OAO TMK
Unaudited Interim Condensed Consolidated Financial Statements

Three-month period ended March 31, 2011

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Report on review of interim condensed consolidated financial statements

The Shareholders and Board of Directors
OAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OAO TMK and its subsidiaries ("Group") as at March 31, 2011, comprising the interim consolidated statement of financial position as at March 31, 2011 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it 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

June 3, 2011

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Unaudited Interim Consolidated Income Statement

Three-month period ended March 31, 2011

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31, 2011	2010
Revenue:	1	1,668,570	1,240,436
Sales of goods		*1,633,510*	*1,197,802*
Rendering of services		*35,060*	*42,634*
Cost of sales	2	(1,277,393)	(948,501)
Gross profit		**391,177**	**291,935**
Selling and distribution expenses	3	(98,772)	(100,014)
Advertising and promotion expenses	4	(1,559)	(1,386)
General and administrative expenses	5	(65,821)	(56,397)
Research and development expenses	6	(3,884)	(3,080)
Other operating expenses	7	(12,897)	(8,474)
Other operating income	8	4,663	2,440
Foreign exchange gain, net		32,834	52,507
Finance costs		(81,030)	(109,033)
Finance income	9	8,870	2,566
Loss on changes in fair value of derivative financial instrument	19	(17,060)	(46,577)
Profit/(loss) before tax		**156,521**	**24,487**
Income tax expense	10	(52,385)	(25,063)
Profit/(loss) for the period		**104,136**	**(576)**
Attributable to:			
Equity holders of the parent entity		102,960	4
Non-controlling interests		1,176	(580)
		104,136	**(576)**
Earnings per share attributable to equity holders of the parent entity (in US dollars)			
Basic	11	**0.12**	-
Diluted	11	**0.11**	-

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

Three-month period ended March 31, 2011

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31, 2011	2010
Profit/(loss) for the period		**104,136**	**(576)**
Exchange differences on translation to presentation currency [a]		44,179	7,265
Foreign currency gain on hedged net investment in foreign operation [b]	22 (ii)	81,064	34,126
Income tax [b]	22 (ii)	(16,213)	(6,825)
		64,851	**27,301**
Other comprehensive income for the period, net of tax		**109,030**	**34,566**
Total comprehensive income for the period, net of tax		**213,166**	**33,990**
Attributable to:			
Equity holders of the parent entity		203,825	32,519
Non-controlling interests		9,341	1,471
		213,166	**33,990**

(a) The amount of exchange differences on translation to presentation currency represented other comprehensive income of 36,014 and 5,214 attributable to equity holders of the parent entity for the three-month period ended March 31, 2011 and 2010, respectively. Other comprehensive income attributable to non-controlling interests amounted to 8,165 and 2,051 for the three-month period ended March 31, 2011 and 2010, respectively.

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

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

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Unaudited Interim Consolidated Statement of Financial Position

At March 31, 2011

(All amounts in thousands of US dollars)

	NOTES	March 31, 2011		December 31, 2010	
ASSETS					
Current assets					
Cash and cash equivalents	12, 20	171,765		157,524	
Financial investments		3,952		3,966	
Trade and other receivables		902,120		716,897	
Accounts receivable from related parties	20	7,478		3,395	
Inventories	13	1,344,382		1,207,540	
Prepayments and input VAT		160,094		154,302	
Prepaid income taxes		6,019	**2,595,810**	18,099	**2,261,723**
Assets classified as held for sale		8,886	**2,604,696**	8,003	**2,269,726**
Non-current assets					
Intangible assets	15	458,463		474,791	
Property, plant and equipment	14	3,587,130		3,386,660	
Goodwill	15	560,162		554,353	
Deferred tax asset		100,723		135,307	
Other non-current assets		59,998	**4,766,476**	40,697	**4,591,808**
TOTAL ASSETS			**7,371,172**		**6,861,534**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	16	821,910		732,733	
Advances from customers		158,025		136,885	
Accounts payable to related parties	20	2,442		8,434	
Provisions and accruals	17	32,008		42,153	
Interest-bearing loans and borrowings	18, 19	519,578		701,864	
Derivative financial instrument	19	64,876		47,816	
Dividends payable		456		430	
Income tax payable		7,314	**1,606,609**	3,846	**1,674,161**
Liabilities directly associated with the assets classified as held for sale		215	**1,606,824**	143	**1,674,304**
Non-current liabilities					
Interest-bearing loans and borrowings	18, 19	3,508,924		3,169,714	
Deferred tax liability		314,032		300,484	
Provisions and accruals	17	32,400		24,096	
Post-employment benefits		25,373		24,009	
Other liabilities		33,582	**3,914,311**	32,020	**3,550,323**
Total liabilities			**5,521,135**		**5,224,627**
Equity	22				
Parent shareholders' equity					
Issued capital		326,417		326,417	
Treasury shares		(318,351)		(318,351)	
Additional paid-in capital		362,903		362,898	
Reserve capital		15,387		15,387	
Retained earnings		1,225,590		1,122,771	
Foreign currency translation reserve		119,141	1,731,087	18,276	1,527,398
Non-controlling interests			118,950		109,509
Total equity			**1,850,037**		**1,636,907**
TOTAL EQUITY AND LIABILITIES			**7,371,172**		**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

Three-month period ended March 31, 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)**	**362,898**	**15,387**	**1,122,771**	**18,276**	**1,527,398**	**109,509**	**1,636,907**
Profit/(loss) for the period	–	–	–	–	102,960	–	**102,960**	1,176	**104,136**
Other comprehensive income/(loss), net of tax	–	–	–	–	–	100,865	**100,865**	8,165	**109,030**
Total comprehensive income/(loss), net of tax	**–**	**–**	**–**	**–**	**102,960**	**100,865**	**203,825**	**9,341**	**213,166**
Increase in non-controlling interests from contribution of assets by the Group (Note 22 iv)	–	–	–	–	(141)	–	**(141)**	141	**–**
Acquisition of non-controlling interests (Note 22 iii)	–	–	5	–	–	–	**5**	(41)	**(36)**
At March 31, 2011	**326,417**	**(318,351)**	**362,903**	**15,387**	**1,225,590**	**119,141**	**1,731,087**	**118,950**	**1,850,037**

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

Three-month period ended March 31, 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	–	–	–	–	4	–	4	(580)	**(576)**
Other comprehensive income/(loss), net of tax	–	–	–	–	–	32,515	**32,515**	2,051	**34,566**
Total comprehensive income/(loss), net of tax	–	–	–	–	4	32,515	32,519	1,471	**33,990**
Purchase of treasury shares	–	(2,000)	–	–	–	–	**(2,000)**	–	**(2,000)**
Acquisition of non-controlling interests	–	–	–	–	(20)	–	**(20)**	(39)	**(59)**
At March 31, 2010	**305,407**	**(39,378)**	**104,003**	**15,387**	**1,019,306**	**69,196**	**1,473,921**	**77,306**	**1,551,227**

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

Three-month period ended March 31, 2011

(All amounts in thousands of US dollars)

	NOTES	Three-month period ended March 31, 2011	2010
Operating activities			
Profit/(loss) before tax		156,521	24,487
Adjustment to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		63,469	49,135
Amortisation of intangible assets	15	17,331	21,258
Loss on disposal of property, plant and equipment	7	160	1,362
Foreign exchange gain, net		(32,834)	(52,507)
Finance costs		81,030	109,033
Finance income	9	(8,870)	(2,566)
Loss on changes in fair value of derivative financial instrument	19	17,060	46,577
Allowance for net realisable value of inventory		1,674	772
Allowance for doubtful debts		2,484	131
Movement in other provisions		(4,814)	6,480
Operating cash flow before working capital changes		**293,211**	**204,162**
Working capital changes:			
Increase in inventories		(72,459)	(68,998)
Increase in trade and other receivables		(137,818)	(37,687)
(Increase)/decrease in prepayments		4,426	(12,008)
Increase in trade and other payables		69,269	19,590
Increase/(decrease) in advances from customers		12,571	(57,845)
Cash generated from operations		**169,200**	**47,214**
Income taxes paid		(9,340)	(6,159)
Net cash flows from operating activities		**159,860**	**41,055**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(85,793)	(71,787)
Proceeds from sale of property, plant and equipment		219	46
Issuance of loans		(1,192)	(751)
Proceeds from repayment of loans issued		274	335
Interest received		413	1,296
Dividends received		–	613
Net cash flows used in investing activities		**(86,079)**	**(70,248)**
Financing activities			
Proceeds from borrowings		1,190,313	759,125
Repayment of borrowings		(1,173,672)	(752,981)
Interest paid		(78,459)	(102,246)
Reimbursement of interest paid		–	261
Payment of finance lease liabilities		(715)	(731)
Acquisition of non-controlling interest		(342)	(59)
Dividends paid to non-controlling interest shareholders		(5)	(11)
Net cash flows from financing activities		**(62,880)**	**(96,642)**
Net increase/(decrease) in cash and cash equivalents		10,901	(125,835)
Net foreign exchange difference		3,340	3,183
Cash and cash equivalents at January 1		157,524	243,756
Cash and cash equivalents at March 31		**171,765**	**121,104**

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

Corporate Information

These interim condensed consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the three-month period ended March 31, 2011 were authorised for issue in accordance with a resolution of the General Director on June 2, 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 March 31, 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 three-month period ended March 31, 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 three-month period ended March 31, 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.

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(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 three-month periods ended March 31, 2011 and 2010, respectively.

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

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

1) Segment Information (continued)

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

Three-month period ended March 31, 2010	Russia	Americas	Europe	TOTAL
Revenue	908,480	285,660	46,296	**1,240,436**
Cost of sales	(705,681)	(207,243)	(35,577)	**(948,501)**
GROSS PROFIT	**202,799**	**78,417**	**10,719**	**291,935**
Selling, general and administrative expenses	(115,176)	(37,250)	(8,451)	**(160,877)**
Other operating income/(expenses), net	(5,135)	218	(1,117)	**(6,034)**
OPERATING PROFIT/(LOSS)	**82,488**	**41,385**	**1,151**	**125,024**
ADD BACK:				
Depreciation and amortisation	42,053	26,428	1,912	**70,393**
Loss/(gain) on disposal of property, plant and equipment	1,500	–	(138)	**1,362**
Allowance for net realisable value of inventory	686	611	(525)	**772**
Allowance for doubtful debts	453	(180)	(142)	**131**
Movement in other provisions	5,646	1,395	(561)	**6,480**
	50,338	**28,254**	**546**	**79,138**
ADJUSTED EBITDA	**132,826**	**69,639**	**1,697**	**204,162**

Three-month period ended March 31, 2010	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
ADJUSTED EBITDA	**132,826**	**69,639**	**1,697**	**204,162**
Reversal of adjustments from operating profit to EBITDA	(50,338)	(28,254)	(546)	**(79,138)**
OPERATING PROFIT/(LOSS)	**82,488**	**41,385**	**1,151**	**125,024**
Foreign exchange gain/(loss), net	53,561	–	(1,054)	**52,507**
OPERATING PROFIT/(LOSS) AFTER FOREIGN EXCHANGE GAIN/(LOSS)	**136,049**	**41,385**	**97**	**177,531**
Finance costs				**(109,033)**
Finance income				**2,566**
Loss on changes in fair value of derivative financial instrument				**(46,577)**
PROFIT/(LOSS) BEFORE TAX				**24,487**

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

1) Segment Information (continued)

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

	Russia	Americas	Europe	TOTAL
Segment assets				
At March 31, 2011	4,997,000	1,934,918	439,254	**7,371,172**
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 three-month periods ended March 31, 2011 and 2010, respectively:

	Welded pipes	Seamless pipes	Other operations	TOTAL
Sales to external customers				
Three-month period ended March 31, 2011	666,395	927,770	74,405	**1,668,570**
Three-month period ended March 31, 2010	480,653	705,293	54,490	**1,240,436**

2) Cost of Sales

Cost of sales for the three-month period ended March 31 was as follows:

	2011	2010
Raw materials and consumables	944,510	652,477
Staff costs including social security	161,788	127,276
Energy and utilities	116,090	92,382
Depreciation and amortisation	61,590	57,952
Repairs and maintenance	31,831	24,310
Contracted manufacture	20,285	17,433
Freight	15,930	13,711
Taxes	12,555	10,194
Professional fees and services	5,327	3,967
Rent	2,580	1,955
Travel	524	343
Insurance	209	200
Communications	178	211
Other	638	1,397
Total production cost	**1,374,035**	**1,003,808**
Change in own finished goods and work in progress	(108,986)	(65,187)
Cost of sales of externally purchased goods	12,318	9,128
Obsolete stock, write-offs	26	752
Cost of sales	**1,277,393**	**948,501**

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

3) Selling and Distribution Expenses

Selling and distribution expenses for the three-month period ended March 31 were as follows:

	2011	2010
Freight	49,505	51,005
Depreciation and amortisation	16,401	20,300
Staff costs including social security	15,985	14,040
Consumables	5,334	4,201
Professional fees and services	3,864	5,514
Bad debt expense	2,434	511
Rent	2,029	1,550
Travel	879	847
Utilities and maintenance	627	809
Insurance	430	264
Taxes	390	391
Communications	300	315
Other	594	267
	98,772	**100,014**

4) Advertising and Promotion Expenses

Advertising and promotion expenses for the three-month period ended March 31 were as follows:

	2011	2010
Exhibits and catalogues	1,255	403
Media	162	134
Outdoor advertising	–	607
Other	142	242
	1,559	**1,386**

5) General and Administrative Expenses

General and administrative expenses for the three-month period ended March 31 were as follows:

	2011	2010
Staff costs including social security	38,483	30,723
Professional fees and services	11,679	11,200
Depreciation and amortisation	3,176	3,116
Utilities and maintenance	2,314	1,877
Travel	2,201	2,115
Communications	1,428	1,102
Taxes	1,424	1,583
Rent	1,226	1,397
Transportation	1,220	1,178
Insurance	1,110	919
Consumables	774	525
Other	786	662
	65,821	**56,397**

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

6) Research and Development Expenses

Research and development expenses for the three-month period ended March 31 were as follows:

	2011	2010
Staff costs including social security	2,829	2,213
Depreciation and amortisation	242	145
Utilities and maintenance	186	105
Consumables	158	73
Professional fees and services	149	268
Travel	127	31
Transportation	66	34
Communications	11	7
Other	116	204
	3,884	**3,080**

7) Other Operating Expenses

Other operating expenses for the three-month period ended March 31 were as follows:

	2011	2010
Social and social infrastructure maintenance expenses	3,834	1,788
Sponsorship and charitable donations	3,814	2,192
Loss on disposal of property, plant and equipment	160	1,362
Other	5,089	3,132
	12,897	**8,474**

Other operating expenses include expenses and provisions related to taxes and fines in the amount of 4,076 and 1,981 for the three-month period ended March 31, 2011 and 2010, respectively.

8) Other Operating Income

Other operating income for the three-month period ended March 31 was as follows:

	2011	2010
Gain from penalties and fines	856	414
Gain on sales of current assets	21	789
Other	3,786	1,237
	4,663	**2,440**

9) Finance Income

Finance income for the three-month period ended March 31 was as follows:

	2011	2010
Dividends	8,295	1,204
Interest income - bank accounts and deposits	575	1,362
	8,870	**2,566**

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

10) Income Tax

Income tax expense for the three-month period ended March 31 was as follows:

	2011	2010
Current income tax expense	24,720	16,732
Adjustments in respect of income tax of previous periods	394	(545)
Deferred income tax expense related to origination and reversal of temporary differences	27,271	8,876
Total income tax expense	**52,385**	**25,063**

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.

Diluted earnings per share amounts 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 ended March 31, 2011, 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 19).

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 at the beginning of the reporting period.

	Three-month period ended March 31,	
	2011	**2010**
Net profit attributable to the equity holders of the parent entity	102,960	4
Effect of convertible bonds, net of tax	(261)	–
Net profit attributable to the equity holders of the parent entity adjusted for the effect of dilution	102,699	4
Weighted average number of ordinary shares outstanding	866,010,298	865,903,636
Weighted average number of ordinary shares outstanding adjusted for the effect of dilution	937,516,254	865,903,636
Earnings per share attributable to equity holders of the parent entity (in US dollars)		
Basic	0.12	–
Diluted	0.11	–

In the period ended March 31, 2010, the convertible bonds were antidilutive as the interest expense and other gains and losses for the period ended March 31, 2010, net of tax, relating to convertible bonds divided by the number of ordinary shares obtainable on the conversion of the convertible bonds exceeded basic earnings per share.

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

12) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	March 31, 2011	December 31, 2010
Russian rouble	123,541	108,516
US dollar	41,080	39,819
Euro	4,859	4,823
Romanian lei	1,665	4,035
Other currencies	620	331
	171,765	**157,524**

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

As at March 31, 2011, the amount of cash and cash equivalents included 1,402,607 thousand Russian roubles (49,337 at the exchange rate as at March 31, 2011) which is available to finance investing activities only.

13) Inventories

Inventories consisted of the following:

	March 31, 2011	December 31, 2010
Raw materials and Supplies	527,829	530,971
Finished goods and WIP	836,307	693,681
Gross inventories	**1,364,136**	**1,224,652**
Allowance for net realisable value of inventory	(19,754)	(17,112)
Net inventories	**1,344,382**	**1,207,540**

14) Property, Plant and Equipment

Movement in property, plant and equipment was as follows in the three-month period ended March 31, 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	–	–	–	–	–	42,925	**42,925**
Assets put into operation	12,943	49,338	483	777	473	(64,014)	**–**
Disposals	(171)	(2,908)	(306)	(569)	–	(4)	**(3,958)**
Currency translation adjustments	87,427	164,673	5,057	2,925	115	37,151	**297,348**
BALANCE AT MARCH 31, 2011	**1,348,686**	**2,748,023**	**65,551**	**50,718**	**10,499**	**570,164**	**4,793,641**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2011	(181,734)	(834,077)	(25,587)	(26,576)	(2,692)	–	**(1,070,666)**
Depreciation charge	(9,297)	(51,748)	(1,040)	(1,816)	(204)	–	**(64,105)**
Disposals	54	2,228	301	415	–	–	**2,998**
Currency translation adjustments	(13,196)	(57,607)	(2,123)	(1,795)	(17)	–	**(74,738)**
BALANCE AT MARCH 31, 2011	**(204,173)**	**(941,204)**	**(28,449)**	**(29,772)**	**(2,913)**	**–**	**(1,206,511)**
NET BOOK VALUE AT MARCH 31, 2011	**1,144,513**	**1,806,819**	**37,102**	**20,946**	**7,586**	**570,164**	**3,587,130**
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)

15) Goodwill and Other Intangible Assets

Movement in intangible assets was as follows in the three-month period ended March 31, 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	1	–	33	–	–	–	321	**355**
Disposals	(2)	–	(844)	–	–	–	(1,573)	**(2,419)**
Currency translation adjustments	69	6,769	1,196	–	–	–	420	**8,454**
BALANCE AT MARCH 31, 2011	**209,646**	**574,450**	**17,357**	**472,300**	**14,100**	**8,500**	**6,433**	**1,302,786**
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	(21)	–	(622)	(15,921)	(441)	–	(326)	**(17,331)**
Disposals	–	–	840	–	–	–	1,131	**1,971**
Currency translation adjustments	(20)	(960)	(448)	–	–	–	(121)	**(1,549)**
BALANCE AT MARCH 31, 2011	**(272)**	**(14,288)**	**(12,193)**	**(242,310)**	**(4,940)**	**(8,500)**	**(1,658)**	**(284,161)**
NET BOOK VALUE AT MARCH 31, 2011	**209,374**	**560,162**	**5,164**	**229,990**	**9,160**	**–**	**4,775**	**1,018,625**
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:

	March 31, 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	6,727	–	6,324	–
Kaztrubprom Plant	8,898	–	8,301	–
Oilfield division	33,927	–	31,648	–
Other cash generating units	37,642	–	35,112	–
	560,162	**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 March 31, 2011 there were no indicators of impairment of cash generating units.

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

16) Trade and Other Payables

Trade and other payables consisted of the following:

	March 31, 2011	December 31, 2010
Trade payables	616,064	531,888
Accounts payable for property, plant and equipment	41,129	65,410
Payroll liabilities	31,906	29,942
Accrued and withheld taxes on payroll	18,448	14,368
Liabilities for VAT	48,735	27,994
Liabilities for property tax	16,486	10,281
Liabilities under put options of non-controlling interest shareholders in subsidiaries	14,918	14,934
Notes issued to third parties	8,995	7,226
Sales rebate payable	3,500	7,134
Liabilities for other taxes	4,416	4,500
Deferred VAT	35	126
Other payables	17,278	18,930
	821,910	**732,733**

17) Provisions and Accruals

Provisions and accruals consisted of the following:

	March 31, 2011	December 31, 2010
Current:		
Accrual for unused annual leaves, current portion	10,226	9,546
Provision for bonuses	10,786	20,710
Accrual for long-service benefit	5,597	8,468
Current portion of post-employment benefits	1,969	1,850
Environmental provision, current portion	1,292	1,338
Provision for tax and other fines	2,138	241
	32,008	**42,153**
Non-current:		
Accrual for unused annual leaves	27,999	19,379
Environmental provision	4,401	4,717
	32,400	**24,096**

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

18) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	March 31, 2011	December 31, 2010
Current:		
Bank loans	163,741	201,585
Interest payable	25,047	26,473
Current portion of non-current borrowings	145,728	125,104
Current portion of bearer coupon debt securities	186,700	350,759
Unamortised debt issue costs	(3,318)	(3,648)
	517,898	**700,273**
Finance lease liability - current	1,680	1,591
Total short-term loans and borrowings	**519,578**	**701,864**
Non-current:		
Bank loans	2,584,380	2,733,457
Bearer coupon debt securities	1,246,308	897,034
Unamortised debt issue costs	(24,026)	(20,048)
Less: current portion of non-current borrowings	(145,728)	(125,104)
Less: current portion of bearer coupon debt securities	(186,700)	(350,759)
	3,474,234	**3,134,580**
Finance lease liability - non-current	34,690	35,134
Total long-term loans and borrowings	**3,508,924**	**3,169,714**

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

	Interest rates for the period ended	March 31, 2011	Interest rates for the period ended	December 31, 2010
Russian rouble	Fixed 4.3% - 10%	1,874,649	Fixed 4.3% - 10%	1,640,713
US Dollar	Fixed 10%	188,867	Fixed 10%	193,129
	Fixed 5.25%	379,869	Fixed 5.25%	377,910
	Fixed 7.75%	502,675		
	Fixed 7% - 8%	647,032	Fixed 2.6% - 8.5%	1,244,629
	Cost of funds + 2% (*)	1,990		
	Variable:	128,791	Variable:	112,546
	Libor (1m) + 4.5%		Libor (1m) + 1.75% - 5.65%	
	Libor (3m) + 1.75%		Libor (1w) + 2.39%	
	Libor (4m - 12m) + 1.3%			
Euro	Fixed 1.58% - 5.75%	80,729	Fixed 5.19%	84,420
	Cost of funds + 2% (*)	1,166		
	Variable:	185,082	Variable:	179,248
	Euribor (1m) + 1.5% - 4.05%		Euribor (1m) + 1.6%	
	Euribor (3m) + 1.15% - 4%		Euribor (3m) + 2.7% - 4%	
	Euribor (6m) + 0.26% - 0.3%		Euribor (5m) + 1.1%	
	Euribor (8m - 11m) + 1.1%		Euribor (6m) + 0.26% - 1.1%	
	Euribor (12m) + 1.1% - 1.7%		Euribor (8m) + 1.1%	
			Euribor (12m) + 1.2%	
Romanian Lei	Fixed 10.5% - 11%	1,282	Fixed 10.5% - 11%	2,253
Swiss Frank		–	Variable:	5
			Libor (1w) + 2.39%	
		3,992,132		**3,834,853**

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

18) 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 March 31, 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 March 31, 2011, the principle outstanding balance of the loan was 607,542.

In February 2011, the Group entered into new credit line agreements with Gazprombank for the amount of 12,000,000 thousand Russian roubles with a maturity in 2014. As at March 31, 2011, the aggregated principle outstanding balance of the loans was 12,000,000 thousand Russian roubles (422,104 at the exchange rate at March 31, 2011).

In February 2011, the Group repaid 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) and a loan from VTB in the amount of 94,000 using the proceeds from the loan provided by Gazprombank.

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 March 31, 2011, the Group had unutilised borrowing facilities in the amount of 696,803 (December 31, 2010: 588,281).

19) 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").

19) Convertible Bonds (continued)

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 475 bps and 650 bps as at March 31, 2011 and December 31, 2010, respectively. As at March 31, 2011, the fair value of the Embedded Conversion Option was 64,876 (December 31, 2010: 47,816). The change in the fair value of the embedded derivative during the reporting period resulted in a loss of 17,060, which has been recorded as loss on changes in fair value of derivative financial instrument in the income statement for the period ended March 31, 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 March 31, 2011, the carrying value of the host component was 379,869 (December 31, 2010: 377,910).

There were no conversions of the bonds during the period ended March 31, 2011.

20) Related Parties Disclosures

Transactions with the Entity 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 TMK Steel). During the three-month period ended March 31, 2011 the Group settled a liability in full amount.

Compensation to Key Management Personnel of the Group

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totaling 29 persons as at March 31, 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 performance bonuses which are dependant on operating results, in the amount of 3,828 for the three-month period ended March 31, 2011 (three-month period ended March 31, 2010: 3,479).

The amount disclosed above is recognised as general and administrative expenses in the income statement during the reporting period.

In the periods ended March 31, 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.

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

20) Related Parties Disclosures (continued)

Compensation to Key Management Personnel of the Group (continued)

The Group guaranteed debts of key management personnel outstanding as at March 31, 2011 in the amount of 2,750 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 March 31, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Cash and cash equivalents	31,927	47,151
Accounts receivable	7,027	3,305
Prepayments	451	90
Accounts payable	(1,315)	(2,157)
Interest payable	(1,127)	(977)

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

	2011	2010
Sales revenue	3,793	1,197
Purchases of goods and services	2,085	1,811
Interest income from loans and borrowings	112	353
Interest expenses from loans and borrowings	78	128

21) 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.

The US economy is recovering moderately. Recent growth in consumer spending reflects improvements in sentiment, in the stock market, and in banks’ willingness to lend, easing many of the adverse shocks received during the recession.

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.

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.

21) Contingencies and Commitments (continued)

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavorable outcome.

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

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management’s best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities.

During 2009 - 2011, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 690,574 thousand Russian roubles (24,291 at the exchange rate as at March 31, 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 548,289 thousand Russian roubles (19,286 at the exchange rate as at March 31, 2011). The court proceedings had not been finalised for the remaining claims in the amount of 136,742 thousand Russian roubles (4,810 at the exchange rate as at March 31, 2011). The Group has created tax provision for the part of these claims in the amount of 49,818 thousand Russian roubles (1,752 at the exchange rate as at March 31, 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 March 31, 2011, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 1,339,577 thousand Russian roubles (47,120 at the exchange rate as at March 31, 2011), 43,447 thousand Euros (61,165 at the exchange rate as at March 31, 2011), 214 thousand Romanian lei (74 at the exchange rate as at March 31, 2011) and 19,081 thousand US dollars for the total amount of 127,440 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 48,793 with respect to such commitments.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 9,115 (December 31, 2010: 8,330).

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

21) Contingencies and Commitments (continued)

Insurance Policies

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

Legal Claims

During the period, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. 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 March 31, 2011 in the amount of 3,964 (December 31, 2010: 4,664).

22) Equity

i) Share Capital

	March 31, 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) Hedges of Net Investment in Foreign Operations

At the date of acquisition of controlling interests in NS Group, Inc. and IPSCO Tubulars, Inc. the Group hedged its net investment in these operations against foreign currency risk using borrowings in US dollars made by Russian companies of the Group. As at March 31, 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 three-month period ended March 31, 2011, the effective portion of net gains from spot rate changes in the amount of 2,372,717 thousand Russian roubles (81,064 at historical exchange rate), net of income tax of 474,543 thousand Russian roubles (16,213 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

22) Equity (continued)

iii) Acquisition of Non-controlling Interests in Subsidiaries

In the three-month period ended March 31, 2011, the Company purchased additional 0.01% of the shares of OAO "Sinarsky Pipe Plant". The total cash consideration for the shares amounted to 36.

iv) Increase in non-controlling interests from contribution of assets by the Group

In the three-month period ended March 31, 2011, the Group made additional contribution of assets to the capital of OAO "Sinarskaya heat and power plant". As a result of the transaction non-controlling interests increased by 141 without changes in the ownership interest of the Group in the subsidiary.

23) Subsequent Events

On May 19, 2011, the Board of Directors proposed final dividends in respect of 2010 year in the amount of 796,948 thousand Russian roubles (28,415 at the exchange rate at the date of proposal) or 0.85 Russian roubles per share (0.03 US dollars per share). Dividends are to be approved by the company's annual shareholder meeting on June 28, 2011.

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