OAO TMK
Unaudited Interim Condensed Consolidated Financial Statements
Nine-month period ended September 30, 2011

OAO TMK

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Nine-month period ended September 30, 2011

Contents

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Report on review of interim condensed consolidated financial statements

The Shareholders and Board of Directors
OAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OAO TMK and its subsidiaries ("Group"), comprising the interim consolidated statement of financial position as at September 30, 2011 and the related interim consolidated statements of income and comprehensive income for the three and nine months then ended, statements of changes in equity and cash flows for the nine months then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

November 28, 2011

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Unaudited Interim Consolidated Income Statement

Nine-month period ended September 30, 2011

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

	NOTES	Nine-month period ended September 30, 2011	Nine-month period ended September 30, 2010	Three-month period ended September 30, 2011	Three-month period ended September 30, 2010
Revenue:	1	5,151,351	3,930,682	1,604,132	1,364,502
Sales of goods		*5,068,028*	*3,811,001*	*1,580,859*	*1,327,170*
Rendering of services		*83,323*	*119,681*	*23,273*	*37,332*
Cost of sales	2	(4,036,359)	(3,018,144)	(1,303,388)	(1,037,778)
Gross profit		**1,114,992**	**912,538**	**300,744**	**326,724**
Selling and distribution expenses	3	(304,620)	(296,152)	(98,644)	(97,237)
Advertising and promotion expenses	4	(6,027)	(7,564)	(1,303)	(2,764)
General and administrative expenses	5	(208,362)	(163,042)	(68,806)	(52,994)
Research and development expenses	6	(12,825)	(9,379)	(4,572)	(3,119)
Other operating expenses	7	(40,547)	(34,317)	(15,456)	(10,904)
Other operating income	8	10,291	5,681	946	1,452
Impairment of goodwill	17	(3,368)	–	–	–
Foreign exchange (loss)/gain, net		(4,846)	16,106	(37,798)	2,277
Finance costs		(234,239)	(289,926)	(74,785)	(90,846)
Finance income	9	24,531	14,084	9,137	5,524
Gain/(loss) on changes in fair value of derivative financial instrument	21	44,227	10,180	28,950	(21,631)
Share of profit of associate	10	69	–	69	–
Gain on disposal of assets classified as held for sale	11	19,184	–	–	–
Profit before tax		**398,460**	**158,209**	**38,482**	**56,482**
Income tax expense	12	(119,653)	(55,896)	(17,338)	(21,477)
Profit/(loss) for the period		**278,807**	**102,313**	**21,144**	**35,005**
Attributable to:					
Equity holders of the parent entity		276,909	103,348	21,304	34,310
Non-controlling interests		1,898	(1,035)	(160)	695
		278,807	**102,313**	**21,144**	**35,005**
Earnings per share attributable to equity holders of the parent entity (in US dollars)					
Basic	13	**0.32**	**0.12**	**0.02**	**0.04**
Diluted	13	**0.28**	**0.12**	**0.02**	**0.04**

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

OAO TMK

Unaudited Interim Consolidated Statement of Comprehensive Income

Nine-month period ended September 30, 2011

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30, 2011	Nine-month period ended September 30, 2010	Three-month period ended September 30, 2011	Three-month period ended September 30, 2010
Profit for the period		**278,807**	**102,313**	**21,144**	**35,005**
Exchange differences on translation to presentation currency [(a)]		(40,729)	(7,740)	(90,776)	18,424
Foreign currency (loss)/gain on hedged net investment in foreign operation [(b)]	24 (v)	(55,863)	(6,059)	(151,549)	29,984
Income tax [(b)]	24 (v)	11,173	1,212	30,310	(5,997)
		(44,690)	**(4,847)**	**(121,239)**	**23,987**
Other comprehensive income/(loss) for the period, net of tax		**(85,419)**	**(12,587)**	**(212,015)**	**42,411**
Total comprehensive income/(loss) for the period, net of tax		**193,388**	**89,726**	**(190,871)**	**77,416**
Attributable to:					
Equity holders of the parent entity		195,238	91,386	(178,532)	74,580
Non-controlling interests		(1,850)	(1,660)	(12,339)	2,836
		193,388	**89,726**	**(190,871)**	**77,416**

(a) The amount of exchange differences on translation to presentation currency represented other comprehensive loss of 36,981 and 7,115 attributable to equity holders of the parent entity for the nine-month period ended September 30, 2011 and 2010, respectively (three-month period ended September 30, 2011 and 2010: other comprehensive loss of 78,597 and other comprehensive income of 16,283, respectively). Other comprehensive loss attributable to non-controlling interests amounted to 3,748 and 625 for the nine-month period ended September 30, 2011 and 2010, respectively (three-month period ended September 30, 2011 and 2010: other comprehensive loss of 12,179 and other comprehensive income of 2,141, respectively).

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

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

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Unaudited Interim Consolidated Statement of Financial Position

At September 30, 2011

(All amounts in thousands of US dollars)

	NOTES	September 30, 2011		December 31, 2010	
ASSETS					
Current assets					
Cash and cash equivalents	14, 22	153,292		157,524	
Financial investments		3,775		3,966	
Trade and other receivables		769,918		716,897	
Accounts receivable from related parties	22	4,411		3,395	
Inventories	15	1,372,041		1,207,540	
Prepayments and input VAT		165,112		154,302	
Prepaid income taxes		17,203	2,485,752	18,099	2,261,723
Assets classified as held for sale		–	**2,485,752**	8,003	**2,269,726**
Non-current assets					
Investments in associates	10	3,602		–	
Intangible assets	17	423,842		474,791	
Property, plant and equipment	16	3,284,157		3,386,660	
Goodwill	17	548,217		554,353	
Deferred tax asset		106,495		135,307	
Other non-current assets	23	90,703	**4,457,016**	40,697	**4,591,808**
TOTAL ASSETS			**6,942,768**		**6,861,534**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	18	836,283		732,733	
Advances from customers		113,596		136,885	
Accounts payable to related parties	22	2,224		8,434	
Provisions and accruals	19	41,954		42,153	
Interest-bearing loans and borrowings	20, 21	445,993		701,864	
Derivative financial instrument	21	3,589		47,816	
Dividends payable		335		430	
Income tax payable		8,435	1,452,409	3,846	1,674,161
Liabilities directly associated with the assets classified as held for sale		–	**1,452,409**	143	**1,674,304**
Non-current liabilities					
Interest-bearing loans and borrowings	20, 21	3,322,954		3,169,714	
Deferred tax liability		283,942		300,484	
Provisions and accruals	19	25,649		24,096	
Post-employment benefits		24,205		24,009	
Other liabilities		30,587	**3,687,337**	32,020	**3,550,323**
Total liabilities			**5,139,746**		**5,224,627**
Equity	24				
Parent shareholders' equity					
Issued capital		326,417		326,417	
Treasury shares		(327,339)		(318,351)	
Additional paid-in capital		386,478		376,485	
Reserve capital		15,387		15,387	
Retained earnings		1,373,471		1,122,771	
Foreign currency translation reserve		(63,395)	1,711,019	18,276	1,540,985
Non-controlling interests			92,003		95,922
Total equity			**1,803,022**		**1,636,907**
TOTAL EQUITY AND LIABILITIES			**6,942,768**		**6,861,534**

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

OAO TMK

Unaudited Interim Consolidated Statement of Changes in Equity

Nine-month period ended September 30, 2011

(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	**326,417**	**(318,351)**	**376,485**	**15,387**	**1,122,771**	**18,276**	**1,540,985**	**95,922**	**1,636,907**
Profit for the period	–	–	–	–	276,909	–	**276,909**	1,898	**278,807**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(81,671)	**(81,671)**	(3,748)	**(85,419)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**276,909**	**(81,671)**	**195,238**	**(1,850)**	**193,388**
Purchase of treasury shares (Note 24 ii)	–	(8,988)	–	–	–	–	**(8,988)**	–	**(8,988)**
Dividends declared by the parent entity to its shareholders (Note 24 iii)	–	–	–	–	(25,967)	–	**(25,967)**	–	**(25,967)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 24 iv)	–	–	–	–	–	–	**–**	(338)	**(338)**
Sale of non-controlling interests (Note 24 vi)	–	–	–	–	(42)	–	**(42)**	9,307	**9,265**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 24 vii)	–	–	9,582	–	–	–	**9,582**	(9,582)	**–**
Acquisition of non-controlling interests in subsidiaries (Note 24 viii)	–	–	411	–	(14)	–	**397**	(1,642)	**(1,245)**
Increase in non-controlling interests from contributions of assets by the Group (Note 24 ix)	–	–	–	–	(186)	–	**(186)**	186	**–**
At September 30, 2011	**326,417**	**(327,339)**	**386,478**	**15,387**	**1,373,471**	**(63,395)**	**1,711,019**	**92,003**	**1,803,022**

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

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Unaudited Interim Consolidated Statement of Changes in Equity

Nine-month period ended September 30, 2011 (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, 2010	**305,407**	**(37,378)**	**104,003**	**15,387**	**1,019,322**	**36,681**	1,443,422	**75,874**	1,519,296
Profit/(loss) for the period	–	–	–	–	103,348	–	**103,348**	(1,035)	**102,313**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(11,962)	**(11,962)**	(625)	**(12,587)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**103,348**	**(11,962)**	**91,386**	**(1,660)**	**89,726**
Contributions from shareholders for share capital increase	–	–	279,427	–	–	–	**279,427**	–	**279,427**
Purchase of treasury shares	–	(280,973)	–	–	–	–	**(280,973)**	–	**(280,973)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners	–	–	–	–	–	–	**–**	(8)	**(8)**
Acquisition of non-controlling interests in subsidiaries	–	–	476	–	(169)	–	**307**	(1,265)	**(958)**
At September 30, 2010	**305,407**	**(318,351)**	**383,906**	**15,387**	**1,122,501**	**24,719**	**1,533,569**	**72,941**	**1,606,510**

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

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Unaudited Interim Consolidated Cash Flow Statement

Nine-month period ended September 30, 2011

(All amounts in thousands of US dollars)

	NOTES	Nine-month period ended September 30, 2011	2010
Operating activities			
Profit before tax		398,460	158,209
Adjustment to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		204,991	160,864
Amortisation of intangible assets	17	51,921	63,740
Loss on disposal of property, plant and equipment	7	2,222	8,983
Impairment of goodwill	17	3,368	–
Foreign exchange loss/(gain), net		4,846	(16,106)
Finance costs		234,239	289,926
Finance income	9	(24,531)	(14,084)
Gain on changes in fair value of derivative financial instrument	21	(44,227)	(10,180)
Gain on disposal of assets classified as held for sale	11	(19,184)	–
Share of profit of associate	10	(69)	–
Allowance for net realisable value of inventory		215	(207)
Allowance for doubtful debts		9,433	1,688
Movement in other provisions		5,008	6,589
Operating cash flow before working capital changes		**826,692**	**649,422**
Working capital changes:			
Increase in inventories		(222,276)	(223,846)
Increase in trade and other receivables		(97,919)	(51,514)
Increase in prepayments		(19,249)	(5,995)
Increase in trade and other payables		172,669	103,819
Increase/(decrease) in advances from customers		5,208	(192,961)
Cash generated from operations		**665,125**	**278,925**
Income taxes paid		(85,159)	(8,991)
Net cash flows from operating activities		**579,966**	**269,934**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(313,043)	(228,582)
Proceeds from sale of property, plant and equipment		1,101	349
Purchase of ownership interest in associates	10	(4,004)	–
Issuance of loans		(1,213)	(1,079)
Proceeds from repayment of loans issued		640	912
Interest received		1,686	1,862
Dividends received		20,707	11,005
Net cash flows used in investing activities		**(294,126)**	**(215,533)**
Financing activities			
Purchase of treasury shares		(8,988)	(280,973)
Proceeds from issue of share capital		–	279,427
Proceeds from borrowings		2,636,056	1,614,861
Repayment of borrowings		(2,673,036)	(1,499,991)
Interest paid		(228,719)	(273,404)
Reimbursement of interest paid		–	3,854
Payment of finance lease liabilities		(2,173)	(2,122)
Acquisition of non-controlling interest		(1,245)	(331)
Proceeds from sale of non-controlling interests	24 (vi)	9,265	–
Dividends paid to equity holders of the parent		(23,292)	–
Dividends paid to non-controlling interest shareholders		(1,507)	(587)
Net cash flows used in financing activities		**(293,639)**	**(159,266)**
Net decrease in cash and cash equivalents		(7,799)	(104,865)
Net foreign exchange difference		3,567	(3,205)
Cash and cash equivalents at January 1		157,524	243,756
Cash and cash equivalents at September 30		**153,292**	**135,686**

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

Corporate Information

These interim condensed consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the nine-month period ended September 30, 2011 were authorised for issue in accordance with a resolution of the General Director on November 28, 2011.

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

As at September 30, 2011, the Company's controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

The principal activities of the Group are the production and distribution of seamless and welded pipes for the oil and gas industry and for general use.

Basis of Preparation

Basis of Preparation

The interim condensed consolidated financial statements for the nine-month period ended September 30, 2011 have been prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*. Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2010. Operating results for the nine-month period ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

Changes in Accounting Policies

In the preparation of the interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the complete consolidated financial statements for the year ended December 31, 2010, except for the effect of adoption of new International Financial Reporting Standards ("IFRS") and revision of existing IAS none of which had a significant effect on the financial position or performance of the Group. The changes in accounting policies of the Group, which became effective on January 1, 2011, result from adoption of the following new or revised standards:

<u>IAS 24 *Related Party Disclosures* (revised)</u>

The revision clarifies the definition of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarify in which circumstances persons and key management personnel affect related party relationships of an entity. The revision introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The revision did not have any impact on the financial position or performance of the Group.

Basis of Preparation (continued)

Changes in Accounting Policies (continued)

IAS 32 *Financial Instruments: Presentation* (amended) – Classification of Rights Issues

The amendment alters the definition of a financial liability in order to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment did not have effect on the financial position or performance of the Group.

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (amended)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits an entity to recognise a prepayment of future service cost as pension assets. The amendment had no impact on the financial position or performance of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The new interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. The interpretation had no effect on the financial position or performance of the Group.

Improvements to IFRSs

In May 2010 the International Accounting Standards Board issued "Improvements to IFRSs", primarily with a view to 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 did not have any impact on the financial position or performance of the Group.

Reclassifications

Certain corresponding information, presented in the consolidated financial statements for the year ended December 31, 2010 has been reclassified in order to achieve comparability with the presentation used in these consolidated financial statements.

Index to the Notes

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

1) Segment Information

For management purposes, the Group is organised into business divisions based on geographical location, and has three reportable segments:

- Russia segment represents the results of operations and financial position of plants located in Russian Federation, a finishing facility in Kazakhstan, Oilfield service companies and traders located in Russia, Kazakhstan, the United Arab Emirates, Switzerland, South Africa that are selling their production (seamless and welded pipes).
- 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 (seamless and welded pipes).
- Europe segment represents the results of operations and financial position of plants and traders located in Europe (excluding Switzerland) selling their production (seamless pipes and steel billets).

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 represents net profit before depreciation and amortisation, finance costs and finance income, exchange rate fluctuations, impairment of non-current assets, income tax expenses and other non-cash items which comprise share of profit of associate, loss/(gain) on disposal of property, plant and equipment, share-based payments, inventory and doubtful debts allowances and movement in other provisions and embedded financial instrument loss/(gain), determined based on IFRS Financial Statements. Group financing (including finance costs and finance income) is managed on a group basis and is not allocated to operating segments.

The following tables present revenue and profit information regarding the Group's reportable segments for the nine-month periods ended September 30, 2011 and 2010, respectively.

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

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

1) Segment Information (continued)

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

Nine-month period ended September 30, 2010	Russia	Americas	Europe	TOTAL
Revenue	2,775,933	979,682	175,067	**3,930,682**
Cost of sales	(2,120,148)	(764,363)	(133,633)	**(3,018,144)**
GROSS PROFIT	**655,785**	**215,319**	**41,434**	**912,538**
Selling, general and administrative expenses	(339,309)	(111,727)	(25,101)	**(476,137)**
Other operating income/(expenses), net	(25,443)	(237)	(2,956)	**(28,636)**
OPERATING PROFIT	**291,033**	**103,355**	**13,377**	**407,765**
ADD BACK:				
Depreciation and amortisation	128,355	90,236	6,013	**224,604**
Loss/(gain) on disposal of property, plant and equipment	8,425	(6)	564	**8,983**
Allowance for net realisable value of inventory	1,185	(287)	(1,105)	**(207)**
Allowance for doubtful debts	2,650	(973)	11	**1,688**
Movement in other provisions	7,140	163	(714)	**6,589**
	147,755	**89,133**	**4,769**	**241,657**
ADJUSTED EBITDA	**438,788**	**192,488**	**18,146**	**649,422**

Nine-month period ended September 30, 2010	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT BEFORE TAX:				
ADJUSTED EBITDA	**438,788**	**192,488**	**18,146**	**649,422**
Reversal of adjustments from operating profit to EBITDA	(147,755)	(89,133)	(4,769)	**(241,657)**
OPERATING PROFIT	**291,033**	**103,355**	**13,377**	**407,765**
Foreign exchange gain/(loss), net	22,264	–	(6,158)	**16,106**
OPERATING PROFIT AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**313,297**	**103,355**	**7,219**	**423,871**
Finance costs				**(289,926)**
Finance income				**14,084**
Gain on changes in fair value of derivative financial instrument				**10,180**
PROFIT BEFORE TAX				**158,209**

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

1) Segment Information (continued)

The following table presents additional information of the Group's reportable segments as at September 30, 2011 and December 31, 2010:

	Russia	Americas	Europe	TOTAL
Segment assets				
At September 30, 2011	4,622,451	1,952,035	368,282	**6,942,768**
At December 31, 2010	4,585,342	1,941,572	334,620	**6,861,534**

The following table presents the revenues from external customers for each group of similar products and services for the nine-month periods ended September 30, 2011 and 2010, respectively:

	Welded pipes	Seamless pipes	Other operations	TOTAL
Sales to external customers				
Nine-month period ended September 30, 2011	1,973,776	2,942,231	235,344	**5,151,351**
Nine-month period ended September 30, 2010	1,600,671	2,131,147	198,864	**3,930,682**

2) Cost of Sales

Cost of sales consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2011	**2010**	**2011**	**2010**
Raw materials and consumables	2,842,581	2,099,031	916,703	751,472
Staff costs including social security	494,775	396,857	161,464	133,794
Energy and utilities	305,336	242,123	92,665	77,775
Depreciation and amortisation	196,997	163,370	68,733	48,227
Repairs and maintenance	115,487	78,833	46,756	27,443
Freight	47,506	39,014	17,072	12,269
Contracted manufacture	47,441	51,717	12,002	16,909
Taxes	38,317	32,566	12,429	11,047
Professional fees and services	18,538	14,303	7,663	4,973
Rent	7,974	6,762	2,891	2,370
Travel	1,895	1,063	687	284
Communications	849	649	354	219
Insurance	631	609	179	178
Other	2,186	1,311	773	433
Total production cost	**4,120,513**	**3,128,208**	**1,340,371**	**1,087,393**
Change in own finished goods and work in progress	(135,330)	(124,682)	(39,697)	(52,779)
Cost of sales of externally purchased goods	53,404	14,395	6,340	2,775
Obsolete stock, write-offs/(reversal of write-offs)	(2,228)	223	(3,626)	389
Cost of sales	**4,036,359**	**3,018,144**	**1,303,388**	**1,037,778**

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

3) Selling and Distribution Expenses

Selling and distribution expenses consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2011	2010	2011	2010
Freight	159,227	152,704	52,226	49,609
Depreciation and amortisation	49,178	60,932	16,378	20,327
Staff costs including social security	44,202	39,335	13,393	13,239
Consumables	15,382	12,968	4,551	5,123
Professional fees and services	11,934	14,163	4,672	3,212
Bad debt expense	9,522	1,894	2,252	873
Rent	6,142	5,131	2,196	1,931
Travel	3,199	3,066	1,107	1,009
Utilities and maintenance	1,635	1,815	344	750
Insurance	1,240	986	411	199
Communications	950	966	316	324
Taxes	738	1,092	82	337
Other	1,271	1,100	716	304
	304,620	**296,152**	**98,644**	**97,237**

4) Advertising and Promotion Expenses

Advertising and promotion expenses consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2011	2010	2011	2010
Exhibits and catalogues	3,449	2,515	48	644
Outdoor advertising	1,581	4,068	869	1,715
Media	568	451	179	166
Other	429	530	207	239
	6,027	**7,564**	**1,303**	**2,764**

5) General and Administrative Expenses

General and administrative expenses consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2011	2010	2011	2010
Staff costs including social security	117,785	86,116	37,258	26,612
Professional fees and services	40,094	34,462	13,355	12,357
Depreciation and amortisation	9,952	9,313	3,332	3,081
Travel	8,470	6,430	3,107	2,429
Utilities and maintenance	6,890	5,845	2,981	1,788
Transportation	4,692	3,515	1,715	1,034
Taxes	4,012	4,172	1,030	1,270
Communications	3,879	2,984	1,302	1,187
Insurance	3,856	2,840	1,587	965
Rent	3,753	4,199	1,250	1,292
Consumables	3,119	1,875	1,217	778
Other	1,860	1,291	672	201
	208,362	**163,042**	**68,806**	**52,994**

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

6) Research and Development Expenses

Research and development expenses consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2011	**2010**	**2011**	**2010**
Staff costs including social security	8,644	6,634	2,964	2,222
Professional fees and services	1,151	1,250	476	317
Depreciation and amortisation	776	426	263	139
Consumables	629	220	258	79
Utilities and maintenance	561	304	228	99
Travel	491	262	191	169
Transportation	215	105	71	35
Communications	41	28	16	9
Other	317	150	105	50
	12,825	**9,379**	**4,572**	**3,119**

7) Other Operating Expenses

Other operating expenses consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2011	**2010**	**2011**	**2010**
Sponsorship and charitable donations	13,402	7,386	6,010	2,477
Social and social infrastructure maintenance expenses	11,303	8,197	4,083	3,801
Loss on disposal of property, plant and equipment	2,222	8,983	976	1,714
Other	13,620	9,751	4,387	2,912
	40,547	**34,317**	**15,456**	**10,904**

Other operating expenses include expenses and provisions related to taxes and fines in the amount of 10,289 and 6,710 for the nine-month period ended September 30, 2011 and 2010, respectively.

8) Other Operating Income

Other operating income consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2011	**2010**	**2011**	**2010**
Gain from penalties and fines	3,319	1,515	98	292
Reimbursement from insurance company	1,272	–	314	–
Gain on sales of current assets	534	232	504	35
Assets received for free	51	342	27	62
Other	5,115	3,592	3	1,063
	10,291	**5,681**	**946**	**1,452**

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

9) Finance Income

Finance income consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2011	**2010**	**2011**	**2010**
Dividends	22,413	11,598	8,395	4,907
Interest income – bank accounts and deposits	2,118	2,486	742	617
	24,531	**14,084**	**9,137**	**5,524**

10) Share of Profit of Associate

On August 4, 2011, the Group acquired 25.5% ownership interest in Volgograd River Port for 112,825 thousand Russian roubles (4,004 at the exchange rates as at the payment dates).

Share of profit of associate represents 25.5% share of profit of Volgograd River Port for the period from the date of the acquisition to September 30, 2011 and amounted to 69.

As at September 30, 2011, the carrying value of investment in Volgograd River Port was 3,602.

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 nine-month period ended September 30, 2011.

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

12) Income Tax

Income tax expense consisted of the following:

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2011	**2010**	**2011**	**2010**
Current income tax expense	91,734	47,865	25,920	12,035
Current income tax benefit	(538)	–	(451)	–
Adjustments in respect of income tax of previous periods	81	158	(356)	136
Deferred income tax expense/(benefit) related to origination and reversal of temporary differences	28,376	7,873	(7,775)	9,306
Total income tax expense	**119,653**	**55,896**	**17,338**	**21,477**

13) Earnings per Share

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

In calculation of diluted earnings per share, the denominator represents the weighted average number of ordinary shares which could be outstanding assuming that all of the convertible bonds were converted into ordinary shares (Note 21).

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2011	**2010**	**2011**	**2010**
Net profit attributable to the equity holders of the parent entity	276,909	103,348	21,304	34,310
Effect of convertible bonds, net of tax (if dilutive)	(10,276)	–	–	–
Net profit attributable to the equity holders of the parent entity adjusted for the effect of dilution	266,633	103,348	21,304	34,310
Weighted average number of ordinary shares outstanding	865,586,481	858,617,073	864,752,666	864,606,274
Weighted average number of ordinary shares outstanding adjusted for the effect of dilution	937,297,025	858,617,073	864,752,666	864,606,274
Earnings per share attributable to equity holders of the parent entity (in US dollars)				
Basic	0.32	0.12	0.02	0.04
Diluted	0.28	0.12	0.02	0.04

In the nine-month period ended September 30, 2010 and in the three-month period ended September 30, 2011 and 2010, the convertible bonds were antidilutive as the interest expense and other gains and losses for the respective 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.

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

14) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	September 30, 2011	December 31, 2010
Russian rouble	87,020	108,516
US dollar	54,652	39,819
Euro	5,179	4,823
Romanian lei	5,839	4,035
Other currencies	602	331
	153,292	**157,524**

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

As at September 30, 2011, the amount of cash and cash equivalents included 1,459,167 thousand Russian roubles (45,778 at the exchange rate as at September 30, 2011) which is available to finance investing activities only.

15) Inventories

Inventories consisted of the following:

	September 30, 2011	December 31, 2010
Raw materials and Supplies	575,461	530,971
Finished goods and WIP	813,440	693,681
Gross inventories	**1,388,901**	**1,224,652**
Allowance for net realisable value of inventory	(16,860)	(17,112)
Net inventories	**1,372,041**	**1,207,540**

16) Property, Plant and Equipment

Movement in property, plant and equipment was as follows in the nine-month period ended September 30, 2011:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
COST							
Balance at January 1, 2011	1,248,487	2,536,920	60,317	47,585	9,911	554,106	**4,457,326**
Additions	–	–	–	–	–	227,649	**227,649**
Assets put into operation	28,028	195,889	2,666	9,909	2,382	(238,874)	**–**
Disposals	(3,651)	(11,989)	(919)	(419)	–	(66)	**(17,044)**
Currency translation adjustments	(46,792)	(97,340)	(1,695)	(2,470)	(70)	(19,897)	**(168,264)**
BALANCE AT SEPTEMBER 30, 2011	**1,226,072**	**2,623,480**	**60,369**	**54,605**	**12,223**	**522,918**	**4,499,667**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2011	(181,734)	(834,077)	(25,587)	(26,576)	(2,692)	–	**(1,070,666)**
Depreciation charge	(28,593)	(166,556)	(3,215)	(6,130)	(554)	–	**(205,048)**
Disposals	1,980	8,420	781	400	–	–	**11,581**
Currency translation adjustments	8,438	37,835	928	1,404	18	–	**48,623**
BALANCE AT SEPTEMBER 30, 2011	**(199,909)**	**(954,378)**	**(27,093)**	**(30,902)**	**(3,228)**	**–**	**(1,215,510)**
NET BOOK VALUE AT SEPTEMBER 30, 2011	**1,026,163**	**1,669,102**	**33,276**	**23,703**	**8,995**	**522,918**	**3,284,157**
NET BOOK VALUE AT JANUARY 1, 2011	**1,066,753**	**1,702,843**	**34,730**	**21,009**	**7,219**	**554,106**	**3,386,660**

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

17) Goodwill and Other Intangible Assets

Movement in intangible assets was as follows in the nine-month period ended September 30, 2011:

	Patents and trademarks	Goodwill	Software	Customer relationships	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	5	–	191	–	–	–	1,080	**1,276**
Disposals	(4)	–	(880)	–	–	–	(2,046)	**(2,930)**
Currency translation adjustments	(30)	(3,697)	(656)	–	–	–	(216)	**(4,599)**
BALANCE AT SEPTEMBER 30, 2011	**209,549**	**563,984**	**15,627**	**472,300**	**14,100**	**8,500**	**6,083**	**1,290,143**
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	(62)	–	(1,699)	(47,764)	(1,322)	–	(1,074)	**(51,921)**
Impairment	–	(3,368)	–	–	–	–	–	**(3,368)**
Disposals	1	–	868	–	–	–	1,649	**2,518**
Currency translation adjustments	10	929	956	–	–	–	44	**1,939**
BALANCE AT SEPTEMBER 30, 2011	**(282)**	**(15,767)**	**(11,838)**	**(274,153)**	**(5,821)**	**(8,500)**	**(1,723)**	**(318,084)**
NET BOOK VALUE AT SEPTEMBER 30, 2011	**209,267**	**548,217**	**3,789**	**198,147**	**8,279**	**–**	**4,360**	**972,059**
NET BOOK VALUE AT JANUARY 1, 2011	**209,347**	**554,353**	**5,009**	**245,911**	**9,601**	**–**	**4,923**	**1,029,144**

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

	September 30, 2011		December 31, 2010	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
American division	472,968	208,700	472,968	208,700
European division	6,506	–	6,324	–
Kaztrubprom Plant	4,912	–	8,301	–
Oilfield division	30,259	–	31,648	–
Other cash generating units	33,572	–	35,112	–
	548,217	**208,700**	**554,353**	**208,700**

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

At 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.

At September 30, 2011, there were indicators of impairment of Taganrog Metallurgical Works unit to which goodwill of 31,416 is allocated and which is included in Other cash generating units, therefore, the Group performed an impairment test at that date in respect of this unit. As a result of the test, the Group determined that the recoverable amount of Taganrog Metallurgical Works unit exceeds its carrying value. Consequently, no impairment was recognised.

17) Goodwill and Other Intangible Assets (continued)

For the purpose of impairment testing of goodwill the Group has determined value in use of Taganrog Metallurgical Works unit. 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 rate reflecting time value of money and risks associated with Taganrog Metallurgical Works unit. 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 unit	**Period of forecast, years**	**Pre-tax discount rate, %**
Taganrog Metallurgical Works	5	9.38

The calculation of Taganrog Metallurgical Works unit's value in use was the most sensitive to the following assumptions:

Costs and Expenses

The recoverable amount of Taganrog Metallurgical Works unit is based on the business plans approved by management. The reasonably possible deviation of costs from these plans could lead to impairment.

If the actual costs of Taganrog Metallurgical Works unit were 5% higher than those assumed in the impairment test during 2011, this would lead to the full impairment of goodwill in the amount of 31,416.

Commodity Prices

The recoverable amount of Taganrog Metallurgical Works unit is based on the business plans approved by management. The reasonably possible deviation of prices from these plans could lead to impairment.

If the actual prices of Taganrog Metallurgical Works unit were 5% lower than those assumed in the impairment test, this would lead to the full impairment of goodwill in the amount of 31,416.

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

18) Trade and Other Payables

Trade and other payables consisted of the following:

	September 30, 2011	December 31, 2010
Trade payables	657,782	531,888
Accounts payable for property, plant and equipment	29,117	65,410
Payroll liabilities	24,725	29,942
Accrued and withheld taxes on payroll	15,376	14,368
Liabilities for VAT	43,957	27,994
Liabilities for property tax	12,365	10,281
Liabilities under put options of non-controlling interest shareholders in subsidiaries	13,995	14,934
Notes issued to third parties	11,944	7,226
Sales rebate payable	6,911	7,134
Liabilities for other taxes	3,528	4,500
Deferred VAT	200	126
Other payables	16,383	18,930
	836,283	**732,733**

19) Provisions and Accruals

Provisions and accruals consisted of the following:

	September 30, 2011	December 31, 2010
Current:		
Provision for bonuses	18,485	20,710
Accrual for unused annual leaves, current portion	10,239	9,546
Accrual for long-service benefit	10,178	8,468
Current portion of post-employment benefits	1,851	1,850
Provision for tax and other fines	209	241
Environmental provision, current portion	992	1,338
	41,954	**42,153**
Non-current:		
Accrual for unused annual leaves	21,060	19,379
Environmental provision	4,589	4,717
	25,649	**24,096**

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

20) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	September 30, 2011	December 31, 2010
Current:		
Bank loans	241,836	201,585
Interest payable	20,062	26,473
Current portion of non-current borrowings	184,845	125,104
Current portion of bearer coupon debt securities	–	350,759
Unamortised debt issue costs	(2,481)	(3,648)
	444,262	**700,273**
Finance lease liability – current	1,731	1,591
Total short-term loans and borrowings	**445,993**	**701,864**
Non-current:		
Bank loans	2,450,888	2,733,457
Bearer coupon debt securities	1,043,738	897,034
Unamortised debt issue costs	(21,031)	(20,048)
Less: current portion of non-current borrowings	(184,845)	(125,104)
Less: current portion of bearer coupon debt securities	–	(350,759)
	3,288,750	**3,134,580**
Finance lease liability – non-current	34,204	35,134
Total long-term loans and borrowings	**3,322,954**	**3,169,714**

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

	Interest rates for the period ended	September 30, 2011	Interest rates for the period ended	December 31, 2010
Russian rouble	Fixed 4.5% - 9%	1,685,340	Fixed 4.3% - 10%	1,640,713
			Fixed 10%	193,129
	Fixed 5.25%	383,903	Fixed 5.25%	377,910
	Fixed 7.75%	502,984		
	Fixed 3.15% - 7.5%	682,627	Fixed 2.6% - 8.5%	1,244,629
	Cost of funds + 1.88% - 2% (*)	13,650		
	Variable:	232,119	Variable:	112,546
	Libor (1m) + 2.25% - 4.15%		Libor (1m) + 1.75% - 5.65%	
	Libor (3m) + 1% - 2.75%		Libor (1w) + 2.39%	
US Dollar	Libor (4m - 15m) + 1% - 1.3%			
	Fixed 5.19% - 5.75%	77,506	Fixed 5.19%	84,420
	Variable:	153,444	Variable:	179,248
	Euribor (1m) + 1.6% - 4.05%		Euribor (1m) + 1.6%	
	Euribor (3m) + 2.7% - 4%		Euribor (3m) + 2.7% - 4%	
	Euribor (6m) + 0.26% - 0.3%		Euribor (5m) + 1.1%	
	Euribor (10m - 15m) + 1.1%		Euribor (6m) + 0.26% - 1.1%	
			Euribor (8m) + 1.1%	
Euro			Euribor (12m) + 1.2%	
Romanian Lei	Fixed 10.5%	1,439	Fixed 10.5% - 11%	2,253
		–	Variable:	5
Swiss Frank			Libor (1w) + 2.39%	
		3,733,012		**3,834,853**

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

20) Interest-Bearing Loans and Borrowings (continued)

Loan Participation Notes

On January 27, 2011, TMK Capital S.A., a Luxemburg special purpose entity, completed the offering of loan participation notes due 2018 in the total amount of 500,000 with a coupon of 7.75% per annum, payable on semi-annual basis. The notes are admitted for trading on the London Stock Exchange. As at September 30, 2011, an aggregate of 500,000 of notes remained outstanding.

On July 29, 2011, the Group fully repaid 10% loan participation notes in the amount of 186,700 issued in 2008 by TMK Capital S.A.

Bank Loans

In January 2011, the Group partially repaid 1,107,542 Gazprombank loan facilities using the proceeds from issuance of 7.75% loan participation notes in the amount of 500,000. As at September 30, 2011, the principle outstanding balance of the loan was 607,542.

In February-April 2011, the Group entered into several loan agreements with Gazprombank with a maturity in 2014. The proceeds from these loans were used to repay loans from Sberbank in the aggregated amount of 4,000,000 thousand Russian roubles (135,206 at the exchange rates as at the payment dates), a loan from VTB in the amount of 94,000 and for settlement of liability under 5,000,000 thousand Russian roubles bonds issued on February 21, 2006 (170,892 at the exchange rate as at the payment date). As at September 30, 2011, the aggregated principle outstanding balance of these loans in Gazprombank was 11,400,490 thousand Russian roubles (357,661 at the exchange rate at September 30, 2011).

In April 2011, the Group refinanced Sberbank loans in the aggregated amount of 7,118,490 thousand Russian roubles (250,273 at the exchange rates as at the payment dates) with new Sberbank loans in the aggregated amount of 6,900,000 thousand Russian roubles (244,477 at the exchange rates as at the cash proceeds dates). As at September 30, 2011, the aggregated principle outstanding balance of these loans in Sberbank was 6,900,000 thousand Russian roubles (216,470 at the exchange rate at September 30, 2011).

In July 2011, the Group entered into loan agreement with Gazprombank in the amount of 150,000 with a maturity in 2012. The proceeds from this loan were used for partial repayment of 10% loan participation notes in the amount of 186,700 issued by TMK Capital S.A. As at September 30, 2011, the principle outstanding balance of this loan in Gazprombank was 63,860.

In August 2011, the Group entered into syndicated credit facility with Wells Fargo Capital Finance, LLC, Bank of America, N.A., GE Capital Finance Inc., JPMorgan Chase Bank, N.A. and ING Capital LLC with a maturity in 2016. The proceeds from this credit facility were partially used to refinance 96,706 of the Wells Fargo senior secured credit facility. As at September 30, 2011, the aggregated principle outstanding balance under the facility was 156,404.

20) Interest-Bearing Loans and Borrowings (continued)

Russian Bond Obligations

On February 15, 2011, the Group fully repaid its liability under 5,000,000 thousand Russian roubles bonds issued on February 21, 2006 (170,892 at the exchange rate as at the payment date) using the proceeds from the loan provided by Gazprombank.

Unutilised Borrowing Facilities

As at September 30, 2011, the Group had unutilised borrowing facilities in the amount of 737,880 (December 31, 2010: 588,281).

21) Convertible Bonds

On February 11, 2010, TMK Bonds S.A., the Group's special purposes entity, completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAO TMK. The bonds are listed on the London Stock Exchange. The bonds have nominal value of 100,000 US dollars each and were issued at 100% of their principal amount. The convertible bonds carry a coupon of 5.25% per annum, payable on a quarterly basis. As a result of dividends in respect of 2010 distributed by the parent entity, the conversion price was adjusted and amounted to 22.927 US dollar per GDR as at September 30, 2011.

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. As at September 30, 2011, the fair value of the Embedded Conversion Option was 3,589 (December 31, 2010: 47,816). The change in the fair value of the embedded derivative during the reporting period resulted in a gain of 44,227, which has been recorded as gain on changes in fair value of derivative financial instrument in the income statement for the nine-month period ended September 30, 2011.

The fair value of the host component at the initial recognition date has been determined as a residual amount after deducting the fair value of the Embedded Conversion Option from the issue price of the convertible bonds adjusted for transaction costs. The host component is subsequently carried at the amortised cost using the effective interest method. As at September 30, 2011, the carrying value of the host component was 383,903 (December 31, 2010: 377,910).

There were no conversions of the bonds during the nine-month period ended September 30, 2011.

22) Related Parties Disclosures

Transactions with the Parent Company and Entities with Significant Influence

As at December 31, 2010, the Group had a liability of 5,300 in respect of the guarantee provided by Bravecorp Limited (an entity under common control with the parent company, TMK Steel Limited). During the nine-month period ended September 30, 2011, the Group settled a liability in full amount.

In the nine-month period ended September 30, 2011, the Group approved the distribution of final dividends in respect of 2010 year, from which 555,274 thousand Russian roubles (19,588 at the exchange rate at the date of approval) related to TMK Steel Limited and to Bravecorp Limited and Tirelli Holdings Limited (entities under common control with TMK Steel Limited) (Note 24 iii). In August 2011, the Group paid dividends to TMK Steel Limited, Bravecorp Limited and Tirelli Holdings Limited in full amount.

Transactions with Associates

During the nine-month period ended September 30, 2011, the Group rendered services to its associates and received services from its associates in the amounts of 424 and 224, respectively (nine-month period ended September 30, 2010: nil).

Compensation to Key Management Personnel of the Group

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totaling 30 persons as at September 30, 2011 (28 persons as at December 31, 2010).

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 9,738 for the nine-month period ended September 30, 2011 (nine-month period ended September 30, 2010: 6,616).
- Provision for performance bonuses which are dependant on operating results for 2011 year in the amount of 5,077 for the nine-month period ended September 30, 2011 (nine-month period ended September 30, 2010: nil).

The amounts disclosed above are recognised as general and administrative expenses in the income statement for the nine-month period ended September 30, 2011 and September 30, 2010.

In the periods ended September 30, 2011 and 2010, 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 1,109 as at September 30, 2011 (December 31, 2010: 396).

The Group guaranteed debts of key management personnel outstanding as at September 30, 2011 in the amount of 2,789 with maturity in 2011-2017 (December 31, 2010: 3,368).

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

22) Related Parties Disclosures (continued)

Transactions with Other Related Parties

The following table provides outstanding balances with other related parties as at September 30, 2011 and December 31, 2010:

	September 30, 2011	December 31, 2010
Cash and cash equivalents	90,960	47,151
Accounts receivable	4,165	3,305
Prepayments	246	90
Accounts payable	(1,074)	(2,157)
Interest payable	(1,150)	(977)

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

	Nine-month period ended September 30,		Three-month period ended September 30,	
	2011	2010	2011	2010
Sales revenue	7,581	1,873	2,053	222
Purchases of goods and services	6,586	5,373	2,162	1,766
Interest income from loans and borrowings	415	423	108	60
Interest expenses from loans and borrowings	240	384	80	128

23) Contingencies and Commitments

Operating Environment of the Group

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

In the wake of the global financial crisis, all countries continue to face an uneven economic recovery.

Despite the stabilisation measures introduced by the Russian Government in 2011 there continues to be uncertainty regarding further economic growth which could negatively affect the Group's future financial position, results of operations and business prospects.

The US economy is recovering slower than expected, and the economic growth slowed-down starting the second quarter of 2011. An uncertainty over the US economic growth could have a negative impact on the Group's future financial position, results of operations and business prospects.

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

23) Contingencies and Commitments (continued)

Taxation

Russian 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. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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.

During 2009-2011, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 731,619 thousand Russian roubles (22,953 at the exchange rate as at September 30, 2011). Up to the date of authorisation of these consolidated financial statements for issuance, the Group defended its position in the courts and settled the claims in the pre-trial dispute resolution procedures in the amount of 596,584 thousand Russian roubles (18,716 at the exchange rate as at September 30, 2011). The court proceedings had not been finalised for the claims in the amount of 79,674 thousand Russian roubles (2,500 at the exchange rate as at September 30, 2011). 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.

Contractual Commitments and Guarantees

As at September 30, 2011, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 3,734,525 thousand Russian roubles (117,161 at the exchange rate as at September 30, 2011), 36,342 thousand Euros (49,480 at the exchange rate as at September 30, 2011), 6,576 thousand Romanian lei (2,073 at the exchange rate as at September 30, 2011), and 30,746 thousand US dollars for the total amount of 199,460 (all amounts of contractual commitments are expressed net of VAT). As at September 30, 2011, the Group had advances of 76,920 with respect to commitments for the acquisition of property, plant and equipment (December 31, 2010: 29,774). 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 10,927 (December 31, 2010: 8,330).

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

23) Contingencies and Commitments (continued)

Insurance Policies

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

Legal Claims

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

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding at September 30, 2011 in the amount of 3,768 (December 31, 2010: 4,664).

24) Equity

i) Share Capital

	September 30, 2011	December 31, 2010
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) Purchase of Treasury Shares

In the nine-month period ended September 30, 2011, the Group purchased 2,844,700 shares of the Company for 8,988. As at September 30, 2011, the Group owned 74,420,496 treasury shares.

iii) Dividends Declared by the Parent Entity to its Shareholders

On June 28, 2011, the annual shareholder meeting approved final dividends in respect of 2010 year in the amount of 796,948 thousand Russian roubles (28,113 at the exchange rate at the date of approval) or 0.85 Russian roubles per share (0.03 US dollars per share), from which 60,839 thousand Russian roubles (2,146 at the exchange rate at the date of approval) related to the treasury shares in possession of the Group.

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

During the nine-month period ended September 30, 2011 and 2010, the Group's subsidiaries declared dividends to the non-controlling interest owners in the amounts of 338 and 8, respectively.

24) Equity (continued)

v) Hedges of Net Investment in Foreign Operations

At the date of acquisition of controlling interests in NS Group, Inc. and IPSCO Tubulars, Inc. the Group hedged its net investment in these operations against foreign currency risk using borrowings in US dollars made by Russian companies of the Group. As at September 30, 2011, the Group designated US dollar denominated loans in the amount of 1,158,610 as the hedging instrument. The aim of the hedging was to eliminate foreign currency risk associated with the repayment of these liabilities resulting from changes in US dollar/Russian rouble spot rates.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar/Russian rouble spot rates on the hedging instrument and on the hedged item. In the nine-month period ended September 30, 2011, the effective portion of net losses from spot rate changes in the amount of 1,619,969 thousand Russian roubles (55,863 at historical exchange rate), net of income tax of 323,994 thousand Russian roubles (11,173 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

vi) Sale of Non-controlling Interests

In the nine-month period ended September 30, 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). As a result of the transaction, the ownership interest of the Group in OOO "TMK-INOX" decreased to 51.00%. 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.

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

In the nine-month period ended September 30, 2011, the increase of non-controlling interests in OOO "TMK-INOX" amounted to 9,582 (including 275 of the non-controlling interest's share of profit, net of dividends attributable to the non-controlling interest shareholder). This amount was recognised in additional paid-in capital.

viii) Acquisition of Non-controlling Interests in Subsidiaries

In the nine-month period ended September 30, 2011, the Company purchased additional 0.26% of OAO "Seversky Pipe Plant" shares, 0.09% of OAO "Sinarsky Pipe Plant" shares, 0.03% of OAO "Taganrog Metallurgical Works" shares. The total cash consideration for the shares amounted to 1,245.

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

In the nine-month period ended September 30, 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 186. The effect of the increase of non-controlling interests in the amount of 186 was charged to accumulated profit.

25) Subsequent Events

Bank Loans

In October 2011, the Group entered into loan agreement with Nordea Bank for the amount of 200,000 with a maturity in 2017. The proceeds were used to repay Gazprombank loan in the amount of 207,542.

Interim Dividends Declared by the Parent Entity to its Shareholders

On November 7, 2011, the extraordinary shareholders' meeting approved interim dividends in respect of six months 2011 in the amount of 871,955 thousand Russian roubles (28,270 at the exchange rate at the date of approval) or 0.93 Russian roubles per share (0.03 US dollars per share).