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate the carrying value may be impaired. At March 31, 2012 there were no indicators of impairment of cash generating units.

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

17) Trade and Other Payables

Trade and other payables consisted of the following:

	March 31, 2012	December 31, 2011
Trade payables	688,251	653,100
Liabilities for VAT	45,042	55,103
Payroll liabilities	30,363	30,348
Accounts payable for property, plant and equipment	30,045	42,282
Liabilities for property tax	18,333	13,399
Accrued and withheld taxes on payroll	17,328	16,204
Liabilities under put options of non-controlling interest shareholders in subsidiaries	13,923	14,051
Sales rebate payable	8,732	7,926
Notes issued to third parties	4,201	8,408
Liabilities for other taxes	4,028	3,442
Other payables	15,531	18,677
	875,777	**862,940**

18) Provisions and Accruals

Provisions and accruals consisted of the following:

	March 31, 2012	December 31, 2011
Current:		
Accrual for unused annual leaves, current portion	11,485	10,549
Provision for bonuses	9,813	21,488
Current portion of employee benefits liability	4,178	2,693
Accrual for long-service benefit	3,935	10,209
Provision for tax and other fines	220	204
Environmental provision, current portion	949	932
	30,580	**46,075**
Non-current:		
Accrual for unused annual leaves	28,217	20,930
Environmental provision	4,365	4,406
Provision for bonuses	1,584	–
	34,166	**25,336**

19) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	March 31, 2012	December 31, 2011
Current:		
Bank loans	174,966	242,830
Interest payable	21,716	27,981
Current portion of non-current borrowings	389,172	329,009
Current portion of bearer coupon debt securities	393,595	–
Unamortised debt issue costs	(6,608)	(2,269)
Total short-term loans and borrowings	**972,841**	**597,551**
Non-current:		
Bank loans	2,626,186	2,459,613
Bearer coupon debt securities	1,064,079	1,043,806
Unamortised debt issue costs	(14,586)	(21,136)
Less: current portion of non-current borrowings	(389,172)	(329,009)
Less: current portion of bearer coupon debt securities	(393,595)	–
Total long-term loans and borrowings	**2,892,912**	**3,153,274**

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

19) Interest-Bearing Loans and Borrowings (continued)

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

	Interest rates for the period ended	March 31, 2012	Interest rates for the period ended	December 31, 2011
Russian rouble	Fixed 6.7% – 9.5%	1,842,331	Fixed 6.7% – 9.5%	1,712,829
US Dollar	Fixed 5.25%	392,313	Fixed 5.25%	385,981
	Fixed 7.75%	503,366	Fixed 7.75%	512,935
	Fixed 7%	410,851	Fixed 3.15% – 7%	447,541
	Cost of funds + 1.75% – 2.5% (*)	14,420	Cost of funds + 1.75% – 2.5% (*)	5,424
	Variable:	485,794	Variable:	440,304
	Libor (1m) + 2.25% – 4.15%		Libor (1m) + 2.25% – 4.15%	
	Libor (3m – 13m) + 0.8% – 2.65%		Libor (3m – 13m) + 1% – 2.75%	
Euro	Fixed 5.19%	64,980	Fixed 5.19%	74,510
	Variable:	151,407	Variable:	170,953
	Euribor (1m) + 1.6% – 4.05%		Euribor (1m) + 1.6% – 4.05%	
	Euribor (3m) + 3.5%		Euribor (3m) + 2.7% – 3.5%	
	Euribor (6m) + 0.26% – 0.3%		Euribor (6m) + 0.26% – 0.3%	
			Euribor (10m – 15m) + 1.1%	
Romanian Lei	Robor (6m) + 3%	291	Robor (6m) + 3%	348
		3,865,753		**3,750,825**

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

Unutilised Borrowing Facilities

As at March 31, 2012, the Group had unutilised borrowing facilities in the amount of 762,419 (December 31, 2011: 736,163).

20) 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.

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.

20) Convertible Bonds (continued)

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 800 bps and 1,094 bps as at March 31, 2012 and December 31, 2011, respectively. As at March 31, 2012, the fair value of the Embedded Conversion Option was 12,188 (December 31, 2011: 3,024). The change in the fair value of the embedded derivative during the reporting period resulted in a loss of 9,164, which has been recorded as loss on changes in fair value of derivative financial instrument in the income statement for the three-month period ended March 31, 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 March 31, 2012, the carrying value of the host component was 392,313 (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 March 31, 2012.

There were no conversions of the bonds during the three-month period ended March 31, 2012.

21) 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 29 persons as at March 31, 2012 (29 persons as at December 31, 2011).

The Group provides compensation to key management personnel only in the form of short-term employee benefits, which include wages, salaries, social security contributions, performance bonuses which are dependent on operating results for 2012 year and other benefits in the amount of 4,029 for the three-month period ended March 31, 2012 (three-month period ended March 31, 2011: 3,828).

The amounts disclosed above are recognised as general and administrative expenses in the income statement for the three-month periods ended March 31, 2012 and March 31, 2011.

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

21) Related Parties Disclosures (continued)

Compensation to Key Management Personnel of the Group (continued)

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

The balance of loans issued to key management personnel amounted to 1,218 as at March 31, 2012 (December 31, 2011: 1,103).

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

Transactions with Other Related Parties

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

	March 31, 2012	December 31, 2011
Cash and cash equivalents	22,796	125,687
Accounts receivable	4,490	5,417
Prepayments	139	109
Accounts payable	(14,909)	(733)

Accounts payable to related parties included accounts payable for raw materials in the amount of 14,186 as at March 31, 2012.

The following table provides the total amount of transactions with other related parties for the three-month period ended March 31:

	2012	2011
Sales revenue	2,629	3,793
Purchases of goods and services	123,164	2,085
Interest income from loans and borrowings	526	112
Interest expenses from loans and borrowings	–	78

Purchases of goods and services from related parties during three-month period ended March 31, 2012 included purchases of raw materials in the amount of 121,198.

22) 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.

In the wake of the global financial crisis, all countries continue to face an uneven economic recovery. Despite the stabilisation measures introduced by the Russian Government in 2011-2012 there continues to be uncertainty regarding further economic growth 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.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

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 33,783 thousand Russian roubles (1,152 at the exchange rate as at March 31, 2012). Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Consequently, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the three-month period ended March 31, 2012.

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

22) Contingencies and Commitments (continued)

Contractual Commitments and Guarantees

As at March 31, 2012, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 3,511,967 thousand Russian roubles (119,747 at the exchange rate as at March 31, 2012), 38,863 thousand Euros (51,905 at the exchange rate as at March 31, 2012), 2,478 thousand Romanian lei (757 at the exchange rate as at March 31, 2012) and 58,611 thousand US dollars for the total amount of 231,020 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 95,696 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 8,579 (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.

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding at March 31, 2012 in the amount of 3,386 (December 31, 2011: 3,378).

23) Equity

i) Share Capital

	March 31, 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

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

23) Equity (continued)

ii) 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 March 31, 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.

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 three-month period ended March 31, 2012, the effective portion of net gains from spot rate changes in the amount of 3,322,778 thousand Russian roubles (109,792 at historical exchange rate), net of income tax of 664,556 thousand Russian roubles (21,958 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

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

In the three-month period ended March 31, 2012, the share of profit of non-controlling interest in OOO “TMK-INOX” amounted to 98. This amount was recognised in additional paid-in capital.

iv) Acquisition of Non-controlling Interests in Subsidiaries

In the three-month period ended March 31, 2012, the Company purchased additional 0.02% of OAO “Sinarsky Pipe Plant” shares for cash consideration of 75. The excess in the amount of 16 of the carrying values of net assets attributable to interest in OAO “Sinarsky Pipe Plant” over the consideration paid for such non-controlling interest is recorded in additional paid-in capital.

v) Movement on Cash Flow Hedges

The Group hedges its exposure to currency risk related to Euro and US dollar denominated sales of Romanian subsidiaries using EUR/RON and USD/RON forward contracts and its exposure to variability in cash flows attributable to interest rate risk using interest rate swap contracts.

The details of movement on cash flow hedges during the three-month period ended March 31, 2012 is presented in the following table:

	Currency forward contracts	Interest rate swap contracts	Total
Cash flow hedges			
Gain/(loss) arising during the period	474	(241)	233
Recognition of realised results in the income statement	(132)	–	(132)
Movement on cash flow hedges	**342**	**(241)**	**101**
Income tax	(55)	89	34
Movement on cash flow hedges, net of tax	**287**	**(152)**	**135**

24) Subsequent Events

On May 17, 2012, The Board of Directors proposed final dividends in respect of 2011 year in the amount of 2,531,482 thousand Russian roubles (81,725 at the exchange rate at the date of proposal) or 2.70 Russian roubles per share (0.09 US dollars per share). Dividends are to be approved by the Annual General Meeting of Shareholders on June 26, 2012.

.