OAO TMK
Unaudited Interim Condensed Consolidated Financial Statements
Six-month period ended June 30, 2011

OAO TMK

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Six-month period ended June 30, 2011

Contents

Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow, 115035, Russia
Tel: +7 (495) 705 9700
+7 (495) 755 9700
Fax: +7 (495) 755 9701
www.ey.com

ООО «Эрнст энд Янг»
Россия, 115035, Москва
Садовническая наб., 77, стр. 1
Тел: +7 (495) 705 9700
+7 (495) 755 9700
Факс: +7 (495) 755 9701
ОКПО: 59002827

Report on review of interim condensed consolidated financial statements

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 June 30, 2011 and the related interim consolidated statements of income and comprehensive income for the three and six months then ended, statements of changes in equity and cash flows for the six 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

August 31, 2011

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Unaudited Interim Consolidated Income Statement

Six-month period ended June 30, 2011

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

	NOTES	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010	Three-month period ended June 30, 2011	Three-month period ended June 30, 2010
Revenue:	1	3,547,219	2,566,180	1,878,649	1,325,744
Sales of goods		*3,487,169*	*2,483,831*	*1,853,659*	*1,286,029*
Rendering of services		*60,050*	*82,349*	*24,990*	*39,715*
Cost of sales	2	(2,732,971)	(1,980,366)	(1,455,578)	(1,031,865)
Gross profit		**814,248**	**585,814**	**423,071**	**293,879**
Selling and distribution expenses	3	(205,976)	(198,915)	(107,204)	(98,901)
Advertising and promotion expenses	4	(4,724)	(4,800)	(3,165)	(3,414)
General and administrative expenses	5	(139,556)	(110,048)	(73,735)	(53,651)
Research and development expenses	6	(8,253)	(6,260)	(4,369)	(3,180)
Other operating expenses	7	(25,091)	(23,413)	(12,194)	(14,939)
Other operating income	8	9,345	4,229	4,682	1,789
Impairment of goodwill	16	(3,368)	–	(3,368)	–
Foreign exchange gain/(loss), net		32,952	13,829	118	(38,678)
Finance costs		(159,454)	(199,080)	(78,424)	(90,047)
Finance income	9	15,394	8,560	6,524	5,994
Gain on changes in fair value of derivative financial instrument	20	15,277	31,811	32,337	78,388
Gain on disposal of assets classified as held for sale	10	19,184	–	19,184	–
Profit/(loss) before tax		**359,978**	**101,727**	**203,457**	**77,240**
Income tax expense	11	(102,315)	(34,419)	(49,930)	(9,356)
Profit/(loss) for the period		**257,663**	**67,308**	**153,527**	**67,884**
Attributable to:					
Equity holders of the parent entity		255,605	69,038	152,645	69,034
Non-controlling interests		2,058	(1,730)	882	(1,150)
		257,663	**67,308**	**153,527**	**67,884**
Earnings per share attributable to equity holders of the parent entity (in US dollars)					
Basic	12	**0.30**	**0.08**	**0.18**	**0.08**
Diluted	12	**0.24**	**0.06**	**0.13**	**0.02**

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

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Unaudited Interim Consolidated Statement of Comprehensive Income

Six-month period ended June 30, 2011

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010	Three-month period ended June 30, 2011	Three-month period ended June 30, 2010
Profit/(loss) for the period		**257,663**	**67,308**	**153,527**	**67,884**
Exchange differences on translation to presentation currency [a]		50,047	(26,164)	5,868	(33,429)
Foreign currency gain/(loss) on hedged net investment in foreign operation [b]	23 (iv)	95,686	(36,043)	14,622	(70,169)
Income tax [b]	23 (iv)	(19,137)	7,209	(2,924)	14,034
		76,549	**(28,834)**	**11,698**	**(56,135)**
Other comprehensive income/(loss) for the period, net of tax		**126,596**	**(54,998)**	**17,566**	**(89,564)**
Total comprehensive income/(loss) for the period, net of tax		**384,259**	**12,310**	**171,093**	**(21,680)**
Attributable to:					
Equity holders of the parent entity		373,770	16,806	169,945	(15,713)
Non-controlling interests		10,489	(4,496)	1,148	(5,967)
		384,259	**12,310**	**171,093**	**(21,680)**

(a) The amount of exchange differences on translation to presentation currency represented other comprehensive income of 41,616 and other comprehensive loss of 23,398 attributable to equity holders of the parent entity for the six-month period ended June 30, 2011 and 2010, respectively (three-month period ended June 30, 2011 and 2010: other comprehensive income of 5,602 and other comprehensive loss of 28,612, respectively). Other comprehensive income attributable to non-controlling interests amounted to 8,431 and other comprehensive loss attributable to non-controlling interests amounted to 2,766 for the six-month period ended June 30, 2011 and 2010, respectively (three-month period ended June 30, 2011 and 2010: other comprehensive income of 266 and other comprehensive loss of 4,817, respectively).

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

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Unaudited Interim Consolidated Statement of Financial Position

At June 30, 2011

(All amounts in thousands of US dollars)

	NOTES	June 30, 2011		December 31, 2010	
ASSETS					
Current assets					
Cash and cash equivalents	13, 21	170,060		157,524	
Financial investments		3,938		3,966	
Trade and other receivables		1,015,928		716,897	
Accounts receivable from related parties	21	6,067		3,395	
Inventories	14	1,423,341		1,207,540	
Prepayments and input VAT		167,318		154,302	
Prepaid income taxes		5,063	2,791,715	18,099	2,261,723
Assets classified as held for sale		–	**2,791,715**	8,003	**2,269,726**
Non-current assets					
Intangible assets	16	441,783		474,791	
Property, plant and equipment	15	3,648,026		3,386,660	
Goodwill	16	557,886		554,353	
Deferred tax asset		91,206		135,307	
Other non-current assets		71,562	**4,810,463**	40,697	**4,591,808**
TOTAL ASSETS			**7,602,178**		**6,861,534**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	17	945,331		732,733	
Advances from customers		112,951		136,885	
Accounts payable to related parties	21	22,172		8,434	
Provisions and accruals	18	40,590		42,153	
Interest-bearing loans and borrowings	19, 20	538,653		701,864	
Derivative financial instrument	20	32,539		47,816	
Dividends payable		8,327		430	
Income tax payable		19,351	1,719,914	3,846	1,674,161
Liabilities directly associated with the assets classified as held for sale		–	**1,719,914**	143	**1,674,304**
Non-current liabilities					
Interest-bearing loans and borrowings	19, 20	3,477,902		3,169,714	
Deferred tax liability		317,268		300,484	
Provisions and accruals	18	33,370		24,096	
Post-employment benefits		26,657		24,009	
Other liabilities		33,345	**3,888,542**	32,020	**3,550,323**
Total liabilities			**5,608,456**		**5,224,627**
Equity	23				
Parent shareholders' equity					
Issued capital		326,417		326,417	
Treasury shares		(318,351)		(318,351)	
Additional paid-in capital		376,886		376,485	
Reserve capital		15,387		15,387	
Retained earnings		1,352,209		1,122,771	
Foreign currency translation reserve		136,441	1,888,989	18,276	1,540,985
Non-controlling interests			104,733		95,922
Total equity			**1,993,722**		**1,636,907**
TOTAL EQUITY AND LIABILITIES			**7,602,178**		**6,861,534**

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

Six-month period ended June 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/(loss) for the period	–	–	–	–	255,605	–	**255,605**	2,058	**257,663**
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	118,165	**118,165**	8,431	**126,596**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**255,605**	**118,165**	**373,770**	**10,489**	**384,259**
Dividends declared by the parent entity to its shareholders (Note 23 ii)	–	–	–	–	(25,967)	–	**(25,967)**	–	**(25,967)**
Dividends declared by subsidiaries of the Group to the non-controlling interest owners (Note 23 iii)	–	–	–	–	–	–	**–**	(338)	**(338)**
Acquisition of non-controlling interests in subsidiaries (Note 23 v)	–	–	384	–	(14)	–	**370**	(1,509)	**(1,139)**
Increase in non-controlling interests from contributions of assets by the Group (Note 23 vi)	–	–	–	–	(186)	–	**(186)**	186	**–**
Recognition of the change in non-controlling interests in the subsidiary as an equity transaction (Note 23 vii)	–	–	17	–	–	–	**17**	(17)	**–**
At June 30, 2011	**326,417**	**(318,351)**	**376,886**	**15,387**	**1,352,209**	**136,441**	**1,888,989**	**104,733**	**1,993,722**

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

Six-month period ended June 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	–	–	–	–	69,038	–	**69,038**	(1,730)	67,308
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	(52,232)	**(52,232)**	(2,766)	**(54,998)**
Total comprehensive income/(loss) for the period, net of tax	**–**	**–**	**–**	**–**	**69,038**	**(52,232)**	**16,806**	**(4,496)**	**12,310**
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	–	–	479	–	(117)	–	**362**	(797)	**(435)**
At June 30, 2010	305,407	(318,351)	383,909	15,387	1,088,243	(15,551)	1,459,044	70,573	1,529,617

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

Six-month period ended June 30, 2011

(All amounts in thousands of US dollars)

		Six-month period ended June 30,	
	NOTES	2011	2010
Operating activities			
Profit/(loss) before tax		359,978	101,727
Adjustment to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		135,455	107,789
Amortisation of intangible assets	16	34,664	42,482
Loss on disposal of property, plant and equipment	7	1,246	7,269
Impairment of goodwill	16	3,368	–
Foreign exchange gain, net		(32,952)	(13,829)
Finance costs		159,454	199,080
Finance income	9	(15,394)	(8,560)
Gain on changes in fair value of derivative financial instrument	20	(15,277)	(31,811)
Gain on disposal of assets classified as held for sale	10	(19,184)	–
Allowance for net realisable value of inventory		2,272	79
Allowance for doubtful debts		7,121	383
Movement in other provisions		4,726	10,065
Operating cash flow before working capital changes		**625,477**	**414,674**
Working capital changes:			
Increase in inventories		(140,890)	(93,834)
Increase in trade and other receivables		(254,313)	(86,108)
(Increase)/decrease in prepayments		(837)	19,354
Increase/(decrease) in trade and other payables		188,877	(13,439)
Decrease in advances from customers		(4,119)	(53,353)
Cash generated from operations		**414,195**	**187,294**
Income taxes (paid)/reimbursed		(36,534)	9,503
Net cash flows from operating activities		**377,661**	**196,797**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(189,997)	(165,011)
Proceeds from sale of property, plant and equipment		425	217
Prepayments for purchase of ownership interest in associates		(4,004)	–
Issuance of loans		(1,219)	(863)
Proceeds from repayment of loans issued		417	608
Interest received		1,028	1,653
Dividends received		9,810	1,691
Net cash flows used in investing activities		**(183,540)**	**(161,705)**
Financing activities			
Purchase of treasury shares		–	(280,973)
Proceeds from issue of share capital		–	279,427
Proceeds from borrowings		1,906,608	1,042,620
Repayment of borrowings		(1,942,409)	(1,050,506)
Interest paid		(141,937)	(181,966)
Reimbursement of interest paid		–	2,474
Payment of finance lease liabilities		(1,419)	(1,421)
Acquisition of non-controlling interest		(1,139)	(333)
Dividends paid to non-controlling interest shareholders		(74)	(16)
Net cash flows from financing activities		**(180,370)**	**(190,694)**
Net increase/(decrease) in cash and cash equivalents		13,751	(155,602)
Net foreign exchange difference		(1,215)	(3,182)
Cash and cash equivalents at January 1		157,524	243,756
Cash and cash equivalents at June 30		**170,060**	**84,972**

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 six-month period ended June 30, 2011 were authorised for issue in accordance with a resolution of the General Director on August 30, 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 June 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 six-month period ended June 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 six-month period ended June 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:

IAS 24 *Related Party Disclosures* (revised)

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 in 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 six-month periods ended June 30, 2011 and 2010, respectively.

Six-month period ended June 30, 2011	**Russia**	**Americas**	**Europe**	**TOTAL**
Revenue	2,589,430	765,086	192,703	**3,547,219**
Cost of sales	(2,008,189)	(585,288)	(139,494)	**(2,732,971)**
GROSS PROFIT	**581,241**	**179,798**	**53,209**	**814,248**
Selling, general and administrative expenses	(266,913)	(71,128)	(20,468)	**(358,509)**
Other operating income/(expenses), net	(15,069)	1,553	(2,230)	**(15,746)**
OPERATING PROFIT/(LOSS)	**299,259**	**110,223**	**30,511**	**439,993**
ADD BACK:				
Depreciation and amortisation	115,797	49,786	4,536	**170,119**
Loss/(gain) on disposal of property, plant and equipment	1,178	(49)	117	**1,246**
Allowance for net realisable value of inventory	314	1,988	(30)	**2,272**
Allowance for doubtful debts	7,030	(23)	114	**7,121**
Movement in other provisions	6,501	(1,723)	(52)	**4,726**
	130,820	**49,979**	**4,685**	**185,484**
ADJUSTED EBITDA	**430,079**	**160,202**	**35,196**	**625,477**

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

1) Segment Information (continued)

Six-month period ended June 30, 2011	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
ADJUSTED EBITDA	**430,079**	**160,202**	**35,196**	**625,477**
Reversal of adjustments from operating profit to EBITDA	(130,820)	(49,979)	(4,685)	**(185,484)**
OPERATING PROFIT/(LOSS)	**299,259**	**110,223**	**30,511**	**439,993**
Impairment of goodwill	(3,368)	–	–	**(3,368)**
Foreign exchange gain/(loss), net	23,037	(578)	10,493	**32,952**
OPERATING PROFIT/(LOSS) AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	**318,928**	**109,645**	**41,004**	**469,577**
Finance costs				**(159,454)**
Finance income				**15,394**
Gain on changes in fair value of derivative financial instrument				**15,277**
Gain on disposal of assets classified as held for sale				**19,184**
PROFIT/(LOSS) BEFORE TAX				**359,978**

Six-month period ended June 30, 2010	Russia	Americas	Europe	TOTAL
Revenue	1,830,125	620,218	115,837	**2,566,180**
Cost of sales	(1,406,502)	(483,384)	(90,480)	**(1,980,366)**
GROSS PROFIT	**423,623**	**136,834**	**25,357**	**585,814**
Selling, general and administrative expenses	(229,271)	(73,149)	(17,603)	**(320,023)**
Other operating income/(expenses), net	(15,743)	(619)	(2,822)	**(19,184)**
OPERATING PROFIT/(LOSS)	**178,609**	**63,066**	**4,932**	**246,607**
ADD BACK:				
Depreciation and amortisation	87,551	58,695	4,025	**150,271**
Loss/(gain) on disposal of property, plant and equipment	7,320	–	(51)	**7,269**
Allowance for net realisable value of inventory	(577)	623	33	**79**
Allowance for doubtful debts	1,708	(954)	(371)	**383**
Movement in other provisions	10,540	327	(802)	**10,065**
	106,542	**58,691**	**2,834**	**168,067**
ADJUSTED EBITDA	**285,151**	**121,757**	**7,766**	**414,674**

Six-month period ended June 30, 2010	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
ADJUSTED EBITDA	**285,151**	**121,757**	**7,766**	**414,674**
Reversal of adjustments from operating profit to EBITDA	(106,542)	(58,691)	(2,834)	**(168,067)**
OPERATING PROFIT/(LOSS)	**178,609**	**63,066**	**4,932**	**246,607**
Foreign exchange gain/(loss), net	33,385	–	(19,556)	**13,829**
OPERATING PROFIT/(LOSS) AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**211,994**	**63,066**	**(14,624)**	**260,436**
Finance costs				**(199,080)**
Finance income				**8,560**
Gain on changes in fair value of derivative financial instrument				**31,811**
PROFIT/(LOSS) BEFORE TAX				**101,727**

(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 June 30, 2011 and December 31, 2010:

	Russia	Americas	Europe	TOTAL
Segment assets				
At June 30, 2011	5,249,543	1,979,044	373,591	**7,602,178**
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 six-month periods ended June 30, 2011 and 2010, respectively:

	Welded pipes	Seamless pipes	Other operations	TOTAL
Sales to external customers				
Six-month period ended June 30, 2011	1,370,250	2,021,304	155,665	**3,547,219**
Six-month period ended June 30, 2010	1,020,346	1,418,557	127,277	**2,566,180**

2) Cost of Sales

Cost of sales consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	**2010**	**2011**	**2010**
Raw materials and consumables	1,925,878	1,346,789	981,368	694,312
Staff costs including social security	333,311	263,063	171,523	135,787
Energy and utilities	212,671	164,348	96,581	71,966
Depreciation and amortisation	128,264	115,143	66,674	57,191
Repairs and maintenance	68,731	50,804	36,900	26,494
Contracted manufacture	35,439	34,808	15,154	17,375
Freight	30,434	26,626	14,504	12,915
Taxes	25,888	21,519	13,333	11,325
Professional fees and services	10,875	9,028	5,548	5,061
Rent	5,083	4,148	2,503	2,193
Travel	1,208	779	684	436
Communications	495	430	317	219
Insurance	452	431	243	231
Other	1,413	2,899	775	1,502
Total production cost	**2,780,142**	**2,040,815**	**1,406,107**	**1,037,007**
Change in own finished goods and work in progress	(95,633)	(71,903)	13,353	(6,716)
Cost of sales of externally purchased goods	47,064	11,620	34,746	2,492
Obsolete stock, write-offs/(reversal of write-offs)	1,398	(166)	1,372	(918)
Cost of sales	**2,732,971**	**1,980,366**	**1,455,578**	**1,031,865**

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

3) Selling and Distribution Expenses

Selling and distribution expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	**2010**	**2011**	**2010**
Freight	107,001	103,095	57,496	52,090
Depreciation and amortisation	32,800	40,605	16,399	20,305
Staff costs including social security	30,809	26,096	14,824	12,056
Consumables	10,831	7,845	5,497	3,644
Bad debt expense	7,270	1,021	4,797	510
Professional fees and services	7,262	10,951	3,398	5,437
Rent	3,946	3,200	1,917	1,650
Travel	2,092	2,057	1,213	1,210
Utilities and maintenance	1,291	1,065	664	256
Insurance	829	787	399	523
Taxes	656	755	266	364
Communications	634	642	334	327
Other	555	796	–	529
	205,976	**198,915**	**107,204**	**98,901**

4) Advertising and Promotion Expenses

Advertising and promotion expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	**2010**	**2011**	**2010**
Exhibits and catalogues	2,884	1,871	1,629	1,468
Outdoor advertising	712	2,353	712	1,746
Media	389	285	227	151
Other	739	291	597	49
	4,724	**4,800**	**3,165**	**3,414**

5) General and Administrative Expenses

General and administrative expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	**2010**	**2011**	**2010**
Staff costs including social security	80,527	59,504	42,044	28,781
Professional fees and services	26,739	22,105	15,060	10,905
Depreciation and amortisation	6,620	6,232	3,444	3,116
Travel	5,363	4,001	3,162	1,886
Utilities and maintenance	3,909	4,057	1,595	2,180
Taxes	2,982	2,902	1,558	1,319
Transportation	2,977	2,481	1,757	1,303
Communications	2,577	1,797	1,149	695
Rent	2,503	2,907	1,277	1,510
Insurance	2,269	1,875	1,159	956
Consumables	1,902	1,097	1,128	572
Other	1,188	1,090	402	428
	139,556	**110,048**	**73,735**	**53,651**

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

6) Research and Development Expenses

Research and development expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	**2010**	**2011**	**2010**
Staff costs including social security	5,680	4,412	2,851	2,199
Professional fees and services	542	933	393	548
Depreciation and amortisation	513	287	271	142
Consumables	371	141	213	68
Utilities and maintenance	333	205	147	100
Travel	300	93	173	62
Transportation	144	70	78	36
Communications	25	19	14	12
Other	345	100	229	13
	8,253	**6,260**	**4,369**	**3,180**

7) Other Operating Expenses

Other operating expenses consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	**2010**	**2011**	**2010**
Sponsorship and charitable donations	7,392	4,909	3,578	2,717
Social and social infrastructure maintenance expenses	7,220	4,396	3,386	2,608
Loss on disposal of property, plant and equipment	1,246	7,269	1,086	5,907
Other	9,233	6,839	4,144	3,707
	25,091	**23,413**	**12,194**	**14,939**

Other operating expenses include expenses and provisions related to taxes and fines in the amount of 7,586 and 4,709 for the six-month period ended June 30, 2011 and 2010, respectively.

8) Other Operating Income

Other operating income consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	**2010**	**2011**	**2010**
Gain from penalties and fines	4,097	1,223	3,241	809
Gain on sales of current assets	25	197	4	86
Assets received for free	24	461	24	51
Other	5,199	2,348	1,413	843
	9,345	**4,229**	**4,682**	**1,789**

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

9) Finance Income

Finance income consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	2010	2011	2010
Dividends	14,018	6,691	5,723	5,487
Interest income - bank accounts and deposits	1,376	1,869	801	507
	15,394	**8,560**	**6,524**	**5,994**

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

On May 27, 2011, the Group finalised the sale of a 100% ownership interest in TMK HYDROENERGY POWER S.R.L.

As at the date of disposal the carrying amount 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 period ended June 30, 2011.

11) Income Tax

Income tax expense consisted of the following:

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	2010	2011	2010
Current income tax expense	65,814	35,830	41,094	19,098
Current income tax benefit	(87)	–	(87)	–
Adjustments in respect of income tax of previous periods	437	22	43	567
Deferred income tax expense/(benefit) related to origination and reversal of temporary differences	36,151	(1,433)	8,880	(10,309)
Total income tax expense	**102,315**	**34,419**	**49,930**	**9,356**

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

12) 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 (Note 20).

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.

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	2010	**2011**	2010
Net profit attributable to the equity holders of the parent entity	255,605	69,038	152,645	69,034
Effect of convertible bonds, net of tax	(31,328)	(12,347)	(31,067)	(52,395)
Net profit attributable to the equity holders of the parent entity adjusted for the effect of dilution	224,277	56,691	121,578	16,639
Weighted average number of ordinary shares outstanding	866,010,298	855,572,838	866,010,298	845,355,564
Weighted average number of ordinary shares outstanding adjusted for the effect of dilution	937,516,254	894,288,769	937,516,254	916,861,520
Earnings per share attributable to equity holders of the parent entity (in US dollars)				
Basic	0.30	0.08	0.18	0.08
Diluted	0.24	0.06	0.13	0.02

13) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2011	December 31, 2010
Russian rouble	76,456	108,516
US dollar	79,790	39,819
Euro	7,346	4,823
Romanian lei	3,787	4,035
Other currencies	2,681	331
	170,060	**157,524**

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

As at June 30, 2011, the amount of cash and cash equivalents included 1,154,804 thousand Russian roubles (41,132 at the exchange rate as at June 30, 2011) which is available to finance investing activities only.

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

14) Inventories

Inventories consisted of the following:

	June 30, 2011	December 31, 2010
Raw materials and Supplies	615,545	530,971
Finished goods and WIP	828,289	693,681
Gross inventories	**1,443,834**	**1,224,652**
Allowance for net realisable value of inventory	(20,493)	(17,112)
Net inventories	**1,423,341**	**1,207,540**

15) Property, Plant and Equipment

Movement in property, plant and equipment was as follows in the six-month period ended June 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	–	–	–	–	–	137,899	**137,899**
Assets put into operation	18,776	132,866	1,325	5,344	2,382	(160,693)	**–**
Disposals	(2,659)	(8,996)	(450)	(232)	–	(7)	**(12,344)**
Currency translation adjustments	101,291	191,401	5,580	3,539	136	43,820	**345,767**
BALANCE AT JUNE 30, 2011	**1,365,895**	**2,852,191**	**66,772**	**56,236**	**12,429**	**575,125**	**4,928,648**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2011	(181,734)	(834,077)	(25,587)	(26,576)	(2,692)	–	**(1,070,666)**
Depreciation charge	(19,084)	(108,006)	(2,139)	(3,928)	(412)	–	**(133,569)**
Disposals	1,738	6,675	444	230	–	–	**9,087**
Currency translation adjustments	(15,197)	(65,763)	(2,361)	(2,133)	(20)	–	**(85,474)**
BALANCE AT JUNE 30, 2011	**(214,277)**	**(1,001,171)**	**(29,643)**	**(32,407)**	**(3,124)**	–	**(1,280,622)**
NET BOOK VALUE AT JUNE 30, 2011	**1,151,618**	**1,851,020**	**37,129**	**23,829**	**9,305**	**575,125**	**3,648,026**
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)

16) Goodwill and Other Intangible Assets

Movement in intangible assets was as follows in the six-month period ended June 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	2	–	191	–	–	–	709	**902**
Disposals	(2)	–	(884)	–	–	–	(1,815)	**(2,701)**
Currency translation adjustments	78	8,107	1,438	–	–	–	525	**10,148**
BALANCE AT JUNE 30, 2011	**209,656**	**575,788**	**17,717**	**472,300**	**14,100**	**8,500**	**6,684**	**1,304,745**
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	(42)	–	(1,197)	(31,842)	(881)	–	(702)	**(34,664)**
Impairment	–	(3,368)	–	–	–	–	–	**(3,368)**
Disposals	1	–	872	–	–	–	1,363	**2,236**
Currency translation adjustments	(22)	(1,206)	(618)	–	–	–	(182)	**(2,028)**
BALANCE AT JUNE 30, 2011	**(294)**	**(17,902)**	**(12,906)**	**(258,231)**	**(5,380)**	**(8,500)**	**(1,863)**	**(305,076)**
NET BOOK VALUE AT JUNE 30, 2011	**209,362**	**557,886**	**4,811**	**214,069**	**8,720**	**–**	**4,821**	**999,669**
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:

	June 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	6,874	–	6,324	–
Kaztrubprom Plant	5,576	–	8,301	–
Oilfield division	34,353	–	31,648	–
Other cash generating units	38,115	–	35,112	–
	557,886	**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 the test, the Group determined that the carrying value of Kaztrubprom Plant cash generating unit exceeds its recoverable amount. Consequently, the Group recognised impairment of 3,368 in respect of Kaztrubprom Plant cash generating unit's goodwill.

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

16) Goodwill and Other Intangible Assets (continued)

For the purpose of impairment testing of goodwill the Group has determined value in use of Kaztrubprom Plant cash generating 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 Kaztrubprom Plant cash generating 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, %
Kaztrubprom Plant	5	10.81

The calculation of Kaztrubprom Plant cash generating unit's value in use was the most sensitive to the following assumptions:

Discount Rates

Discount rates reflect the current market assessment of the risks specific to cash generating unit. The discount rates have been determined using the CAPM concept and analysis of industry peers. Reasonably possible change in discount rate could lead to an additional impairment of goodwill.

A 10% increase in the discount rate of Kaztrubprom Plant cash generating unit would result in an additional impairment of 2,377.

Volume of Production of OCTG Pipes

The management assumed that sales volumes of OCTG pipes would increase by 45% during the second half of 2011 year in comparison with the first half of 2011 year. This growth will be provided by production capacity of the plant and increase of sales. In 2012 and 2013, it is assumed that sales volumes of OCTG pipes would increase by 4% and 3%, respectively, in comparison with the prior year volumes.

Reasonably possible changes in quantities of OCTG pipes produced and sold could lead to an additional impairment. The most sensitive years for analysis are 2011-2012, as the economic growth rate can be lower than forecasted. If the quantities of the OCTG pipes sold were 10% lower than those assumed in the impairment test during 2011 and 2012, this would lead to the full impairment of goodwill in the amount of 5,576.

Costs and Expenses

The recoverable amount of Kaztrubprom Plant cash generating unit is based on the business plans approved by management. The reasonably possible deviation of costs from these plans could lead to an additional impairment.

If the actual costs of Kaztrubprom Plant cash generating unit were 10% higher than those assumed in the impairment test during 2011, this would lead to the full impairment of goodwill.

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

16) Goodwill and Other Intangible Assets (continued)

Commodity Prices

The recoverable amount of Kaztrubprom Plant cash generating unit is based on the business plans approved by management. The reasonably possible deviation of prices from these plans could lead to an additional impairment.

If the actual prices of Kaztrubprom Plant cash generating unit were 5% lower than those assumed in the impairment test, this would lead to the full impairment of goodwill.

17) Trade and Other Payables

Trade and other payables consisted of the following:

	June 30, 2011	December 31, 2010
Trade payables	746,649	531,888
Accounts payable for property, plant and equipment	39,427	65,410
Payroll liabilities	28,367	29,942
Accrued and withheld taxes on payroll	17,811	14,368
Liabilities for VAT	49,600	27,994
Liabilities for property tax	12,279	10,281
Liabilities under put options of non-controlling interest shareholders in subsidiaries	13,769	14,934
Notes issued to third parties	9,711	7,226
Sales rebate payable	5,109	7,134
Liabilities for other taxes	5,417	4,500
Deferred VAT	32	126
Other payables	17,160	18,930
	945,331	**732,733**

18) Provisions and Accruals

Provisions and accruals consisted of the following:

	June 30, 2011	December 31, 2010
Current:		
Provision for bonuses	16,399	20,710
Accrual for unused annual leaves, current portion	11,274	9,546
Accrual for long-service benefit	7,691	8,468
Current portion of post-employment benefits	2,103	1,850
Provision for tax and other fines	2,004	241
Environmental provision, current portion	1,119	1,338
	40,590	**42,153**
Non-current:		
Accrual for unused annual leaves	28,682	19,379
Environmental provision	4,688	4,717
	33,370	**24,096**

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

19) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	June 30, 2011	December 31, 2010
Current:		
Bank loans	186,042	201,585
Interest payable	36,157	26,473
Current portion of non-current borrowings	131,059	125,104
Current portion of bearer coupon debt securities	186,700	350,759
Unamortised debt issue costs	(2,929)	(3,648)
	537,029	**700,273**
Finance lease liability - current	1,624	1,591
Total short-term loans and borrowings	**538,653**	**701,864**
Non-current:		
Bank loans	2,532,880	2,733,457
Bearer coupon debt securities	1,250,073	897,034
Unamortised debt issue costs	(21,639)	(20,048)
Less: current portion of non-current borrowings	(131,059)	(125,104)
Less: current portion of bearer coupon debt securities	(186,700)	(350,759)
	3,443,555	**3,134,580**
Finance lease liability - non-current	34,347	35,134
Total long-term loans and borrowings	**3,477,902**	**3,169,714**

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

	Interest rates for the period ended	June 30, 2011	Interest rates for the period ended	December 31, 2010
Russian rouble	Fixed 4.6% - 9%	1,879,621	Fixed 4.3% - 10%	1,640,713
US Dollar	Fixed 10%	194,243	Fixed 10%	193,129
	Fixed 5.25%	381,867	Fixed 5.25%	377,910
	Fixed 7.75%	512,541		
	Fixed 7%	618,698	Fixed 2.6% - 8.5%	1,244,629
	Variable:	144,192	Variable:	112,546
	Libor (1m) + 4.15%		Libor (1m) + 1.75% - 5.65%	
	Libor (2m - 5m) + 1.2% - 1.75%		Libor (1w) + 2.39%	
	Libor (7m - 13m) + 1.3%			
Euro	Fixed 5.19%	81,891	Fixed 5.19%	84,420
	Variable:	165,104	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 (9m - 15m) + 1.1% - 1.7%		Euribor (6m) + 0.26% - 1.1%	
			Euribor (8m) + 1.1%	
			Euribor (12m) + 1.2%	
Romanian Lei	Fixed 10.5% - 11%	2,427	Fixed 10.5% - 11%	2,253
Swiss Frank		–	Variable:	5
			Libor (1w) + 2.39%	
		3,980,584		**3,834,853**

19) Interest-Bearing Loans and Borrowings (continued)

Loan Participation Notes

On January 27, 2011, TMK Capital S.A. 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 June 30, 2011, an aggregate of 500,000 of notes remained outstanding.

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 June 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 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 June 30, 2011, the aggregated principle outstanding balance of these loans in Gazprombank was 11,400,490 thousand Russian roubles (406,061 at the exchange rate at June 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 June 30, 2011, the aggregated principle outstanding balance of these loans in Sberbank was 6,900,000 thousand Russian roubles (245,763 at the exchange rate at June 30, 2011).

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 June 30, 2011, the Group had unutilised borrowing facilities in the amount of 871,882 (December 31, 2010: 588,281).

20) Convertible Bonds

On February 11, 2010, TMK Bonds S.A., the Group's special purposes entity, completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of OAO TMK. The bonds are listed on the London Stock Exchange. The bonds have nominal value of 100,000 US dollars each and were issued at 100% of their principal amount. The convertible bonds carry a coupon of 5.25% per annum, payable on a quarterly basis.

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

The Embedded Conversion Option in foreign currency was classified as financial instrument at fair value through profit or loss. The Group used binomial options pricing model for initial and subsequent measurement of fair value of this embedded derivative. For the purposes of this model, the Group assesses implied volatility on the basis of market quotes of the bonds and the implied credit spread. Consequently, the Group assessed that the credit spread comprised 500 bps and 650 bps as at June 30, 2011 and December 31, 2010, respectively. As at June 30, 2011, the fair value of the Embedded Conversion Option was 32,539 (December 31, 2010: 47,816). The change in the fair value of the embedded derivative during the reporting period resulted in a gain of 15,277, which has been recorded as gain on changes in fair value of derivative financial instrument in the income statement for the six-month period ended June 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 June 30, 2011, the carrying value of the host component was 381,867 (December 31, 2010: 377,910).

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

21) 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 six-month period ended June 30, 2011, the Group settled a liability in full amount.

In the six-month period ended June 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 23 ii).

As at June 30, 2011, the dividends payable to TMK Steel Limited, Bravecorp Limited and Tirelli Holdings Limited, amounted to 7,814, 7,260 and 4,704, respectively.

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

21) Related Parties Disclosures (continued)

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 28 persons as at June 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 6,481 for the six-month period ended June 30, 2011 (six-month period ended June 30, 2010: 4,378).
- Provision for performance bonuses which are dependant on operating results for 2011 year, in the amount of 3,399 for the six-month period ended June 30, 2011 (six-month period ended June 30, 2010: nil).

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

In the periods ended June 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 1,252 as at June 30, 2011 (December 31, 2010: 396).

The Group guaranteed debts of key management personnel outstanding as at June 30, 2011 in the amount of 2,760 with maturity in 2011 – 2014 (December 31, 2010: 3,368).

Transactions with Other Related Parties

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

	June 30, 2011	December 31, 2010
Cash and cash equivalents	54,215	47,151
Accounts receivable	5,691	3,305
Prepayments	376	90
Accounts payable	(1,171)	(2,157)
Interest payable	(1,223)	(977)

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

	Six-month period ended June 30,		Three-month period ended June 30,	
	2011	2010	2011	2010
Sales revenue	5,952	1,651	2,159	454
Purchases of goods and services	4,386	3,569	2,301	1,758
Interest income from loans and borrowings	307	363	195	10
Interest expenses from loans and borrowings	160	256	82	128

22) Contingencies and Commitments

Operating Environment of the Group

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

In 2011, the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. The stabilisation measures have led to stronger customer demand, increased production levels and improved liquidity in the banking sector.

Despite some indications of recovery 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 in 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.

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.

22) Contingencies and Commitments (continued)

Taxation (continued)

During 2009 - 2011, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 694,328 thousand Russian roubles (24,730 at the exchange rate as at June 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 (21,249 at the exchange rate as at June 30, 2011). The court proceedings had not been finalised for the claims in the amount of 92,201 thousand Russian roubles (3,284 at the exchange rate as at June 30, 2011). The Group has created tax provision for the part of these claims in the amount of 49,818 thousand Russian roubles (1,774 at the exchange rate as at June 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 June 30, 2011, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 1,855,172 thousand Russian roubles (66,077 at the exchange rate as at June 30, 2011), 37,624 thousand Euros (54,122 at the exchange rate as at June 30, 2011) and 33,746 thousand US dollars for the total amount of 153,945 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 56,588 with respect to such commitments.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 10,925 (December 31, 2010: 8,330).

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. 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.

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding at June 30, 2011 in the amount of 4,049 (December 31, 2010: 4,664).

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

23) Equity

i) Share Capital

	June 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) 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.

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

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

iv) 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 June 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 six-month period ended June 30, 2011, the effective portion of net gains from spot rate changes in the amount of 2,781,938 thousand Russian roubles (95,686 at historical exchange rate), net of income tax of 556,388 thousand Russian roubles (19,137 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

v) Acquisition of Non-controlling Interests in Subsidiaries

In the six-month period ended June 30, 2011 the Company purchased additional 0.25% of OAO "Seversky Pipe Plant" shares, 0.07% of OAO "Sinarsky Pipe Plant" shares, 0.03% of OAO "Taganrog Metallurgical Works" shares. The total cash consideration for the shares amounted to 1,139.

23) Equity (continued)

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

In the six-month period ended June 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 non-controlling interests increased by 186 without changes in the ownership interest of the Group in the subsidiary.

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

In the six-month period ended June 30, 2011, the non-controlling interest's share of profit in OOO "TMK-INOX", net of dividends attributable to non-controlling interest shareholder, amounted to 17. This amount was recognised in additional paid-in capital.

24) Subsequent Events

Acquisition of the Shares of Volgograd River Port

On August 4, 2011, the Group finalised the acquisition of a 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).

Loan Participation Notes

On July 29, 2011, the Group fully repaid 10% loan participation notes in the amount of 186,700 issued by TMK Capital S.A., a Luxemburg special purpose entity, using the proceeds from the loan provided by Gazprombank in the amount of 150,000.

Bank Loans

In August 2011, the Group refinanced 96,706 of the Wells Fargo senior secured credit facility using the proceeds under 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.

Dividends paid

In August 2011, the Group paid dividends declared by the parent entity in the amount of 690,148 thousand Russian roubles (23,532 at the exchange rates as at the payment dates), net of withholding tax of 53,901 thousand Russian roubles (1,846 at the exchange rates as at the payment dates), from which 6,749 thousand Russian roubles (233 at the exchange rates as at the payment dates), net of withholding tax of 1,191 thousand Russian roubles (41 at the exchange rates as at the payment dates), related to treasury shares in possession of the Group.