OAO TMK

Consolidated Financial Statements

for the year ended December 31, 2012

Ernst & Young

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

Independent auditors' report

To the shareholders and Board of Directors
OAO TMK

We have audited the accompanying consolidated financial statements of OAO TMK and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Ernst & Young LLC

March 5, 2013

OAO TMK

Consolidated Financial Statements

for the year ended December 31, 2012

Contents

Consolidated Income Statement 2
Consolidated Statement of Comprehensive Income 3
Consolidated Statement of Financial Position 4
Consolidated Statement of Changes in Equity 5
Consolidated Statement of Cash Flows 7

Notes to the Consolidated Financial Statements 8

Corporate Information 8

Basis of Preparation of the Financial Statements 8
Statement of Compliance 8
Basis of Accounting 8
Functional and Presentation Currency 9

Significant Estimates and Assumptions 10
Impairment of Property, Plant and Equipment 10
Useful Lives of Items of Property, Plant and Equipment 10
Fair Value of Assets and Liabilities Acquired in Business Combinations 10
Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives 11
Employee Benefits Liability 11
Allowances 11
Litigations 12
Current Taxes 12
Deferred Income Tax 12

Significant Judgments 13
Consolidation of Special Purpose Entities 13

Changes in Accounting Policies 13

Significant Accounting Policies 18

Index to the Notes to the Consolidated Financial Statements 31

OAO TMK

Consolidated Income Statement

for the year ended December 31, 2012

(All amounts in thousands of US dollars)

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

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

OAO TMK

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2012

(All amounts in thousands of US dollars)

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

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

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

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

OAO TMK

Consolidated Statement of Financial Position

as at December 31, 2012

(All amounts in thousands of US dollars)

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

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

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2012

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Unrealised gain/(loss) on financial instruments**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2012	**326,417**	**(327,339)**	**384,581**	**16,390**	**1,421,437**	**(88,551)**	**–**	**1,732,935**	**91,849**	**1,824,784**
Profit for the year	–	–	–	–	276,897	–	–	**276,897**	5,182	**282,079**
Other comprehensive income/(loss) for the year, net of tax	–	–	–	–	–	78,755	(3,023)	**75,732**	4,479	**80,211**
Total comprehensive income/(loss) for the year, net of tax	**–**	**–**	**–**	**–**	**276,897**	**78,755**	**(3,023)**	**352,629**	**9,661**	**362,290**
Dividends declared by the parent entity to its shareholders (Note 32 iii)	–	–	–	–	(111,540)	–	–	**(111,540)**	–	**(111,540)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 32 iv)	–	–	–	–	–	–	–	**–**	(1,571)	**(1,571)**
Acquisition of non-controlling interests in subsidiaries (Note 32 v)	–	–	1,711	–	–	–	–	**1,711**	(5,871)	**(4,160)**
Acquisition of non-controlling interests in subsidiaries in exchange for treasury shares (Note 32 vi)	–	8,190	4,900	–	–	–	–	**13,090**	(13,090)	**–**
Acquisition of subsidiaries (Note 14)	–	–	–	–	–	–	–	**–**	(666)	**(666)**
Contribution from non-controlling interest owners (Note 32 vii)	–	–	–	–	–	–	–	**–**	16,245	**16,245**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 32 ix)	–	–	(2,857)	–	–	–	–	**(2,857)**	(557)	**(3,414)**
Derecognition of non-controlling interests due to the expiration of subscription rights (Note 32 xi)	–	–	–	–	–	–	–	**–**	(73)	**(73)**
At December 31, 2012	**326,417**	**(319,149)**	**388,335**	**16,390**	**1,586,794**	**(9,796)**	**(3,023)**	**1,985,968**	**95,927**	**2,081,895**

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

OAO TMK

Consolidated Statement of Changes in Equity

for the year ended December 31, 2012 (continued)

(All amounts in thousands of US dollars)

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

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

OAO TMK

Consolidated Statement of Cash Flows

for the year ended December 31, 2012

(All amounts in thousands of US dollars)

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

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

Corporate Information

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

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

As at December 31, 2012, the Company's controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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

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

Basis of Preparation of the Financial Statements

Statement of Compliance

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

Basis of Accounting

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

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

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

Basis of Preparation of the Financial Statements (continued)

Functional and Presentation Currency

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

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

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

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

Significant Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation of uncertainty at the end of reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. This requires an estimation of the value in use of the cash-generating units to which the item is allocated. The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management.

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

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

Useful Lives of Items of Property, Plant and Equipment

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

Fair Value of Assets and Liabilities Acquired in Business Combinations

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

Significant Estimates and Assumptions (continued)

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

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

Employee Benefits Liability

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

Allowances

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

The Group makes allowances for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods, work in process and raw materials of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the end of reporting period to the extent that such events confirm conditions existing at the end of the period.

Significant Estimates and Assumptions (continued)

Litigations

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

Current Taxes

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

Tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Furthermore, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions, outcomes of tax litigation and resolution of disputes arising from tax audits. As at December 31, 2012, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Deferred Income Tax

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

Significant Judgments

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

Consolidation of Special Purpose Entities

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

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

Changes in Accounting Policies

Application of New and Amended IFRS and IFRIC

The Group has adopted the following new and amended IFRS and IFRIC in the consolidated financial statements for the annual period beginning on January 1, 2012:

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

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

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 disclosure only and did not have any impact on the financial position or performance of the Group.

Changes in Accounting Policies (continued)

Application of New and Amended IFRS and IFRIC (continued)

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

The amendment clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment did not have any impact on the financial position or performance of the Group.

New Accounting Pronouncements

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

IFRS 7 *Financial Instruments: Disclosures* (amended) – Offsetting Financial Assets and Financial Liabilities (effective for financial years beginning on or after January 1, 2013)

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

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

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

Changes in Accounting Policies (continued)

New Accounting Pronouncements (continued)

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

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

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

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

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

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

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

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance.

Changes in Accounting Policies (continued)

New Accounting Pronouncements (continued)

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

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

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

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

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

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

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

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

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

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

Changes in Accounting Policies (continued)

New Accounting Pronouncements (continued)

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

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

Significant Accounting Policies

Index to Accounting Policies

A) Basis of Consolidation 19
B) Business Combination and Goodwill 20
C) Cash and Cash Equivalents 21
D) Financial Assets 22
E) Inventories 24
F) Property, Plant and Equipment 25
G) Intangible Assets (Other than Goodwill) 25
H) Impairment of Non-Financial Assets (Other than Goodwill) 26
I) Borrowings 27
J) Leases 27
K) Provisions 28
L) Employee Benefits Liability 28
M) Government Grants 29
N) Deferred Income Tax 29
O) Equity 29
P) Revenue Recognition 30

Significant Accounting Policies (continued)

A) Basis of Consolidation

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

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

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

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

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

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

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

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

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

Significant Accounting Policies (continued)

A) Basis of Consolidation (continued)

When the Group loses control over a subsidiary, it:

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

B) Business Combination and Goodwill

Acquisition of Subsidiaries

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

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

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

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

Goodwill

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

Significant Accounting Policies (continued)

B) Business Combination and Goodwill (continued)

Goodwill (continued)

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

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

Acquisition of Subsidiaries from Entities under Common Control

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

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

C) Cash and Cash Equivalents

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

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

Significant Accounting Policies (continued)

D) Financial Assets

Initial Recognition and Measurement

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

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

Subsequent Measurement

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

Loans and Receivables

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

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

Financial Assets at Fair Value through Profit or Loss

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

Significant Accounting Policies (continued)

D) Financial Assets (continued)

Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity, when the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are recognised at amortised cost using the effective interest method less any allowance for impairment. During the period, the Group did not hold any investments in this category.

Available-for-Sale Financial Assets

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

Derivatives Designated as Hedging Instruments

Derivatives are financial instruments that change their values in response to changes in the underlying variable, require no or little net initial investment and are settled at a future date. Derivatives are primarily used to manage exposures to foreign exchange risk, interest rate risk and other market risks.

For the purpose of hedge accounting, derivatives are designated as instruments hedging the Group's exposure to changes in the fair value of a recognised asset or liability (fair value hedges), as instruments hedging the Group's exposure to variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedges) and as hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group applies hedge accounting and the risk management objective and strategy for undertaking the hedge.

The Group's derivatives consist of interest rate swaps and currency forwards and their use is governed by the Group's policies which are consistent with Group's overall risk management strategy. These derivatives are designated as hedging instruments in cash flow hedges. The objective of the hedge is to protect future cash flows against unfavorable variations of interest rates and exchange rates.

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

Significant Accounting Policies (continued)

D) Financial Assets (continued)

Impairment of Financial Assets

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

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

E) Inventories

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

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

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

Significant Accounting Policies (continued)

F) Property, Plant and Equipment

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

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

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

Land	Not depreciated
Buildings	8-100 years
Machinery and equipment	5-30 years
Transport and motor vehicles	4-15 years
Furniture and fixtures	2-10 years

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

G) Intangible Assets (Other than Goodwill)

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

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

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

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

Significant Accounting Policies (continued)

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

Research and Development

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

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

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

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

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

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

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

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

Significant Accounting Policies (continued)

I) Borrowings

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

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

J) Leases

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

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

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

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

Significant Accounting Policies (continued)

K) Provisions

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

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

L) Employee Benefits Liability

Short-Term Employee Benefits

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

Defined Benefit Obligations

The Group companies provide a number of post-employment and other long-term benefits to their employees (pensions, lump-sum post-employment payments, financial support to pensioners, jubilee payments, etc.). All post-employment benefit plans are unfunded. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements. The liability recognised in the balance sheet in respect of post-employment and other long-term employee benefits is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. Defined benefit obligation is calculated by external consultants using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using yields on high-quality corporate bonds or, in countries where there is no deep market in such bonds, yields on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligation.

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

Significant Accounting Policies (continued)

M) Government Grants

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

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

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

N) Deferred Income Tax

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

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

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

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

O) Equity

Share Capital

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

Treasury Shares

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

Significant Accounting Policies (continued)

O) Equity (continued)

Dividends

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

P) Revenue Recognition

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

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

Index to the Notes to the Consolidated Financial Statements

1) Segment Information 32
2) Cost of Sales 35
3) Selling and Distribution Expenses 35
4) Advertising and Promotion Expenses 35
5) General and Administrative Expenses 36
6) Research and Development Expenses 36
7) Other Operating Expenses 36
8) Other Operating Income 36
9) Finance Income 37
10) Investments in Associates 37
11) Gain on Disposal of Assets Classified as Held for Sale 37
12) Income Tax 38
13) Earnings per Share 40
14) Acquisition of Subsidiaries 41
15) Cash and Cash Equivalents 42
16) Trade and Other Receivables 43
17) Inventories 43
18) Prepayments and Input VAT 43
19) Property, Plant and Equipment 44
20) Goodwill and Other Intangible Assets 46
21) Other Non-Current Assets 49
22) Trade and Other Payables 49
23) Provisions and Accruals 49
24) Interest-Bearing Loans and Borrowings 50
25) Convertible Bonds 51
26) Finance Lease Liability 52
27) Employee Benefits Liability 53
28) Other Non-Current Liabilities 54
29) Principal Subsidiaries 55
30) Related Parties Disclosures 56
31) Contingencies and Commitments 57
32) Equity 59
33) Financial Risk Management Objectives and Policies 62
34) Subsequent Events 69

1) Segment Information

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

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

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on adjusted EBITDA. Adjusted EBITDA is determined as profit/(loss) for the period excluding finance costs and finance income, income tax (benefit)/expense, depreciation and amortisation, foreign exchange (gain)/loss, impairment/(reversal of impairment) of non-current assets, movements in allowances and provisions, (gain)/loss on disposal of property, plant and equipment, (gain)/loss on changes in fair value of financial instruments, share of (profit)/loss of associates and other non-cash items. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments.

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

Year ended December 31, 2012	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	4,713,913	1,650,007	323,820	**6,687,740**
Cost of sales	(3,589,873)	(1,365,341)	(249,101)	**(5,204,315)**
GROSS PROFIT	**1,124,040**	**284,666**	**74,719**	**1,483,425**
Selling, general and administrative expenses	(565,957)	(150,235)	(37,242)	**(753,434)**
Other operating income/(expenses), net	(43,899)	(12,543)	(862)	**(57,304)**
OPERATING PROFIT	**514,184**	**121,888**	**36,615**	**672,687**
ADD BACK:				
Depreciation and amortisation	222,482	91,437	12,143	**326,062**
Loss/(gain) on disposal of property, plant and equipment	10,482	6,175	598	**17,255**
Allowance for net realisable value of inventory	4,542	793	1,064	**6,399**
Allowance for doubtful debts	9,848	(760)	623	**9,711**
Movement in other provisions	4,130	2,933	638	**7,701**
	251,484	**100,578**	**15,066**	**367,128**
ADJUSTED EBITDA	**765,668**	**222,466**	**51,681**	**1,039,815**

1) Segment Information (continued)

Year ended December 31, 2012	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**765,668**	**222,466**	**51,681**	**1,039,815**
Reversal of adjustments from operating profit to EBITDA	(251,484)	(100,578)	(15,066)	**(367,128)**
OPERATING PROFIT	**514,184**	**121,888**	**36,615**	**672,687**
Impairment of property, plant and equipment	(8,406)	–	–	**(8,406)**
Foreign exchange gain/(loss), net	23,702	1,366	(2,471)	**22,597**
OPERATING PROFIT AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	**529,480**	**123,254**	**34,144**	**686,878**
Finance costs				**(297,099)**
Finance income				**22,329**
Loss on changes in fair value of derivative financial instruments				**(7,436)**
Share of profit of associates				**41**
PROFIT BEFORE TAX				**404,713**

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

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

1) Segment Information (continued)

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

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

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

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

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

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

Year ended December 31, 2012	Russia	Americas	Europe	Cent.Asia & Caspian Region	Middle East & Gulf Region	Asia & Far East	Africa	TOTAL
Revenue	3,644,415	1,983,043	486,326	352,858	171,563	33,557	15,978	**6,687,740**
Non-current assets	3,117,967	1,300,327	274,980	24,142	39,986	–	10	**4,757,412**

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

2) Cost of Sales

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

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

3) Selling and Distribution Expenses

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

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

4) Advertising and Promotion Expenses

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

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

5) General and Administrative Expenses

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

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

6) Research and Development Expenses

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

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

7) Other Operating Expenses

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

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

8) Other Operating Income

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

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

9) Finance Income

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

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

10) Investments in Associates

The movement in investments in associates was as follows:

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

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

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

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

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

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

12) Income Tax

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

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

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

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

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

	2012	Change recognised in income statement	Change recognised in other comprehen-sive income	Increase due to acquisition of subsidiaries	Currency translation adjustments	2011
Valuation and depreciation of property, plant and equipment	(295,963)	(1,263)	–	(233)	(11,726)	(282,741)
Valuation and amortization of intangible assets	(38,985)	7,693	–	–	8	(46,686)
Valuation of accounts receivable	(5,832)	500	–	–	(347)	(5,985)
Prepayments and other current assets	(1,048)	(543)	–	–	24	(529)
Tax losses available for offset	51,703	(38,802)	(12,085)	–	4,541	98,049
Provisions and accruals	17,041	2,086	–	–	514	14,441
Trade and other payable	3,817	(1,572)	–	–	(4)	5,393
Finance lease obligations	9,520	2,352	–	–	459	6,709
Impairment of accounts receivable	7,962	2,113	–	–	372	5,477
Valuation of inventory	523	3,562	–	–	(79)	(2,960)
Other	5,661	2,781	972	–	(19)	1,927
	(245,601)	**(21,093)**	**(11,113)**	**(233)**	**(6,257)**	**(206,905)**
Reflected in the statement of financial position as follows:						
Deferred tax liability	(302,314)	12,698	588	(233)	(10,582)	(304,785)
Deferred tax asset	56,713	(33,791)	(11,701)	–	4,325	97,880

12) Income Tax (continued)

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

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

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

As at December 31, 2012, the deferred tax asset for 3,646 (December 31, 2011: 3,439) relating to tax deductible losses incurred in transactions with securities has not been recognised, as it is not probable that sufficient taxable profit on transactions with securities will be available to offset the deductible temporary differences to which the asset relates. Such tax losses are offset only against future taxable profits generated in transactions with securities over the remaining period of 2 years.

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

As at December 31, 2012, the Group has not recognised deferred tax liability in respect of 1,358,448 (December 31, 2011: 1,301,486) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

13) Earnings per Share

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

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

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

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

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

14) Acquisition of Subsidiaries

Acquisition of Gulf International Pipe Industry LLC

On December 2, 2012, the Group acquired 55% of the voting shares of Gulf International Pipe Industry LLC ("GIPI"), a company based in the Sultanate of Oman and specialising in the manufacture of welded steel pipes. As a result of the acquisition, the Group is expected to increase its presence in Middle East and Gulf region.

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

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

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

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

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

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

The cash flows on acquisition were as follows:

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

14) Acquisition of Subsidiaries (continued)

Acquisition of Gulf International Pipe Industry LLC (continued)

Acquisition-related costs of 1,103 were charged to general and administrative expenses in the consolidated income statement for the year ended December 31, 2012. As at December 31, 2012 the unpaid amount of the purchase consideration was 11,700.

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

Acquisition of OOO "Uralskiy Dvor"

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

15) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

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

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

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

16) Trade and Other Receivables

Trade and other receivables consisted of the following:

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

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

17) Inventories

Inventories consisted of the following:

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

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

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

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

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

18) Prepayments and Input VAT

Prepayments and input VAT consisted of the following:

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

19) Property, Plant and Equipment

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

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improve-ments	Construc-tion in progress	TOTAL
COST							
Balance at January 1, 2012	1,251,585	2,664,393	59,453	54,878	12,860	495,403	**4,538,572**
Additions						487,206	**487,206**
Assets put into operation	63,821	226,949	4,662	12,386	5,953	(313,771)	**–**
Disposals	(4,103)	(26,541)	(879)	(949)	–	(527)	**(32,999)**
Increase due to acquisition of subsidiaries (Note 14)	21,573	71,127	90	152	–	–	**92,942**
Currency translation adjustments	64,967	126,812	2,612	2,790	107	29,621	**226,909**
BALANCE AT DECEMBER 31, 2012	**1,397,843**	**3,062,740**	**65,938**	**69,257**	**18,920**	**697,932**	**5,312,630**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2012	(206,163)	(922,159)	(26,792)	(32,430)	(3,380)	–	**(1,190,924)**
Depreciation charge	(38,011)	(212,704)	(4,174)	(8,390)	(760)	–	**(264,039)**
Impairment	(8,406)	–	–	–	–	–	**(8,406)**
Disposals	1,534	16,067	792	831	–	–	**19,224**
Currency translation adjustments	(11,081)	(48,438)	(1,276)	(1,754)	(24)	–	**(62,573)**
BALANCE AT DECEMBER 31, 2012	**(262,127)**	**(1,167,234)**	**(31,450)**	**(41,743)**	**(4,164)**	**–**	**(1,506,718)**
NET BOOK VALUE AT DECEMBER 31, 2012	**1,135,716**	**1,895,506**	**34,488**	**27,514**	**14,756**	**697,932**	**3,805,912**
NET BOOK VALUE AT JANUARY 1, 2012	**1,045,422**	**1,742,234**	**32,661**	**22,448**	**9,480**	**495,403**	**3,347,648**

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

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

19) Property, Plant and Equipment (continued)

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

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

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

Capitalised Borrowing Costs

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

20) Goodwill and Other Intangible Assets

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

	Patents and trademarks	Goodwill	Software	Customer relation-ships	Proprietary technology	Backlog	Other	TOTAL
COST								
Balance at January 1, 2012	209,541	562,823	21,542	472,300	14,100	8,500	6,274	**1,295,080**
Additions	175	–	590	–	4	–	1,624	**2,393**
Disposals	(16)	–	(8)	–	–	(8,500)	(1,798)	**(10,322)**
Increase due to acquisition of subsidiaries (Note 14)	–	43,233	–	–	–	–	–	**43,233**
Currency translation adjustments	46	5,390	1,296	–	–	–	1,280	**8,012**
BALANCE AT DECEMBER 31, 2012	**209,746**	**611,446**	**23,420**	**472,300**	**14,104**	**–**	**7,380**	**1,338,396**
ACCUMULATED AMORTISATION AND IMPAIRMENT								
Balance at January 1, 2012	(294)	(15,612)	(12,303)	(290,074)	(6,261)	(8,500)	(1,562)	**(334,606)**
Amortisation charge	(79)	–	(4,882)	(51,300)	(1,763)	–	(1,589)	**(59,613)**
Disposals	16	–	8	–	–	8,500	709	**9,233**
Currency translation adjustments	(13)	(936)	(848)	–	–	–	(113)	**(1,910)**
BALANCE AT DECEMBER 31, 2012	**(370)**	**(16,548)**	**(18,025)**	**(341,374)**	**(8,024)**	**–**	**(2,555)**	**(386,896)**
NET BOOK VALUE AT DECEMBER 31, 2012	**209,376**	**594,898**	**5,395**	**130,926**	**6,080**	**–**	**4,825**	**951,500**
NET BOOK VALUE AT JANUARY 1, 2012	**209,247**	**547,211**	**9,239**	**182,226**	**7,839**	**–**	**4,712**	**960,474**

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

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

20) Goodwill and Other Intangible Assets (continued)

Customer relationships represent non-contracted interactions with clients. Remaining amortisation period for customer relationships is 4-6 years. Customer relationships are amortised using the diminishing balance method which reflects the pattern of consumption of the economic benefits that customer relationships provide.

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

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (2011: 208,700).

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

	2012		2011	
	Goodwill	**Intangible assets with indefinite useful lives**	**Goodwill**	**Intangible assets with indefinite useful lives**
American division	472,968	208,700	472,968	208,700
Middle East division (Note 14)	39,945	–	–	–
Oilfield division	31,755	–	29,957	–
European division	6,329	–	6,185	–
Kaztrubprom Plant	5,155	–	4,863	–
Other cash-generating units	38,746	–	33,238	–
	594,898	**208,700**	**547,211**	**208,700**

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

Goodwill and intangible assets with indefinite useful lives were tested for impairment as at December 31, 2012. As a result of the test, the Group determined that the carrying values of all cash-generating units did not exceed their recoverable amounts. Consequently, no impairment losses were recognised in respect of goodwill and intangible assets with indefinite useful lives in the year ended December 31, 2012.

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

20) Goodwill and Other Intangible Assets (continued)

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

Cash-generating units	Period of forecast, years	Pre-tax discount rate, %
American division	5	12.11
Oilfield division	5	12.66
European division	5	13.19
Kaztrubprom Plant	5	11.79
Other cash-generating units	5	12.23

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

Costs

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

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

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

Sales Prices

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

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

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

Volume of Production of Billets and Pipes

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

20) Goodwill and Other Intangible Assets (continued)

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

21) Other Non-Current Assets

Other non-current assets consisted of the following:

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

22) Trade and Other Payables

Trade and other payables consisted of the following:

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

23) Provisions and Accruals

Provisions and accruals consisted of the following:

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

24) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

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

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

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

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

Unutilised Borrowing Facilities

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

25) Convertible Bonds

On February 11, 2010, TMK Bonds S.A., the Group's special purpose entity, completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts ("GDR") each representing four ordinary shares of OAO TMK. The bonds are listed on the London Stock Exchange. The bonds have nominal value of 100,000 US dollars each and were issued at 100% of their principal amount. The convertible bonds carry a coupon of 5.25% per annum, payable on a quarterly basis. The conversion could be exercised at the option of bondholders on any date during the period commencing 41 days following the February 11, 2010 and ending on the date falling seven London business days prior to the maturity date or, if earlier, ending on the seventh day prior to any earlier date fixed for redemption of the Convertible bonds. As at December 31, 2012, the bonds are convertible into GDRs at conversion price of 22.308 US dollars per GDR (December 31, 2011: 22.927 US dollars per GDR). The conversion price was adjusted in the year ended December 31, 2012 as a result of dividends in respect of 2011 distributed by the parent entity.

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

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

The Embedded Conversion Option in foreign currency was classified as financial instrument at fair value through profit or loss. The Embedded Conversion Option was initially recognised at the fair value of 35,455. The Group used binomial options pricing model for initial and subsequent measurement of fair value of this embedded derivative. For the purposes of this model, the Group assessed that the credit spread comprised 673 bps and 1,094 bps as at December 31, 2012 and 2011, respectively. As at December 31, 2012, the fair value of the Embedded Conversion Option was 10,490 (December 31, 2011: 3,024). The change in the fair value of the embedded derivative during the year ended December 31, 2012 resulted in a loss of 7,466 (2011: gain of 44,792), which has been recorded as (loss)/gain on changes in fair value of derivative financial instruments in the income statement.

The fair value of the host component at the initial recognition date has been determined as a residual amount after deducting the fair value of the Embedded Conversion Option from the issue price of the convertible bonds adjusted for transaction costs. The host component is subsequently carried at the amortised cost using the effective interest method. As at December 31, 2012, the carrying value of the host component was 412,401 (December 31, 2011: 385,981). Due to the bondholder's right to request redemption of the bonds on the third anniversary following the issue date, the bond liability was included to short-term loans and borrowings as at December 31, 2012.

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

26) Finance Lease Liability

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

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

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

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

Future minimum lease payments under finance leases with the present value of the net minimum lease payments were as follows as at December 31, 2012:

	Minimum payments	Present value of payments
2013	5,150	3,198
2014-2017	19,160	12,629
after 2017	43,348	36,416
Total minimum lease payments	**67,658**	**52,243**
Less amounts representing finance charges	(15,415)	
Present value of minimum lease payments	**52,243**	**52,243**

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

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

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

27) Employee Benefits Liability

The Group operates post-employment and other long-term employee benefit schemes in accordance with the collective bargaining agreements, local regulations and practices. These plans cover a large portion of the Group's employees and include benefits in the form of lump-sum post-employment payments, pensions, financial support to pensioners, jubilee payments to employees and pensioners, etc. These benefits generally depend on years of service, level of compensation and amount of benefit under the collective bargaining agreement. The Group pays the benefits when they fall due for payment.

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

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

Net benefit expense/(income) was recognised as cost of sales, general and administrative expenses and selling and distribution expenses in the income statement for the years ended December 31, 2012 and 2011.

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

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

27) Employee Benefits Liability (continued)

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

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

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

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

28) Other Non-Current Liabilities

Other non-current liabilities consisted of the following:

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

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

29) Principal Subsidiaries

Company	Location	Effective ownership interest	
		December 31, 2012	December 31, 2011
Manufacturing facilities			
OAO "Seversky Tube Works"	Russia	96.33%	94.63%
OAO "Sinarsky Pipe Plant"	Russia	97.28%	94.40%
OAO "Taganrog Metallurgical Works"	Russia	96.38%	96.13%
OAO "Volzhsky Pipe Plant"	Russia	100.00%	100.00%
OOO "TMK-INOX" *	Russia	49.61%	48.15%
ZAO "TMK-CPW" *	Russia	49.13%	48.26%
OAO "Orsky Machine Building Plant"	Russia	75.00%	75.00%
IPSCO Tubulars Inc.	USA	100.00%	100.00%
IPSCO Koppel Tubulars, L.L.C.	USA	100.00%	100.00%
IPSCO Tubulars (KY) Inc.	USA	100.00%	100.00%
IPSCO Tubulars (OK) Inc.	USA	100.00%	100.00%
Ultra Premium Oilfield Services, Ltd	USA	100.00%	100.00%
S.C. TMK-ARTROM S.A.	Romania	92.73%	92.66%
S.C. TMK-RESITA S.A.	Romania	100.00%	100.00%
TOO "TMK-Kaztrubprom"	Kazakhstan	100.00%	100.00%
Gulf International Pipe Industry LLC	Oman	55.00%	0.00%
Services for oilfield and gas industries			
OOO "TMK-Premium Services"	Russia	100.00%	100.00%
OOO "Predpriyatiye "Truboplast"	Russia	100.00%	100.00%
ZAO "Pipe Repair Department"	Russia	100.00%	100.00%
OOO "Central Pipe Yard"	Russia	100.00%	100.00%
OOO "TMK Oilfield Services"	Russia	100.00%	100.00%
OFS International LLC	USA	75.00%	0.00%
Threading & Mechanical Key Premium L.L.C **	UAE	49.00%	0.00%
Trading companies			
ZAO "Trade House TMK"	Russia	100.00%	100.00%
OOO "Skladskoy Kompleks TMK"	Russia	100.00%	100.00%
TMK IPSCO INTERNATIONAL, L.L.C.	USA	100.00%	100.00%
TMK North America Inc.	USA	100.00%	100.00%
TMK IPSCO Canada, Ltd.	Canada	100.00%	100.00%
TMK Europe GmbH	Germany	100.00%	100.00%
TMK Italia s.r.l.	Italy	100.00%	100.00%
TMK Middle East FZCO	UAE	100.00%	100.00%
TOO "TMK-Kazakhstan"	Kazakhstan	100.00%	100.00%
TMK Global S.A.	Switzerland	100.00%	100.00%
TMK Africa Tubulars (PTY) Ltd.	South Africa	100.00%	100.00%
Research and development			
OAO "Russian Research Institute of the Tube and Pipe Industries"	Russia	97.36%	97.36%
Financing and other activities			
OAO "Sinarskaya heat and power plant"	Russia	66.92%	64.93%
OOO "Accounting services center"	Russia	100.00%	100.00%
OOO "Pokrovka 40"	Russia	100.00%	100.00%
OOO "Blagoustroystvo"	Russia	100.00%	100.00%
OOO "Uralskiy Dvor"	Russia	100.00%	0.00%
OOO "SinaraTransAvto"	Russia	97.28%	94.40%
OOO "TMK-Trans"	Russia	100.00%	100.00%
TMK NSG L.L.C. (former NS Group, Inc.)	USA	100.00%	100.00%
UPOS GP L.L.C.	USA	100.00%	100.00%
UPOS L.L.C.	USA	100.00%	100.00%
Blytheville Finance Corporation	USA	100.00%	100.00%
TMK Capital S.A.	Luxembourg	0.00%	0.00%
TMK Bonds S.A.	Luxembourg	0.00%	0.00%
TMK Holdings S.a r.l.	Luxembourg	100.00%	0.00%
OFS Development S.a r.l.	Luxembourg	75.00%	0.00%
Rockarrow Investments Ltd.	Cyprus	100.00%	100.00%
Capitoline Holdings Limited	Cyprus	100.00%	0.00%
TMK Real Estate SRL (former Sinara Imobiliare SRL)	Romania	100.00%	0.00%
TMK Assets SRL (former SNR Properties SRL)	Romania	100.00%	0.00%
TMK Land S.A. (former Aranis Developments SRL)	Romania	100.00%	0.00%

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

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

30) Related Parties Disclosures

Compensation to Key Management Personnel of the Group

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

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

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

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

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

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

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

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

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

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

Transactions with Associates

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

30) Related Parties Disclosures (continued)

Transactions with Other Related Parties

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

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

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

On October 18, 2012, the Group acquired three real estate companies in Romania whose principal assets comprised of office building, residential property and land for 11,586 (at the historical exchange rate). The acquired buildings and land were considered an asset acquisition. The most part of consideration will be paid to the related party of the Group in order to settle the liability of the acquired companies. The liability of the acquired companies in the amount of 11,685 (at exchange rate as at December 31, 2012) was included in accounts payable to related parties in the statement of financial position.

The following table provides the total amount of transactions with other related parties for the years ended December 31:

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

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

31) Contingencies and Commitments

Operating Environment of the Group

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

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

31) Contingencies and Commitments (continued)

Operating Environment of the Group (continued)

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

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

Taxation

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

Up to the date of authorisation of these consolidated financial statements for issuance, the court proceedings and pre-trial disputes had not been finalised for the claims in the amount of 46,263 thousand Russian roubles (1,523 at the exchange rate as at December 31, 2012). Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Consequently, the amounts of the claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2012.

Contractual Commitments and Guarantees

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

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

Insurance Policies

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

31) Contingencies and Commitments (continued)

Legal Claims

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. Management believes there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company.

Guarantees of Debts of Others

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

32) Equity

i) Share Capital

	2012	2011
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	937,586,094	937,586,094
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	937,586,094	937,586,094

ii) Reserve Capital

According to Russian Law, the Company must create a reserve capital in the amount of 5% of the share capital per the Russian statutory accounts by annual appropriations that should be at least 5% of the annual net profit per the statutory financial statements. The reserve capital can be used only for covering losses and for the redemption of the Company's bonds and purchase of its own shares if there are no other sources of financing.

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

iii) Dividends Declared by the Parent Entity to its Shareholders

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

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

32) Equity (continued)

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

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

v) Acquisition of Non-controlling Interests in Subsidiaries

In the year ended December 31, 2012, the Company purchased additional 0.74% of OAO "Seversky Tube Works" shares, 0.57% of OAO "Sinarsky Pipe Plant" shares and 0.25% of OAO "Taganrog Metallurgical Works" shares for cash consideration of 4,160. The excess in the amount of 1,711 of the carrying values of net assets attributable to the acquired interests over the consideration paid was recorded in additional paid-in capital.

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

vi) Acquisition of Non-controlling Interests in Subsidiaries in Exchange for Treasury Shares

In the year ended December 31, 2012, the Company acquired 0.96% of OAO "Seversky Tube Works" shares and 2.31% of OAO "Sinarsky Pipe Plant" shares in exchange for 1,860,868 treasury shares of the Company. The excess in the amount of 4,900 of the carrying values of net assets attributable to the acquired interests over the value of treasury shares transferred (Note 32 x) was recorded in additional paid-in capital.

vii) Contributions from Non-controlling Interest Owners

On December 24, 2012, the Group increased share capital of Gulf International Pipe Industry LLC. The share capital increase was partially financed by the non-controlling interest shareholders. Consideration received from the non-controlling interest shareholders amounted to 16,245 and comprised of cash in the amount of 10,265 and loans converted into the share capital in the amount of 5,980.

viii) Sale of Non-controlling Interests

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

32) Equity (continued)

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

- Non-controlling interest shareholder of OOO "TMK-INOX" has a right to sell its ownership interest to the Group under certain circumstances beyond the Group's control starting 2018. The terms of the put option do not provide the Group with a present ownership interest in the shares subject to the put, thus the Group accounted for this put option as an equity transaction:the Group derecognised the non-controlling interest's share of profit in OOO "TMK-INOX", net of dividends attributable, in the amount of 557 in the year ended December 31, 2012 as if it was acquired at that date (2011: change in non-controlling interests amounted to 9,609, including 302 of the non-controlling interest's share of profit, net of dividends attributable);
- the Group recorded change in the fair value of financial liability in respect of put option held by non-controlling interest shareholder of OOO "TMK-INOX" and accounted for the difference between the non-controlling interest in OOO "TMK-INOX" derecognised and the change in fair value of financial liability in the amount of 2,857 in additional paid-in capital (2011: 7,657).

x) Treasury Shares

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

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

In the year ended December 31, 2012, the Group derecognised the non-controlling interests in SC TMK-ARTROM SA in the amount of 73 as a result of the expiration of subscription rights.

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

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

32) Equity (continued)

xiii) Hedges of Net Investment in Foreign Operations

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

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar / Russian rouble spot rates on the hedging instrument and on the hedged item. In the year ended December 31, 2012, the effective portion of net gains from spot rate changes in the amount of 1,864,262 thousand Russian roubles (60,427 at historical exchange rates), net of income tax of 372,852 thousand Russian roubles (12,085 at historical exchange rates), was recognised in other comprehensive income.

xiv) Movement on Cash Flow Hedges

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

The details of movement on cash flow hedges during the year ended December 31, 2012 are presented in the following table:

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

33) Financial Risk Management Objectives and Policies

In the course of its business, the Group is exposed to a number of financial risks: market risk (including interest rate risk, foreign currency risk and other price risk), liquidity risk and credit risk. The presented information shows susceptibility of the Group concerning each of these risks. The Board of Directors reviews and establishes policies for managing each of these risks which are summarised below.

33) Financial Risk Management Objectives and Policies (continued)

Market Risk

The Group is exposed to risk from movements in interest rates, foreign currency exchange rates and market prices that affect its assets, liabilities and anticipated future transactions. The objective of market risk management is to manage and control market risk exposures, while optimising the return on the risk.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Group's interest rate risk management policy is to minimise risk with the aim to achieve financial structure objectives defined and approved in the management's plans. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to manage net positions and the funding of portfolio developments consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

The Group borrows on both a fixed and variable rate basis. EURIBOR and LIBOR served as the basis for the calculation of interest rates on loans with variable rate. The Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. Variable rate loans accounted for 11% of the total loan portfolio at the end of 2012, after taking into account the effect of interest rate swaps (16% at the end of 2011).

The Group does not have any financial assets with variable interest rate.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

	Basis points	Effect on profit before tax
As at December 31, 2012		
Increase in LIBOR	5	(128)
Decrease in LIBOR	(5)	128
Increase in EURIBOR	16	(225)
Decrease in EURIBOR	(16)	225
As at December 31, 2011		
Increase in LIBOR	15	(660)
Decrease in LIBOR	(15)	660
Increase in EURIBOR	15	(262)
Decrease in EURIBOR	(15)	262

33) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk

The Group's exposure to currency risk relates to sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries, and the Group's net investments in foreign operations. The currencies in which these transactions and balances primarily denominated are US dollars and euro.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows as at December 31:

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

The Group hedged its net investments in foreign operations against foreign currency risk using borrowings in US dollars made by Russian companies of the Group and its exposure to currency risk related to USD and EUR denominated sales of Romanian subsidiaries using USD/RON and EUR/RON forward contracts. The Group doesn't have other formal arrangements to manage currency risks of the Group's operations and balances. However, the Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk.

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax and other comprehensive income. The movement in other comprehensive income arises from gains or losses on the US borrowings related to the effective portion of the hedge of net investments in foreign operations (Note 32 xiii). In estimating reasonably possible changes for 2012 and 2011 the Group assessed the volatility of foreign exchange rates during the three years preceding the end of the reporting period.

	As at December 31, 2012					
	Volatility range		Effect on profit before tax		Effect on other comprehensive income	
	Low	High	Low	High	Low	High
USD/RUR	10.81%	-10.81%	(29,492)	29,492	(113,304)	113,304
EUR/RUR	8.45%	-8.45%	(12,221)	12,221	–	–
USD/EUR	10.72%	-10.72%	414	(414)	–	–
USD/RON	12.73%	-12.73%	(1,617)	1,617	–	–
EUR/RON	4.45%	-4.45%	(2,645)	2,645	–	–
KZT/RUR	10.45%	-10.45%	357	(357)	–	–
USD/CAD	9.01%	-9.01%	(492)	492	–	–

33) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

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

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Group's exposure to other price risk relates to changes of the fair value of the Embedded Conversion Option (Note 25) as a result of fluctuations of GDR's quotations. The Group manages its exposure to other price risk by holding treasury shares in the quantity corresponding to the number of shares in which convertible bonds are convertible. The reasonably possible changes in the price of underlying GDRs, with all other variables held constant, would have an effect on the Group's profit before tax. In estimating reasonably possible fluctuations of GDR's quotations, the Group assessed the volatility of GDRs during the year ended December 31, 2012. A 38.01% increase to the value of GDR as at December 31, 2012 would reduce profit before tax by 42,047. A 38.01% decrease from the value of GDR as at December 31, 2012 would result in the increase of profit before tax by 10,490.

Liquidity Risk

Liquidity risk arises when the Group encounters difficulties to meet commitments associated with liabilities and other payment obligations. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of funding at competitive rates through the capital markets and banks and coordinates relationships with banks centrally. At present, the Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

33) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

As at December 31, 2012	Less than 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	641,487	70,523	–	–	–	–	**712,010**
Accounts payable to related parties	84,351	2,752	–	–	–	–	**87,103**
Interest-bearing loans and borrowings:							
Principal	543,101	497,158	761,742	586,044	631,393	800,000	**3,819,438**
Interest	68,635	172,921	172,557	133,389	86,714	60,418	**694,634**
Finance lease liability	1,561	3,589	4,861	4,888	4,781	47,978	**67,658**
Dividends payable	303	–	–	–	–	–	**303**
Liabilities under put options of non-controlling interest shareholders in subsidiaries	12,433	–	–	–	–	25,648	**38,081**
Other non-current liabilities	–	–	427	314	1,152	9,031	**10,924**
	1,351,871	**746,943**	**939,587**	**724,635**	**724,040**	**943,075**	**5,430,151**

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

Credit Risk

Credit risk is the potential exposure of the Group to losses that would be recognised if counterparties failed to perform or failed to pay amounts due. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

33) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The monitoring activity of credit risk exposure is performed at the Group level according to set guidelines and measurement techniques to qualify and monitor counterparty risk.

The Group sells goods to some of the biggest Russian and international companies on credit terms. It is the Group's policy that all customers applying for the credit terms are subject to credit verification procedures.

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

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

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

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

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

33) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

Movement in allowance for doubtful debts was as follows:

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

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators. In addition, the Group is subject to externally imposed capital requirements (debt covenants) which are used for capital monitoring. Through 2012, the Group was in compliance with such externally imposed capital requirements. The Group met its objectives for managing capital.

Capital includes equity attributable to the equity holders of the parent entity. The Group manages its capital structure and adjusts it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividend payments.

Fair Value of Financial Instruments

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

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

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

33) Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

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

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

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

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

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

34) Subsequent Events

Convertible Bonds

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

34) Subsequent Events (continued)

Acquisition of Gulf International Pipe Industry LLC

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