OAO TMK
Unaudited Interim Condensed Consolidated Financial Statements
Six–month period ended June 30, 2008

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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 balance sheet of OAO TMK and its subsidiaries ("the Group") as at June 30, 2008 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six–month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standards on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information 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

October 15, 2008

OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Six–month period ended June 30, 2008

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OAO TMK

Unaudited Interim Condensed Consolidated Income Statement

Six–month period ended June 30, 2008

(All amounts in thousands of US dollars)

	NOTES	Six–month period ended June 30, 2008	2007
Revenue:	1	2,368,398	2,030,042
Sales of goods		*2,321,284*	*2,013,445*
Rendering of services		*47,114*	*16,597*
Cost of sales	2	(1,750,579)	(1,372,147)
Gross profit		**617,819**	**657,895**
Selling and distribution expenses	3	(142,374)	(111,759)
Advertising and promotion expenses	4	(4,828)	(2,413)
General and administrative expenses	5	(126,159)	(105,625)
Research and development expenses	6	(6,445)	(4,271)
Other operating expenses	7	(24,457)	(26,561)
Other operating income		4,860	2,186
Impairment of financial assets	14	(13,043)	–
Foreign exchange gain, net		14,131	19,070
Finance costs	8	(85,915)	(44,950)
Finance income	8	6,580	8,064
Share of profit in associate		220	807
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition		–	1,943
Profit before tax		**240,389**	**394,386**
Income tax expense	10	(82,189)	(105,270)
Net profit		**158,200**	**289,116**
Attributable to:			
Equity holders of the parent entity		150,870	276,470
Minority interests		7,330	12,646
		158,200	**289,116**
Earnings per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)	12	**0.17**	**0.32**

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

OAO TMK

Unaudited Interim Condensed Consolidated Balance Sheet
As at June 30, 2008

(All amounts in thousands of US dollars)

	NOTES	June 30, 2008		December 31, 2007	
ASSETS					
Current assets					
Cash and cash equivalents	12	83,494		89,045	
Financial investments		4,550		116	
Trade and other receivables		810,040		523,525	
Accounts receivable from related parties	19	13,059		17,632	
Inventories	13	1,326,613		782,373	
Prepayments and input VAT		322,305		223,731	
Prepaid income taxes		5,285	**2,565,346**	14,658	**1,651,080**
Non–current assets					
Investments in an associate		479		1,481	
Available–for–sale investments	14	19,878		29,417	
Intangible assets	16	712,976		20,715	
Accounts receivable – related parties	19	75		221	
Property, plant and equipment	15	3,671,650		2,684,252	
Investment property		30,801		28,091	
Goodwill		641,274		101,382	
Deferred tax asset		14,777		18,404	
Other non–current assets		165,861	**5,257,771**	140,763	**3,024,726**
TOTAL ASSETS			**7,823,117**		**4,675,806**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	17	747,879		295,177	
Advances from customers		216,215		89,578	
Accounts payable to related parties	19	1,117		14,924	
Accrued liabilities		186,677		147,184	
Provisions		10,910		4,674	
Interest–bearing loans and borrowings	18	2,459,317		1,033,322	
Dividends payable		61,179		129,116	
Income tax payable		15,960	**3,699,254**	4,059	**1,718,034**
Non–current liabilities					
Interest–bearing loans and borrowings	18	709,896		505,977	
Deferred tax liability		501,969		279,034	
Provisions		18,253		15,973	
Employee benefit liability		23,570		21,862	
Other liabilities		558,075	**1,811,763**	28,317	**851,163**
Total liabilities			**5,511,017**		**2,569,197**
Equity					
Parent shareholders' equity					
Issued capital		305,407		305,407	
Treasury shares		(16,971)		(10,752)	
Additional paid–in capital		94,726		97,338	
Reserve capital		15,387		15,387	
Retained earnings		1,352,717		1,239,993	
Foreign currency translation reserve		450,330		357,510	
Net unrealised losses		–		(2,187)	
Minority interests		110,504	**2,312,100**	103,913	**2,106,609**
TOTAL EQUITY AND LIABILITIES			**7,823,117**		**4,675,806**

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

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

Six–month period ended June 30, 2008

(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	Net unrealised losses	Total	Minority interests	TOTAL
At January 1, 2008	305,407	(10,752)	97,338	15,387	1,239,993	357,510	(2,187)	2,002,696	103,913	2,106,609
Effect of exchange rate changes	–	–	–	–	–	77,682	–	77,682	3,840	81,522
Foreign currency gain on hedged net investment in foreign operation (Note 21 vii)	–	–	–	–	–	15,138	–	15,138		15,138
Net unrealised losses on available–for–sale investments	–	–	–	–	–	–	(9,901)	(9,901)	(782)	(10,683)
Impairment of available–for–sale investments (Note 14)	–	–	–	–	–	–	12,088	12,088	955	13,043
Total income and expense for the period recognised directly in equity	–	–	–	–	–	92,820	2,187	95,007	4,013	99,020
Net profit	–	–	–	–	150,870	–	–	150,870	7,330	158,200
Total income and expense for the period	–	–	–	–	150,870	92,820	2,187	245,877	11,343	257,220
Purchase of treasury shares for the Share Options Programme (Note 21 v)	–	(6,219)	–	–	–	–	–	(6,219)	–	(6,219)
Share–based payments	–	–	2,978	–	–	–	–	2,978	–	2,978
Purchase of warrants (Note 21 vi)	–	–	(5,590)	–	–	–	–	(5,590)	–	(5,590)
Dividends by the Group's subsidiaries to minority shareholders (Note 21 iv)	–	–	–	–	–	–	–	–	(4,752)	(4,752)
Dividends (Note 21 iii)	–	–	–	–	(38,146)	–	–	(38,146)	–	(38,146)
At June 30, 2008	305,407	(16,971)	94,726	15,387	1,352,717	450,330	–	2,201,596	110,504	2,312,100

Continued on the next page

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

Unaudited Interim Condensed Consolidated Statement of Changes in Equity (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	Net unrealised gains	Total	Minority interests	TOTAL
At January 1, 2007	305,407	–	98,539	15,387	1,028,664	225,110	–	1,673,107	80,102	1,753,209
Effect of exchange rate changes	–	–	–	–	–	48,284	–	48,284	2,943	51,227
Net unrealised gains on available–for–sale investments	–	–	–	–	–	–	1,139	1,139	–	1,139
Total income and expense for the period recognised directly in equity	–	–	–	–	–	48,284	1,139	49,423	2,943	52,366
Net profit	–	–	–	–	276,470	–	–	276,470	12,646	289,116
Total income and expense for the period	–	–	–	–	276,470	48,284	1,139	325,893	15,589	341,482
Purchase of the Company's shares for the purpose of realization of the Share Options Programme	–	(7,377)	–	–		–	–	(7,377)	–	(7,377)
Share–based payments	–	–	3,369	–	–	–	–	3,369	–	3,369
Increase in minority interest from the acquisition of “RosNITI”	–	–	–	–	–	–	–	–	1,554	1,554
Acquisition of minority interests	–		451	–	(762)	–		(311)	(2,432)	(2,743)
Dividends by the Group's subsidiaries to minority shareholders	–	–	–	–	–	–	–	–	(117)	(117)
Dividends	–	–	–	–	(145,546)	–	–	(145,546)	–	(145,546)
At June 30, 2007	305,407	(7,377)	102,359	15,387	1,158,826	273,394	1,139	1,849,135	94,696	1,943,831

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

(All amounts in thousands of US dollars)

	Six–month period ended June 30,	
	2008	**2007**
Operating activities		
Profit before tax	240,389	394,386
Adjustment to reconcile profit before tax to net cash from operating activities:		
Depreciation of property, plant and equipment and investment property	86,321	66,985
Amortisation of intangible assets	4,194	1,246
Loss on disposal of property, plant and equipment	586	4,311
Impairment of financial assets	13,043	–
Foreign exchange gain	(15,242)	(19,070)
Finance costs	85,915	44,950
Finance income	(6,580)	(7,862)
Gains on sale of investments	–	(202)
Share–based payments	2,978	3,369
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	–	(1,943)
Share of profit in associate	(220)	(807)
Movement in provisions	6,066	4,662
Operating cash flow before working capital changes	417,450	490,025
Changes in working capital:		
(Increase) in inventories	(127,528)	(105,722)
Decrease/(increase) in trade and other receivables	4,602	(172,725)
(Increase) in prepayments	(86,638)	(3,288)
Increase/(decrease) in trade and other payables	126,975	(1,319)
Increase/(decrease) in accrued liabilities	13,360	16,779
Increase/(decrease) in advances from customers	116,224	(9,040)
Cash generated from operations	464,445	214,710
Income taxes paid	(60,862)	(127,524)
Net cash flows from operating activities	**403,583**	**87,186**
Investing activities:		
Purchase of property, plant and equipment and intangible assets	(459,380)	(255,338)
Proceeds from sale of property, plant and equipment	2,885	3,325
Purchase of available–for–sale investments	–	(30,160)
Acquisition of subsidiaries, net of cash acquired	(1,295,827)	(3,038)
Acquisition of minority interest	(2,673)	(3,593)
Disbursement of loans	(2,194)	(26,564)
Proceeds from repayment of loans	1,714	41,533
Interest received	1,639	6,758
Net cash flows used in investing activities	**(1,753,836)**	**(267,077)**

Continued on the next page

Unaudited Interim Condensed Consolidated Cash Flow Statement (continued)

(All amounts in thousands of US dollars)

	Six–month period ended June 30,	
	2008	**2007**
Financing activities:		
Purchase of treasury shares	(6,219)	(7,377)
Purchase of warrants	(5,590)	–
Proceeds from borrowings	2,322,812	255,954
Repayment of borrowings	(771,935)	(102,996)
Interest paid	(96,698)	(41,279)
Payment of finance lease liabilities	(342)	(137)
Capital contribution by minority owner to a subsidiary	–	1,518
Dividends paid to equity holders of the parent	(116,369)	–
Dividends paid to minority shareholders	(139)	(22)
Net cash flows from financing activities	**1,325,520**	**105,661**
Net (decrease) in cash and cash equivalents	**(24,733)**	**(74,230)**
Net foreign exchange difference	19,182	358
Cash and cash equivalents at January 1	89,045	144,010
Cash and cash equivalents at June 30	**83,494**	**70,138**

Corporate Information

These interim condensed consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the six–month period ended June 30, 2008 were authorised for issue in accordance with a resolution of the General Director on October 15, 2008.

OAO TMK (the "Company") is an open joint stock company incorporated under the laws of the Russian Federation. The registered office of the Company is 19/25 Alexander Nevsky Street, bldg. 1, Moscow, the Russian Federation. The principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

As at June 30, 2008, the Company's main shareholder was TMK Steel Limited, a Cyprus legal entity, owning 74.83% in the share capital. 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.

Deficit in Working Capital

These consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. As of June 30, 2008, the Group's current liabilities were 3,699,254 and exceeded current assets by 1,133,908.

The amount of working capital deficit mainly relates to a short–term financing used by the Company in connection with the acquisition of the businesses in the United States (Note 9).

In July 2008, the Group partly refinanced its short–term bridge loan facility on a long–term basis using the proceeds from the issuance of 600,000 thousand US dollars 10% Loan Participation Notes due 2011 (Note 22). The Company plans to refinance the remaining part of the short–term financing on a long–term basis. Currently, the Group is negotiating the terms of a long–term loan with leading Russian and foreign financial institutions.

Although there is no assurance that necessary financing will be available or at terms acceptable to the Group, management believes that the Group will be able to refinance its short–term debts and generate sufficient cash to operate the business over the twelve–month period subsequent to the balance sheet date.

Basis of Preparation of the Financial Statements

Basis of Preparation

The interim condensed consolidated financial statements for the six–month period ended June 30, 2008 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, 2007. Operating results for the six–month period ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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, 2007, 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, 2008, result from adoption of the following new or revised standards:

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", issued November 2, 2006.

This interpretation gives guidance on how share–based payment arrangements involving parent company equity instruments should be accounted for in the subsidiary's separate financial statements.

IFRIC 12 "Service Concession Arrangements", issued November 30, 2006.

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. IFRIC 12 is unlikely to impact on the Company's results.

IFRIC 14 "The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", issued July 5, 2007, is not yet applied by the Group due to the fact that it is irrelevant for Group and unlikely to impact on the Group's results.

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

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

1) Segment Information

The interim condensed consolidated financial statements of the Group are reported in two segment reporting formats: business and geographical.

There are no sales or other transactions between the business segments.

The Group's primary segment reporting format is the dominant source for disclosure of its operating activities in its financial statements. The Group discloses its revenue, segment results and depreciation and amortization costs based on the main groups of products segregated into segments: seamless pipes, welded pipes, other operations, unallocated.

Primary reporting format – business segments

Six–month period ended June 30, 2008	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
REVENUE	583,579	1,620,476	164,343	–	**2,368,398**
SEGMENT RESULT	91,476	513,048	13,295	–	**617,819**
DEPRECIATION AND AMORTISATION	7,599	56,912	4,348	16,819	**85,678**

Six–month period ended June 30, 2007	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
REVENUE	542,959	1,375,527	111,556	–	**2,030,042**
SEGMENT RESULT	98,217	553,065	6,613	–	**657,895**
DEPRECIATION AND AMORTISATION	7,232	48,001	2,324	10,674	**68,231**

Secondary reporting format – geographical segments

A geographical segment is the Group's secondary segment reporting format for disclosure of its operating activities in its financial statements. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those components operating in other economic environments. The Group discloses its sales revenue, based on the location of the Group's customers.

Six–month period ended June 30, 2008	Russia	Europe	Cent.Asia & Caspian Reg.	Mid. East & Gulf Reg.	Africa	Americas	Asia & Far East	TOTAL
REVENUE	1,704,845	274,151	98,051	125,536	13,500	126,818	25,497	**2,368,398**

Six–month period ended June 30, 2007	Russia	Europe	Cent.Asia & Caspian Reg.	Mid. East & Gulf Reg.	Africa	Americas	Asia & Far East	TOTAL
REVENUE	1,389,234	250,311	73,885	145,827	14,241	45,609	110,935	**2,030,042**

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

2) Cost of Sales

	Six–month period ended June 30,	
	2008	**2007**
Raw materials and consumables	1,186,102	1,036,502
Contracted manufacture	22,804	5,684
Energy and utilities	137,827	110,470
Depreciation and amortisation	81,540	62,529
Repairs and maintenance	43,824	21,305
Freight	9,453	2,484
Rent	1,180	286
Insurance	396	178
Staff costs including social security	231,635	167,561
Professional fees and services	6,251	6,355
Travel	880	749
Communications	618	322
Taxes	12,463	9,271
Other	3,345	481
Less capitalised costs	(7,875)	(18,158)
TOTAL PRODUCTION COST	**1,730,443**	**1,406,019**
Change in own finished goods and work in progress	(23,336)	(55,292)
Cost of goods purchased for resale	43,258	16,551
Obsolete stock and write–offs	214	4,869
COST OF SALES	**1,750,579**	**1,372,147**

3) Selling and Distribution Expenses

	Six–month period ended June 30,	
	2008	**2007**
Freight	76,429	65,691
Rent	3,722	2,851
Insurance	616	392
Depreciation and amortisation	1,036	769
Staff costs including social security	32,445	20,648
Professional fees and services	10,180	8,201
Travel	2,846	1,879
Communications	1,257	778
Utilities and maintenance	1,458	451
Taxes	1,603	1,522
Consumables	10,354	7,962
Bad debt (reversal of expense)/ expense	(401)	(207)
Other	829	822
TOTAL SELLING AND DISTRIBUTION EXPENSES	**142,374**	**111,759**

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

4) Advertising and Promotion Expenses

	Six–month period ended June 30,	
	2008	**2007**
Media	722	764
Exhibits and catalogues	1,881	1,332
Other	2,225	317
TOTAL ADVERTISING AND PROMOTION EXPENSES	**4,828**	**2,413**

5) General and Administrative Expenses

	Six–month period ended June 30,	
	2008	**2007**
Staff costs including social security	64,648	68,057
Professional fees and services	22,691	14,765
Depreciation and amortisation	8,190	4,299
Travel	6,620	4,182
Transportation	3,291	1,570
Rent	3,389	1,906
Communications	760	564
Insurance	550	360
Utilities and maintenance	4,763	4,071
Taxes	2,488	1,790
Consumables	3,837	3,435
Other	4,932	626
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	**126,159**	**105,625**

6) Research and Development Expenses

	Six–month period ended June 30,	
	2008	**2007**
Staff costs including social security	4,600	3,311
Professional fees and services	582	62
Depreciation and amortisation	358	233
Travel	105	109
Transportation	84	85
Communications	36	25
Utilities and maintenance	285	132
Consumables	273	245
Other	122	69
TOTAL RESEARCH AND DEVELOPMENT EXPENSES	**6,445**	**4,271**

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

7) Other Operating Expenses

	Six–month period ended June 30,	
	2008	**2007**
Loss on disposal of property, plant and equipment	586	4,637
Social and social infrastructure maintenance expenses	11,206	6,411
Charitable donations	7,005	9,395
Other	5,660	6,118
TOTAL OTHER OPERATING EXPENSES	**24,457**	**26,561**

Other operating expenses mainly comprise expenses and additional provisions related to tax issues, tax fines and other fines in the amount of 3,922 and 4,364 for the six months ended June 30, 2008 and 2007, respectively.

8) Finance Costs and Finance Income

Finance Costs	Six–month period ended June 30,	
	2008	**2007**
Amortisation of ancillary costs incurred in connection with the arrangement of borrowings	3,949	2,733
Interest expense	81,966	38,266
Change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical plant	–	3,951
TOTAL FINANCE COSTS	**85,915**	**44,950**

Finance Income	Six–month period ended June 30,	
	2008	**2007**
Interest income – bank accounts and deposits	1,477	7,862
Change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical plant	5,099	–
Other finance income	4	202
TOTAL FINANCE INCOME	**6,580**	**8,064**

9) Acquisition of Subsidiaries

NS Group Inc. and IPSCO Tubular Inc.

On March 14, 2008, the Group signed a back–to–back purchase agreement with Evraz Group S.A. (“Evraz”) to acquire all of the outstanding shares in IPSCO Tubulars Inc. and 51% of outstanding shares in NS Group Inc., both registered and located in the United States, from Svenskt Stal AB (“SSAB”), a Swedish steel company. As a part of the transaction, on June 11, 2008, the Group entered into a call/put option agreement with Evraz, under which the Group has the right to purchase from Evraz and Evraz has the right to sell to the Group 49% of the outstanding shares in NS Group, Inc. for US$510,625. The Group’s call option became exercisable on June 12, 2008. The put option can be exercised by Evraz on or after October 22, 2009. The liability under the call/put option bears interest of 10% per annum.

IPSCO Tubulars Inc. and NS Group Inc. consist of ten production sites including steel–making and pipe– rolling mills, heat–treatment, threading and joints operations.

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

9) Acquisition of Subsidiaries (continued)

NS Group Inc. and IPSCO Tubular Inc. (continued)

On June 12, 2008, this acquisition was completed. As a result, cost of the acquisition of all of the shares in IPSCO Tubulars Inc. and NS Group Inc. for the Group amounted to 1,643,939, including cash consideration paid of 1,247,881, a liability in respect of the put option of 510,625, transactions costs of 19,137, less adjustment for closing working capital of 133,704.

The financial position and results of operations of IPSCO Tubulars Inc. and NS Group Inc. were included in the Group's consolidated financial statements beginning June 12, 2008. As of the date of issuance of these interim consolidated financial statements, the Group and SSAB have not finalised the working capital adjustment of the acquired entities and the Group has not completed its purchase price allocation in accordance with IFRS 3 *Business Combinations*. Accordingly, the acquisition of IPSCO Tubulars Inc. and NS Group, Inc. has been accounted for based on provisional values.

As the Group acquired both entities in a single transaction, combined provisional values of identifiable assets, liabilities and contingent liabilities of IPSCO Tubular and NS Group at the date of acquisition were as follows:

	12 June 2008
Property, plant and equipment	425,998
Intangible assets	697,600
Other non–current assets	1,557
Inventories	377,341
Accounts and notes receivable, net	138,259
Prepayments	892
Total assets	**1,641,647**
Non–current liabilities	8,328
Deferred income tax liabilities	224,919
Current liabilities	276,846
Overdraft	7,113
Total liabilities	**517,206**
NET ASSETS	**1,124,441**
Fair value of net assets attributable to 100% ownership interest	1,124,441
TOTAL CONSIDERATION	**1,643,939**
GOODWILL ARISING ON ACQUISITION	**519,498**

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

9) Acquisition of Subsidiaries (continued)

NS Group Inc. and IPSCO Tubular Inc.(continued)

Goodwill arising from the acquisition of NS Group Inc. and IPSCO Tubulars Inc. relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group.

In 2008, the cash flow on acquisition was as follows:

Overdrafts of the acquired subsidiaries	(7,113)
Cash paid	(1,251,425)
NET CASH OUTFLOW	**(1,258,538)**

As at June 30, 2008, the Group had a liability of 510,625 in respect of the call/put option agreement and 15,593 in respect of transaction costs.

The net profit of IPSCO Tubular Inc. and NS Group Inc. for the period from June 12, 2008 to June 30, 2008 amounted to 5,700.

TOO Kaztrubprom

On June 9, 2008, the Group purchased the 100% ownership interest in Kazakhstan–based TOO Kaztrubprom ("Kaztrubprom") for a cash consideration of 8,437. Kaztrubprom specializes in the threading and finishing of tubing and casing pipes.

The acquisition of Kaztrubprom was accounted for based on provisional values as the Group, as at the date of authorisation for issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3.

The table below sets forth the provisional values of identifiable assets, liabilities and contingent liabilities of Kaztrubprom at the date of acquisition:

	9 June 2008
Property, plant and equipment	20,271
Other non–current assets	123
Inventories	724
Accounts and notes receivable, net	–
Prepayments	1,197
Cash	9
Total assets	**22,324**
Non–current liabilities	28,197
Deferred income tax liabilities	707
Current liabilities	241
Total liabilities	**29,145**
NET LIABILITIES	**(6,821)**
Fair value of net liabilities attributable to 100% ownership interest	(6,821)
TOTAL CONSIDERATION	**8,437**
GOODWILL ARISING ON ACQUISITION	**15,258**

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

9) Acquisition of Subsidiaries (continued)

TOO Kaztrubprom (continued)

In 2008, the cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	9
Cash paid	(2,000)
NET CASH OUTFLOW	**(1,991)**

As at June 30, 2008, the Group had a liability of 6,437 in respect of this purchase.

Kaztrubprom's net loss from June 9, 2008 to June 30, 2008 was 19.

Disclosure of Other Information in Respect of Business Combinations

As the acquired subsidiaries did not prepare financial statements in accordance with IFRS before the business combinations, it is impracticable to determine revenues and net profit of the combined entity for each six–month period presented on the assumption that all business combinations effected during each six–month period had occurred at the beginning of the respective period.

For the same reason, it is also impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities for the acquired subsidiaries.

10) Income Tax

	Six–month period ended June 30,	
	2008	**2007**
Current income tax	82,185	111,303
Deferred income tax expense /(benefit) related to origination and reversal of temporary differences	4	(6,033)
TOTAL INCOME TAX EXPENSE	**82,189**	**105,270**

11) 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. For the diluted earnings per share, the weighted average number of shares in issue is adjusted to assume conversion of all dilutive potential shares which are the share options granted to employees.

	Six–month period ended June 30,	
	2008	**2007**
Net profit attributable to the equity holders of the parent entity	150,870	276,470
Weighted average number of ordinary shares outstanding (excluding treasury shares)	871,424,316	872,505,106
Effect of dilution:		
Share options		73,802
Weighted average number of ordinary shares outstanding (excluding treasury shares) adjusted for the effect of dilution	871,424,316	872,578,908
Earnings per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)	**0.17**	**0.32**

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

11) Earnings per Share (continued)

Share options under the TMK share options programme were not included in the calculation of diluted earnings per share as at June 30, 2008 because they were antidilutive.

12) Cash and Cash Equivalents

Cash and cash equivalents consist of the following:

	June 30, 2008	December 31, 2007
Russian ruble	35,111	70,876
US dollar	40,919	6,288
Euro	2,316	9,990
Romanian lei	4,939	1,848
Other currencies	209	43
TOTAL CASH AND CASH EQUIVALENTS	**83,494**	**89,045**

13) Inventories

The above inventories consisted of the following:

	June 30, 2008	December 31, 2007
Raw materials & Supplies	534,160	396,979
Finished goods &WIP	802,313	394,844
GROSS INVENTORIES	1,336,473	791,823
Allowance for obsolescence and slow–moving	(9,860)	(9,450)
NET INVENTORIES	**1,326,613**	**782,373**

14) Available–for–Sale Investments

Available–for–sale investments in the amount of 466,279 thousand rubles (19,878 at the exchange rate as at June 30, 2008) are represented by ordinary shares of VTB Bank, a Russian state–owned bank. The fair value of these shares is determined by reference to published price quotations in an active market. Due to the significant and prolonged decline in fair value of VTB shares, the impairment loss of 13,043 representing cumulative loss previously recognised directly in equity was recorded in the income statement.

As at October 15, 2008 the fair value of VTB shares held by the Company was 194,426 (7,453 at the exchange rate at October 15, 2008).

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

15) Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, 2008	December 31, 2007
Cost:		
Land and buildings	1,263,897	1,118,384
Machinery and equipment	1,864,885	1,439,626
Transport and motor vehicles	76,021	68,416
Furniture and fixtures	41,054	32,534
Construction in progress	1,088,273	584,192
	4,334,130	**3,243,152**
Accumulated depreciation:		
Buildings	(131,506)	(110,916)
Machinery and equipment	(489,045)	(413,926)
Transport and motor vehicles	(23,008)	(19,560)
Furniture and fixtures	(18,921)	(14,498)
	(662,480)	**(558,900)**
NET BOOK VALUE AT JUNE 30, 2008	**3,671,650**	**2,684,252**

The movements of property, plant and equipment in the six–month period ended June 30, 2008 were as follows:

COST:	
At January 1, 2008	3,243,152
Additions	506,084
Transfer to investment property	(4,399)
Disposals	(19,283)
Increase due to business combinations (Note 9)	446,269
Currency translation adjustments	162,307
At June 30, 2008	**4,334,130**
ACCUMULATED DEPRECIATION:	
At January 1, 2008	(558,900)
Depreciation charge	(86,321)
Disposals	595
Transfer to investment property	6,286
Currency translation adjustments	(24,140)
At June 30, 2008	**(662,480)**
NET BOOK VALUE AT JUNE 30, 2008	**3,671,650**
NET BOOK VALUE AT JANUARY 1, 2008	**2684,252**

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

16) Intangible Assets

	June 30, 2008	December 31, 2007
Cost:		
Patents and trademarks	223,642	781
Information system projects (software SAP R\3)	17,979	17,133
Other	485,757	9,354
	727,378	**27,268**
Accumulated amortization:		
Patents and trademarks	(205)	(160)
Information system projects (software SAP R\3)	(5,916)	(4,322)
Other	(8,281)	(2,071)
	(14,402)	**(6,553)**
	712,976	**20,715**

Intangible assets increased in the six–month period ended June 30, 2008 due to the acquisitions of subsidiaries (Note 9).

17) Trade and Other Payables

	June 30, 2008	December 31, 2007
Trade payables	389,783	192,344
Accounts payable for property, plant and equipment	308,630	98,627
Notes issued to third parties	2,920	929
Other payables	46,546	3,277
TOTAL ACCOUNTS PAYABLE	**747,879**	**295,177**

18) Interest–Bearing Loans and Borrowings

	June 30, 2008	December 31, 2007
Current:		
Bank loans	2,080,920	671,574
Interest payable	22,372	17,397
Current portion of non–current borrowings	247,945	141,805
Current portion of bearer coupon debt securities	108,873	203,698
Unamortised debt issue costs	(1,122)	(1,454)
	2,458,988	**1,033,020**
Finance lease liability – current	329	302
TOTAL SHORT–TERM BORROWINGS	**2,459,317**	**1,033,322**
Non–current:		
Bank loans	453,155	249,217
Bearer coupon debt securities	622,026	607,741
Unamortised debt issue costs	(8,763)	(5,882)
Less: current portion of non–current borrowings	(247,945)	(141,805)
Less: current portion of bearer coupon debt securities	(108,873)	(203,698)
	709,600	**505,573**
Finance lease liability – non–current	296	404
TOTAL LONG–TERM BORROWINGS	**709,896**	**505,977**

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

18) Interest–Bearing Loans and Borrowings (continued)

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

	Interest rates for period ended	June 30, 2008	Interest rates for period ended	December 31, 2007
Russian Rouble	Fixed 6% –10.5%	1,265,254	Fixed 6% –12%	929,949
US Dollar	Fixed 8.5%	304,197	Fixed 8.5%	303,380
	Fixed 8.25%–12%	8,636	Fixed 20.94%	151
	Variable:	1,300,824	Variable:	143,778
	Libor (1m) + 1.5% – 2.85%			
	Libor (3m) + 1.7% – 4.7%		Libor (3m) + 1.5% – 1.7%	
	Federal funds rate +1.6%		Federal funds rate +1.6%	
Euro	Fixed 8.86%–15%	11,225	Fixed 5.7%	250
	Variable:	264,922	Variable:	159,905
	Euribor (1m) + 0.23% – 1.6%		Euribor (1m) + 0.23% – 4.95%	
			Euribor (3m) + 2.25 – 2.75%	
	Euribor (3m) + 2.75%			
	Euribor (6m) + 0.23% – 5%		Euribor (6m) + 2.4% – 5%	
			Euribor (12m) + 0.23% – 4.95%	
Romanian Lei	Fixed 13%	1,014		
	Bubor (1m) + 0.75% (*)	2,036	Bubor (1m) + 0.75% (*)	1,180
Kazakhstani Tenge	Fixed 13%–18%	10,480		
		3,168,588		**1,538,593**

(*) *Bubor is the Bucharest bid offer rate.*

Syndicated Bridge Loan Facility

On 30 May 2008, TMK entered into the IPSCO Bridge Facility Agreement for 1,200,000 to finance the acquisition of a 51% interest in NS Group Inc. and the 100% interest in IPSCO Tubulars Inc. (Note 9). ABN AMRO Bank N.V., Bank of Tokyo Mitsubishi UFJ, Ltd., Barclays Bank PLC, BNP Paribas (Suisse) S.A., ING Bank N.V., Natixis, Nomura International plc. and Sumitomo Mitsui Finance Dublin Limited are arrangers of the facility. The facility has a term of 12 months with a 3–month extension option thereafter, subject to agreement of all parties. The facility bears interest at a rate ranging between one–month LIBOR plus 1.5% and one–month LIBOR plus 2.85%, with the rate increasing during the lifetime of the facility. As of June 30, 2008, the principle outstanding balance was 1,200,000.

Unutilised Borrowing Facilities

As at June 30, 2008, the Group had unutilised borrowing facilities in the amount of 528,181 (December 31, 2007: 491,854).

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

19) Related Parties Disclosures

	June 30, 2008	December 31, 2007
Entities under common control with the Group:		
Cash and cash equivalents	6,683	41,335
Accounts receivable – current	13,134	17,630
Interest receivable	–	334
Prepayments – current	51	2
Other financial assets – non–current	–	221
Accounts payable – current	(1,117)	(14,924)
Accounts payable – non–current	(145)	(5)

	Six–month period ended June 30,	
	2008	2007
Entities under common control with the Group:		
Sales revenue	12,040	13,841
Purchases of goods and services	4,260	1,334
Interest income from loans and borrowings	777	970
Interest expenses from loans and borrowings	–	60

Compensation of 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 32 persons as at June 30, 2008 and 34 persons as at June 30, 2007. Total compensation to key management personnel included as part of the general and administrative expenses in the income statement amounted to 10,248 and 22,365 for the six months ended June 30, 2008 and 2007, respectively.

Compensation to key management personnel consists of contractual salary, performance bonus depending on operating results, share–based payments and payments for medical insurance.

The Group guaranteed debts of key management personnel outstanding as at June 30, 2008 in the amount of 2,288 with maturity in 2009–2011.

20) Contingencies and Commitments

Operating Environment of the Group

The Group's principal assets are located in the Russian Federation and therefore its significant operating risks are related to the activities of the Group in this country.

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, 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.

20) Contingencies and Commitments (continued)

Liquidity

The Russia economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity of the banking sector, and tighter credit conditions within Russia. While the Russian Government has introduced a range of stabilization measures aimed at providing liquidity and supporting debt refinancing for Russian banks and companies, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects.

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

Taxation

The major part of the Group tax expense relates to taxation in the Russian Federation.

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 their 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.

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.

20) Contingencies and Commitments (continued)

Taxation (continued)

In 2007 and 2008, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 879,942 thousand Russian rubles (37,512 at the exchange rate as at June 30, 2008). The claims for the amount of 28,424 thousand Russian rubles (1,158 at the exchange rate as at December 31, 2007) were accepted by the Group and accrued in 2007. The claims for the amount of 61,416 thousand Russian rubles (2,618 at the exchange rate as at June 30, 2008) were withdrawn by the tax authorities at a pre–litigation stage. In addition, in 2008, the courts made decisions in favor of the Group for the total amount of 354,546 thousand Russian rubles (15,115 at the exchange rate as at June 30, 2008). The remaining claims amounting to 435,556 thousand Russian rubles (18,568 at the exchange rate as at June 30, 2008) are continued to be contested by the Group in the courts. 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. Therefore, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the six months ended June 30, 2008.

Contractual Commitments and Guarantees

As at June 30, 2008, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 6,904,842 thousand Russian rubles (294,358 at the exchange rate as at June 30, 2008), 306,065 thousand euros (481,562 at the exchange rate as at June 30, 2008), 16,920 Romanian lei (7,299 at the exchange rate as at June 30, 2008) and 11,253 US dollars for the total amount of 794,473 (all amounts are expressed net of VAT). The Group has paid advances of 96,658 with respect to such commitments.

Under the contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 181,949 (2007: 285,852).

Insurance Policies

The Group maintains obligatory insurance policies required by Russian Law and insurance policies in respect of certain assets pledged under loan agreements. The Group holds no insurance policies in relation to its major production facilities, or in respect of public liability.

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. In the opinion of management, 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 and which have not been accrued or disclosed in these consolidated financial statements.

20) Contingencies and Commitments (continued)

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding in the amount of 2,430 and 4,889 at June 30, 2008 and December 31, 2007, respectively.

21) Equity

i) Share Capital

As at June 30, 2008, the authorised number of ordinary shares of the Company was 873,001,000 (2007: 873,001,000) with a par value of 10 Russian rubles. All these shares are issued and fully paid.

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.

iii) Dividends

In June 2008, the Company declared a final dividend in respect of 2007 in the amount of 899,191 thousand Russian rubles (38,224 at the exchange rate at the announcement date) or 1.03 Russian rubles per share (0.044 US dollars per share), of which 1,819 thousand Russian rubles (78 at the exchange rate at the transaction date) related to treasury shares in the possession of the Group as at the date of declaration of the dividend.

iv) Dividends by the Group's Subsidiaries to Minority Shareholders

During the six–month period ended June 30, 2008 and 2007, the Group's subsidiaries declared dividends to minority shareholders in the amount of 4,752 and 117, respectively.

v) Treasury shares

During the six–month period ended June 30, 2007, the Group purchased 840,703 shares of the Company for the total amount of 7,377 (at the exchange rate at the transaction date), including 465,503 shares purchased from an entity under common control with the Group for 4,012.

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

21) Equity (continued)

v) Treasury shares (continued)

During the six–month period ended June 30, 2008, the Group purchased 689,651 shares of the Company for 6,219, including 3,050 shares purchased from an entity under common control with the Group for 35. As at June 30, 2008, the Group owned 1,771,618 treasury shares.

	Number of treasury shares	Cost
Outstanding as at January 1, 2008	1,081,967	10,752
Purchased during six months	689,651	6,219
Outstanding as at June 30, 2008	1,771,618	16,971

vi) Warrants

At March 5, 2008, the Group purchased 1,200,000 warrants for the total amount of 5,590. The warrants grant the Group a right to acquire the Company's shares at a strike price of 4,51 US dollars per share. The warrants become exercisable and expire on October 10, 2009.

vii) Hedge in Net Investment in Foreign Operations

The Group hedged its net investment in operations located in the United States against foreign currency risks in the six–month period ended June 30, 2008 using US dollar denominated liabilities under bridge loan facility of 1,200,000 and put option of 510,625 (Note 9). The aim of the hedging was to eliminate foreign currency risk associated with the repayment of the 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 six–month period ended June 30, 2008, the effective portion of gains from spot rate changes of the above mentioned liabilities of 358,394 thousand roubles (approximately 15,138 at historical exchange rate) was recognised directly in equity (foreign currency translation reserve).

22) Events after the Balance Sheet Date

Loan Participation Notes

On July 25, 2008, the Group issued 6,000 10.0% loan participation notes with a nominal value of 100,000 US dollars each, due July 2011. Interest payments on the notes are due semi–annually in equal installments. The notes were issued by the Group for the sole purpose of partial repayment of the 1,200,000 syndicated bridge loan facility. The notes have been admitted to trading on the London Stock Exchange.

22) Events after the Balance Sheet Date (continued)

Loan Participation Notes (continued)

The notes are subject to certain restrictive covenants including, but not limited to, limitations on the incurrence of additional indebtedness, restrictions on mergers and other reorganizations, limitations on liens and dispositions of assets and limitations on transactions with affiliates.

Bearer Coupon Bonds

On July 23, 2008, the Company sold 446,139 of the previously purchased bearer coupon bonds with a nominal value of 1,000 Russian rubles in the open market. As the result of the transaction, an aggregate amount of 3.0 billion Russian rubles (129,333 at the exchange rate as of 23 July 2008) remained outstanding under these bonds.

Interim Dividends

On October 3, 2008 the Group's Board of Directors recommended that shareholders approve distribution of 2008 interim dividends in the total amount of 1,527,752 thousand rubles (59,166 at the exchange rate as of October 3, 2008) which is 1.75 Russian rubles (0.07 US dollar at the exchange rate as of October 3, 2008) per share.

Treasury Shares Purchase

In the period between July 1 and October 15, 2008, the Group purchased 3,239,406 shares of the Company for the total amount of 16,736 (at the exchange rates at the transaction dates).