

OAO TMK

**Unaudited Interim Condensed
Consolidated Financial Statements**

Six-month period ended June 30, 2006

OAO TMK

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Six-month period ended June 30, 2006

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Report on Review of Interim Condensed Consolidated Financial Statements

The Shareholders and Board of Directors
OAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of OAO TMK and its subsidiaries (the "Group") as of June 30, 2006, and the interim condensed consolidated statements of income, changes in equity and cash flows for the six-month periods ended June 30, 2006 and 2005 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 reviews.

Scope of Review

We conducted our reviews 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 information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

We have previously audited the consolidated financial statements of the Group as of December 31, 2005 and 2004 and for the years then ended. Our auditors' report dated August 30, 2006 on those consolidated financial statements was qualified for not observing certain physical inventories with a carrying value of 1,192,776 thousand roubles as of December 31, 2004. Since inventories enter into the determination of the results of operations, we were unable to determine whether adjustments to the results of operations might be necessary for the six-month period ended June 30, 2005.

Qualified Conclusion

Except for the effect on the results of operations for the six-month period ended June 30, 2005 of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter referred to in the preceding paragraph, based on our reviews, 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

September 20, 2006

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Unaudited Interim Condensed Consolidated Income Statement

(All amounts in thousands of Russian Roubles)

	NOTES	Six-month periods ended June 30,	
		2006	2005
Net sales	1	43,632,851	40,202,489
- Goods		43,291,156	39,689,347
- Services		341,695	513,142
Cost of sales	2	(29,806,327)	(30,366,447)
Gross profit		13,826,524	9,836,042
Selling expenses	3	(2,375,846)	(1,938,497)
Advertising and promotion expenses	4	(62,375)	(36,325)
General and administrative expenses	5	(1,849,365)	(1,659,554)
Research and development expenses	6	(88,766)	(87,993)
Other operating expenses	7	(331,677)	(300,847)
Other operating income	8	1,845	35,515
Foreign exchange gain/(loss), net		127,410	(288,184)
Finance costs	9	(845,908)	(1,168,757)
Finance income		32,107	44,413
Profit before tax		8,433,949	4,435,813
Income tax expense	11	(2,093,845)	(1,125,517)
Net profit		6,340,104	3,310,296
Attributable to:			
Equity holders of the parent entity		6,057,940	3,194,917
Minority interests		282,164	115,379
		6,340,104	3,310,296
Earnings per share attributable to equity holders of the parent entity - basic and diluted (in Russian Roubles)	12	6.94	3.66

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

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Unaudited Interim Condensed Consolidated Balance Sheet

(All amounts in thousands of Russian Roubles)

	NOTES	June 30, 2006	December 31, 2005	
ASSETS		<i>(Unaudited)</i>	<i>(Audited)</i>	
Current assets				
Cash and cash equivalents	13	1,257,749	1,377,111	
Short-term investments		81,673	47,749	
Accounts receivable		6,763,346	3,597,702	
Accounts receivable from related parties	17	220,662	817,627	
Inventories		12,394,002	13,209,206	
Prepayments and input VAT		4,410,942	4,184,870	
Prepayments to related parties	17	3,318	524	23,234,789
Non-current assets				
Investments and other long-term receivables		1,944,027	924,112	
Long-term receivables from related parties	17	155,745	244,255	
Property, plant and equipment, net	14	46,447,682	44,546,140	
Investment property	14	78,321	57,666	
Goodwill	15	1,236,098	1,070,119	
Deferred income taxes		224,460	156,354	
Intangible assets	15	403,963	369,417	47,368,063
TOTAL ASSETS		75,621,988	70,602,852	
LIABILITIES AND EQUITY				
Current liabilities				
Accounts payable and advances from customers		6,002,772	5,664,937	
Accounts payable to related parties	17	23,531	13,750	
Accrued liabilities		1,788,636	3,128,373	
Finance lease liabilities, current portion		2,902	37,665	
Loans and borrowings	16	11,311,546	12,248,286	
Loans and borrowings from related parties	17	602,189	903,607	
Dividends		510,819	86,694	22,083,312
Non-current liabilities				
Loans and borrowings	16	6,706,987	4,746,928	
Finance lease liabilities, net of current portion		4,259	3,611	
Deferred income taxes		6,810,661	6,984,026	
Post-employment benefit		535,695	518,352	
Other liabilities		237,628	211,319	12,464,236
Total liabilities		34,537,625	34,547,548	
Equity				
Parent shareholders' equity				
Issued capital	19	8,730,013	8,730,013	
Accumulated profits		24,030,634	19,328,977	
Reserve capital	19	436,502	436,502	
Additional paid-in capital	19	5,105,813	5,105,813	
Foreign currency translation reserve		639,636	435,241	34,036,546
Minority interests		2,141,765	2,018,758	
Total equity		41,084,363	36,055,304	
TOTAL LIABILITIES AND EQUITY		75,621,988	70,602,852	

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

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Unaudited Interim Condensed Consolidated Statement of Changes in Equity for the six-month period ended June 30, 2005

(All amounts in thousands of Russian Roubles)

	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Foreign currency translation reserve	Parent shareholders' equity	Minority interests	TOTAL
At January 1, 2005	8,730,013	5,065,432	68,462	13,706,362	490,688	28,060,957	2,056,288	30,117,245
Effect of exchange rate changes	-	-	-	-	84,398	84,398	6,753	91,151
Total income and expense for the period recognised directly in equity	-	-	-	-	84,398	84,398	6,753	91,151
Net profit	-	-	-	3,194,917	-	3,194,917	115,379	3,310,296
Total income and expense for the period	-	-	-	3,194,917	84,398	3,279,315	122,132	3,401,447
Dividends (Note 19, i)	-	-	-	(73,332)	-	(73,332)	-	(73,332)
Other distributions to owners (Note 19, ii)	-	-	-	(3,428)	-	(3,428)	-	(3,428)
Dividends by subsidiaries of the Group to the former owner of the subsidiary (Note 19, ii)	-	-	-	(212,463)	-	(212,463)	-	(212,463)
Purchase of minority interests (Note 19, iii)	-	-	-	(39,694)	-	(39,694)	(132,118)	(171,812)
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 19, iv)	-	-	-	-	-	-	(33,712)	(33,712)
At June 30, 2005	8,730,013	5,065,432	68,462	16,572,362	575,086	31,011,355	2,012,590	33,023,945

	Issued capital	Additional paid-in capital	Reserve capital	Accumulated profits	Foreign currency translation reserve	Parent shareholders' equity	Minority interests	TOTAL
At January 1, 2006	8,730,013	5,105,813	436,502	19,328,977	435,241	34,036,546	2,018,758	36,055,304
Effect of exchange rate changes	-	-	-	-	204,395	204,395	15,799	220,194
Total income and expense for the period recognised directly in equity	-	-	-	-	204,395	204,395	15,799	220,194
Net profit	-	-	-	6,057,940	-	6,057,940	282,164	6,340,104
Total income and expense for the period	-	-	-	6,057,940	204,395	6,262,335	297,963	6,560,298
Acquisition of Eurosinara S.r.l (Note 10)	-	-	-	(131,243)	-	(131,243)	-	(131,243)
Dividends (Note 19, i)	-	-	-	(473,357)	-	(473,357)	-	(473,357)
Other distributions to owners (Note 19, ii)	-	-	-	(560,558)	-	(560,558)	-	(560,558)
Purchase of minority interests (Note 19, iii)	-	-	-	(191,125)	-	(191,125)	(161,785)	(352,910)
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 19, iv)	-	-	-	-	-	-	(13,171)	(13,171)
At June 30, 2006	8,730,013	5,105,813	436,502	24,030,634	639,636	38,942,598	2,141,765	41,084,363

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

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Unaudited Interim Condensed Consolidated Cash Flow Statement

(All amounts in thousands of Russian Roubles)

	NOTES	Six-month periods ended June 30,	
		2006	2005
Cash flows from operating activities			
Profit before income tax		8,433,949	4,435,813
Adjustments for:			
Depreciation		1,548,640	1,374,972
Amortisation		31,875	9,092
Loss on disposal of property, plant and equipment	7	10,325	62,690
Gain on sale of investments		-	(1,886)
Foreign exchange (gain)/ loss		(127,410)	288,184
Interest expense	9	845,908	1,168,757
Interest income		(32,107)	(44,413)
Capitalization of previously expensed items		(46,947)	-
Inventory adjustments	2	18,581	142,431
Bad debt expense	3	(4,403)	21,799
Operating cash flow before working capital changes		10,678,411	7,457,439
Decrease (increase) in inventories		949,276	(1,087,949)
(Increase) decrease in accounts receivable		(2,266,549)	978,789
Increase in prepayments		(103,073)	(552,443)
Decrease in accounts payable		(470,583)	(44)
Decrease in accrued liabilities		(1,227,002)	(102,458)
Decrease in advances from customers		(49,554)	(2,523,816)
Cash generated from operations		7,510,926	4,169,518
Income taxes paid		(2,551,065)	(1,130,698)
Net cash from operating activities		4,959,861	3,038,820
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,189,805)	(1,105,860)
Proceeds from sale of property, plant and equipment		26,541	19,922
Proceeds from sale of investments		-	63,235
Proceeds from repayment of loans		-	13,752
Payments for increases in ownership interests in subsidiaries		(352,910)	(122,812)
Acquisition of Eurosinara, net of cash acquired	10	(18,016)	-
Loans granted		(2,587)	(1,929)
Interest received		17,138	31,381
Net cash used in investing activities		(4,519,639)	(1,102,311)
Cash flows from financing activities			
Proceeds from borrowings		11,798,930	20,458,112
Repayment of borrowings		(11,014,950)	(20,930,168)
Payment under finance lease liabilities		(26,200)	(70,587)
Distribution to owners	19 ii	-	(215,891)
Payments to entities under common control for the transfer of ownership interest in subsidiaries	19 ii	(560,558)	-
Interest paid		(691,329)	(1,174,053)
Dividends paid	19 i	-	(73,332)
Dividends paid by subsidiaries of the Group		(63,139)	-
Net cash used in financing activities		(557,246)	(2,005,919)
Effect of foreign exchange rate changes on cash and cash equivalents		(2,338)	13,197
Net decrease in cash and cash equivalents		(119,362)	(56,213)
Cash and cash equivalents at the beginning of the period		1,377,111	374,132
Cash and cash equivalents at the end of the period		1,257,749	317,919

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

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 2006

(All amounts in thousands of Russian Roubles, unless specified otherwise)

- **Corporate Information**

The interim condensed consolidated financial statements of OAO “TMK” and its subsidiaries (the “Group”) for the six-month period ended June 30, 2006 were authorized for issue in accordance with a resolution of the General Director on September 20, 2006.

The parent company of the Group OAO “TMK” (the “Company”) is registered in the Russian Federation. As of June 30, 2006, the Company’s shareholders were TMK Steel Limited and Dalecone Limited, owing 67% and 33%, respectively, in the share capital. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

The Company was incorporated as a closed joint stock company (ZAO) on April 17, 2001. The Company was re-registered as an open joint stock company (OAO) on June 16, 2005. The registered office of the Company is Aleksandra Nevskogo street 19/25 bldg.1, Moscow, the Russian Federation.

As the Group was formed in February 2004 through a reorganization of entities under common control, these consolidated financial statements have been prepared using the pooling of interests method and, as such, the financial statements have been presented as if the transfers of the Group interests in its subsidiaries had occurred from the date of the earliest period presented.

In 2005 and 2006, there were additional transactions with an entity under common control with the Group as described below.

In December 2004, the Group signed an agreement on the purchase of 100% ownership interest in Sinara Trading AG, an entity registered in Switzerland. Title transferred to the Group and control over Sinara Trading was obtained by the Group on May 25, 2005. Sinara Trading AG is the Group’s distributor of pipe products in countries outside of Russia. This business combination has been accounted for using the pooling of interests method.

On June 10, 2005, the Group signed an agreement on the purchase of 100% ownership interest in Sinara Handel GmbH, an entity registered in Germany. Sinara Handel GmbH is the Group’s distributor of pipe products in countries outside of Russia and the Group’s supplier of certain types of raw materials and equipment. Sinara Handel GmbH owns controlling interests in a pipe plant and a metallurgical plant in Romania. Title transferred to the Group and control over Sinara Handel GmbH was obtained by the Group on March 1, 2006. The Group applied the pooling of interests method with respect to this acquisition and presented its interim condensed consolidated financial statements as if the transfer of controlling interest in Sinara Handel GmbH had occurred from the beginning of the earliest period presented.

As a result of that business combination with an entity under common control with the Group, the Group has re-presented its financial position as of December 31, 2005.

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

• Basis of Presentation of Financial Statements

The interim condensed consolidated financial statements for the six-month period ended June 30, 2006 have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting. They do not include all the information and disclosures required by IFRS in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at December 31, 2005. Operating results for the six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

Group companies maintain their accounting records in Russian roubles, Kazakhstani tenge, euros, Romanian lei or Swiss francs and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the country in which the particular subsidiary is resident. These interim condensed consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in compliance with IAS 34. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation of unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) use of fair values and (6) business combinations.

The interim condensed consolidated financial statements have been prepared under the historical cost convention except as disclosed in the Group’s annual consolidated financial statements as at December 31, 2005.

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 2005, except for the effect of adoption of new International Financial Reporting Standards (“IFRS”) and revision of existing IAS, none of which had a significant impact on the interim condensed consolidated financial statements for the six-month period ended June 30, 2006:

- IAS 19 (amended 2005) “Employee benefits”;
- IAS 21 (amended) “The Effects of Changes in Foreign Exchange Rates”;
- IAS 39 (amended 2005) “Financial Instruments: Recognition and Measurement”
- IFRIC 4 “Determining whether an Arrangement contains a Lease”;
- IFRIC 5 “Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds”.

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 “Financial Instrument: Disclosures”;
- IAS 1 (amended) “Presentation of Financial Statements – Capital Disclosures”;
- IFRIC 8 “Scope of IFRS 2”.

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group’s result of operation and financial positions in the period of initial application. The adoption of IFRS 7 will significantly affect the presentation of disclosures of financial instruments.

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

1) Segment Information

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

A business segment is the Group's primary segment reporting format for disclosure of its operating activities in its financial statements. The Group discloses its sales revenue, gross profit and depreciation costs based on the main groups of products segregated into segments: seamless pipes, welded pipes, other operations, unallocated. There are no sales or other transactions between the business segments.

A geographical segment is the Group's secondary segment reporting format for disclosure of its operating activities in its financial statements. The Group discloses its sales revenue based on the location of the Group's customers.

Primary reporting format – business segments

SIX-MONTH PERIOD ENDED JUNE 30, 2006	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
NET SALES	10,896,388	29,455,988	3,280,475	-	43,632,851
GROSS PROFIT	1,366,352	12,132,104	328,068	-	13,826,524
DEPRECIATION AND AMORTIZATION	136,342	1,152,191	43,121	248,861	1,580,515

SIX-MONTH PERIOD ENDED JUNE 30, 2005	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
NET SALES	11,434,130	25,395,997	3,372,362	-	40,202,489
GROSS PROFIT	1,372,693	8,099,783	363,566	-	9,836,042
DEPRECIATION AND AMORTIZATION	135,740	1,013,329	38,600	196,395	1,384,064

Secondary reporting format – geographical segments

Distribution of the Group's revenue by geographical area based on the location of customers was as follows:

SIX-MONTH PERIOD ENDED JUNE 30, 2006	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
NET SALES	29,109,356	8,404,768	2,023,879	2,631,532	290,977	1,030,434	141,905	43,632,851

SIX-MONTH PERIOD ENDED JUNE 30, 2005	Russia	Europe	Central Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
NET SALES	27,517,469	7,736,337	1,346,846	1,573,724	59,141	1,263,703	705,269	40,202,489

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

2) Cost of Sales

	Six-month periods ended June 30,	
	2006	2005
DIRECT COST		
Raw materials	18,987,813	20,302,876
Add-on materials of production	1,036,921	1,141,676
Labor cost	1,175,032	1,016,706
Contracted services	132,711	86,899
Energy	1,471,491	1,242,887
TOTAL DIRECT COST	22,803,968	23,791,044
PRODUCTION OVERHEADS		
Salaries & wages	2,254,546	2,047,930
Other compensation	95,162	105,304
Travel	15,853	10,364
Freight	41,699	42,515
Communications	7,932	4,382
Professional services	63,035	77,291
Rent/occupancy	3,202	3,157
Utilities	896,214	762,512
Depreciation	1,437,749	1,329,956
Insurance	3,282	2,470
Taxes	181,834	186,742
Repairs and maintenance	234,751	185,849
Supplies	1,091,004	1,209,553
Specialised tools	207,039	173,554
Other	3,625	16,263
Less: capitalized costs	(86,598)	(53,369)
TOTAL PRODUCTION OVERHEAD CHARGES	6,450,329	6,104,473
CHANGES IN INVENTORY	346,225	209,539
COST OF MERCHANDISE	188,570	166,534
INVENTORY ADJUSTMENT		
Book to physical	(1,346)	(47,574)
Obsolete and slow-moving	18,581	142,431
TOTAL INVENTORY ADJUSTMENT	17,235	94,857
TOTAL COST OF SALES	29,806,327	30,366,447

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

3) Selling Expenses

	Six-month periods ended June 30,	
	2006	2005
Salaries & wages	423,378	317,448
Other compensation	12,027	5,384
Travel	38,839	33,861
Freight	1,408,991	1,157,774
Communications	17,093	15,517
Professional services	179,208	127,015
Rent/occupancy	62,411	55,707
Utilities	6,333	5,604
Depreciation	17,041	13,309
Insurance	8,460	8,190
Taxes	2,443	1,339
Repairs and maintenance	4,098	2,805
Supplies	179,892	151,364
Bad debt expense	(4,403)	21,799
Other	20,035	21,381
TOTAL SELLING EXPENSES	2,375,846	1,938,497

4) Advertising and Promotion Expenses

	Six-month periods ended June 30,	
	2006	2005
Media	11,506	10,494
Displays, exhibits and catalogues	47,887	22,220
Other	2,982	3,611
TOTAL ADVERTISING & PROMOTION EXPENSES	62,375	36,325

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

5) General and Administrative Expenses

	Six-month periods ended June 30,	
	2006	2005
Salaries & wages	1,089,013	948,004
Other compensation	74,421	52,113
Travel	86,193	48,624
Freight	12,892	7,263
Communications	13,941	10,463
Professional services	236,208	303,193
Rent/occupancy	39,136	35,389
Utilities	53,640	49,534
Depreciation	95,250	78,005
Insurance	4,458	5,146
Taxes	42,123	36,779
Repairs and maintenance	13,631	8,602
Supplies	74,698	64,976
Other	13,761	11,463
TOTAL GENERAL & ADMINISTRATION EXPENSES	1,849,365	1,659,554

6) Research and Development Expenses

	Six-month periods ended June 30,	
	2006	2005
Salaries & wages	55 558	44 335
Other compensation	1 460	1 464
Travel	1 111	889
Freight	1 355	375
Communications	445	265
Professional services	10 207	19 831
Utilities	2 059	1 947
Depreciation	10 839	13 975
Repairs and maintenance	657	1 060
Supplies	4 912	3 748
Other	163	104
TOTAL RESEARCH AND DEVELOPMENT EXPENSES	88 766	87 993

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

7) Other Operating Expenses

	Six-month periods ended June 30,	
	2006	2005
Loss on disposal of property, plant and equipment	10,325	62,690
Social and social infrastructure maintenance expenses	144,933	171,744
Charitable donations	154,301	64,527
Other	22,118	1,886
TOTAL OTHER OPERATING EXPENSES	331,677	300,847

8) Other Operating Income

	Six-month periods ended June 30,	
	2006	2005
Gain on sale of current assets	1,826	5,687
Other	19	29,828
TOTAL OTHER OPERATING INCOME	1,845	35,515

9) Finance Costs

	Six-month periods ended June 30,	
	2006	2005
Amortisation of ancillary costs incurred in connection with the arrangement of borrowings	65,014	30,330
Interest expense	780,894	1,138,427
TOTAL FINANCE COST	845,908	1,168,757

10) Acquisition of Eurosinara S.r.l

As at December 31, 2005, the Group had 50% interest in Eurosinara S.r.l, an entity registered in Italy, which is the Group's distributor of pipe products in the Southern Europe. On May 16, 2006, the Group purchased the remaining 50% interest in Eurosinara S.r.l for 1,000 thousand euros (34,736 at the exchange rate as of the date of transfer), increasing its interest to 100%.

The acquisition of Eurosinara S.r.l. was accounted for based on provisional values as the subsidiary, as of the date of authorization for issue of these financial statements, has not completed the preparation of IFRS financial statements.

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

10) Acquisition of Eurosinara S.r.l (continued)

The table below sets forth the fair values of Eurosinara's identifiable assets, liabilities and contingent liabilities at the date of acquisition:

	May 16, 2006
Property, plant and equipment	412
Deferred income tax assets	74,963
Other non-current assets	51
Inventories	110,023
Accounts and notes receivable, net	394,147
Cash	16,720
Other current assets	2,333
Total assets	598,649
Non-current liabilities	18,858
Current liabilities	842,277
Total liabilities	861,135
NET LIABILITIES	(262,486)
Fair value of net liabilities attributable to 50% ownership interest additionally acquired on May 16, 2006	(131,243)
Goodwill arising on acquisition	165,979
CONSIDERATION PAID	34,736

Eurosinara S.r.l.'s net loss for the period from May 16, 2006 to June 30, 2006 amounted to 1,682.

If the combination had taken place on January 1, 2006, the net revenue and net profit of the Group for the six-month period ended June 30, 2006 would have been 43,616,942 and 6,342,536, respectively.

Net liabilities of Eurosinara S.r.l. as of May 16, 2006 of 131,243 relating to the 50% interest owned by the Group before the business combination was recorded as a reduction in accumulated profits in the interim condensed consolidated financial statements for the six-month period ended June 30, 2006.

11) Income Tax

	Six-month periods ended June 30,	
	2006	2005
Current income tax	2,260,352	1,349,112
Deferred income tax benefit related to origination and reversal of temporary differences	(166,507)	(223,595)
TOTAL INCOME TAX EXPENSE	2,093,845	1,125,517

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

12) Earnings per Share

Earnings per share are calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

	Six-month periods ended June 30,	
	2006	2005
Weighted average number of ordinary shares outstanding	873,001,000	873,001,000
Net profit attributable to the equity holders of the parent entity	6,057,940	3,194,917
Earnings per share attributable to the equity holders of the parent entity		
Basic and diluted (in Russian Roubles)	6.94	3.66

13) Cash and Cash Equivalents

	June 30, 2006	December 31, 2005
Russian rouble denominated cash on hand and balances with banks	627,854	917,363
Foreign currency denominated balances with banks (US dollar, euro, Swiss franc, Romanian lei)	629,895	459,748
TOTAL CASH AND CASH EQUIVALENTS	1,257,749	1,377,111

14) Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, 2006	December 31, 2005
Cost:		
Land	712,006	702,178
Buildings	21,043,364	20,936,532
Machinery and equipment	25,656,387	24,920,924
Furniture and fixtures	458,465	417,370
Transport and motor vehicles	1,005,263	969,810
Construction in progress	6,683,162	4,244,204
	55,558,647	52,191,018
Accumulated depreciation:		
Buildings	(1,835,958)	(1,560,834)
Machinery and equipment	(6,751,581)	(5,647,584)
Furniture and fixtures	(205,681)	(171,466)
Transport and motor vehicles	(317,745)	(264,994)
	(9,110,965)	(7,644,878)
	46,447,682	44,546,140

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

14) Property, Plant and Equipment (continued)

In the six-month period ended June 30, 2006, the Group acquired assets with a cost of 3,233,727 (2005: 1,100,910), not including property and equipment acquired through a business combination (Note 10).

Assets with a net book value of 94,094 were disposed of by the Group during the six-month period ended June 30, 2006 (2005: 160,936), resulting in a net loss on disposal of 10,325 (2005: 62,690).

15) Goodwill and Other Intangible Assets

	June 30, 2006	December 31, 2005
Cost:		
Patents and trademarks	9,924	9,728
Information system projects (software SAP R\3)	368,043	322,638
Goodwill	1,236,098	1,070,119
Other	98,199	76,576
	1,712,264	1,479,061
Accumulated amortization:		
Patents and trademarks	(2,961)	(2,530)
Information system projects (software SAP R\3)	(39,773)	(10,954)
Other	(29,469)	(26,041)
	(72,203)	(39,525)
	1,640,061	1,439,536

16) Interest-Bearing Loans and Borrowings

Breakdown of borrowings by currency:

	Interest rates	June 30, 2006	December 31, 2005
Russian rouble	6% - 10.3%	14,390,697	9,427,685
	Euribor 3 months + 2.75%		
	Euribor 6 months + 2.4%		
Euro	Euribor 6 months + 3.5%	2,519,151	1,210,460
	Euribor 6 months + 5%		
	5% - 9.03%		
Romanian lei	Bubor 1month + 4%	-	275,921
	5.6% - 21%		
US dollar	Libor + 3.75%	1,108,685	6,081,148
	Libor 4.22% + margin 3%		
		18,018,533	16,995,214

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

16) Interest-Bearing Loans and Borrowings (continued)

Loans for 2,997,324 as of June 30, 2006 (December 31, 2005: 2,222,095), inclusive of short-term borrowings, were guaranteed by collateral of property, plant and equipment with the carrying amount of 4,467,306 (December 31, 2005: 5,041,043) and inventories with the carrying amount of 1,188,338 (December 31, 2005: 761,510).

Some of the loan agreements provide for certain covenants in respect of the Company and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and guarantees issued to other parties. A loan for the total amount of 18,750 thousand US dollars (507,730 at the exchange rate as of June 30, 2006) is secured by proceeds from export sales of TMK Global Ltd., the Group's subsidiary.

Bearer Coupon Debt Securities

On October 21, 2003, the Group issued 2,000,000 bonds with a nominal value of 1,000 roubles each. The bonds mature on October 21, 2006. Interest rate for the first, second and third semi-annual coupons is 14% per annum. Interest rate for the fourth, fifth and sixth semi-annual coupons will be established and announced by the Company within 14 days before the third coupon due date. Early redemption of bonds was made available within 14 days of the third coupon period, from the 534th to the 547th days from the date of issuance. None of the bondholders used their right to recall their bonds.

On March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 roubles each. The bonds mature on March 24, 2009. Interest rate for the first and second semi-annual coupons is 11.09% per annum. Interest rate for the third and fourth semi-annual coupons is 10.09% per annum. Interest rate for the fifth, sixth, seventh and eighth semi-annual coupons will be established and announced by the Company within 5 days before the fourth coupon due date. Early redemption of bonds is available within 5 days of the fourth coupon period, from the 724th to the 728th days from the date of issuance.

On February 21, 2006, the Group issued 5,000,000 bonds with a nominal value of 1,000 roubles each, with ten coupon periods of 182 days each. The maturity date is February 15, 2011. Interest rate for the first, second, third and fourth semi-annual coupons is 7.95% per annum. Interest rate for the fifth, sixth, seventh, eighth, ninth and tenth semi-annual coupons will be established and announced by the Company within 15 days before the fourth coupon due date. Early redemption of bonds is available within 15 days of the fourth coupon period, from the 714th to 728th days from the date of issuance.

Unutilised Borrowing Facilities

As of June 30, 2006, the Group had unutilised borrowing facilities in the amount of 2,989,628.

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

17) Related Parties Disclosures

The following table provides outstanding balances with related parties:

	June 30, 2006	December 31, 2005
Accounts receivable - current		
- Entities under common control with the Group	220,662	814,071
- Entities under control of the minority shareholders of the Company	-	3,556
	220,662	817,627
Accounts receivable - non-current		
- Entities under common control with the Group	155,745	244,255
	155,745	244,255
Prepayments - current		
- Entities under common control with the Group	804	20
- Entities under control of the minority shareholders of the Company	2,514	504
	3,318	524
Accounts payable - current		
- Entities under common control with the Group	23,531	13,750
	23,531	13,750
Borrowings from related parties		
- Entities under control of the minority shareholders of the Company	602,189	903,607
	602,189	903,607

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

	Six-month periods ended June 30,	
	2006	2005
Sales revenue		
- Entities under common control with the Group	597,647	1,358,102
	597,647	1,358,102
Purchases of goods and services		
- Entities under common control with the Group	604,334	505,539
- Entities under control of the minority shareholders of the Company	892	32,967
	605,226	538,506
Interest expenses from loans and borrowings		
- Entities under common control with the Group	-	6,387
- Entities under control of the minority shareholders of the Company	18,588	15,759
	18,588	22,146
Interest income from loans and borrowings		
- Entities under common control with the Group	12,439	28,333
	12,439	28,333

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

17) Related Parties Disclosures (continued)

Compensation of Key Management Personnel of the Group

Key management personnel comprise members of Board of Directors and certain executives of the Group, totalling 31 and 20 persons as at June 30, 2006 and 2005, respectively.

The total amount of compensation to key management personnel, which is included in the income statement as part of the general and administrative expenses, was 125,305 and 136,387 in the six-month periods ended June 30, 2006 and 2005, respectively.

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

18) Contingencies, Commitments and Operating Risks

Operating Environment of the Group

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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.

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

18) Contingencies, Commitments and Operating Risks (continued)

Contractual Commitments and Guarantees

As of June 30, 2006, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 1,057,539 thousand roubles, 74,455 thousand euros, 74,257 thousand US dollars and 19,768 thousand Romanian lei for the total amount 5,792,297 (all amounts of contractual commitments are expressed net of VAT). The Group paid advances of 1,575,235 on these contractual commitments.

Insurance Policies

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

Legal Claim

During the period, the Company was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Company and which have not been accrued or disclosed in these interim condensed consolidated financial statements.

Guarantees of Debts of Others

The Group had the following guarantees outstanding at June 30, 2006:

Guarantee to	Date of guarantee	Beneficiary	Amount of guarantee	Maturity
Russian bank	October 14, 2004	Company employees	3,220	October 12, 2009
International bank	June 08, 2006	Third parties	29,741	November 30, 2006
International bank	February 16, 2005	Third parties	19,620	January 31, 2007
International bank	December 09, 2005	Third parties	10,120	August 31, 2007
International bank	August 20, 2004	Third parties	5,600	December 31, 2006
International bank	January 21, 2004	Company employees	5,416	January 20, 2007
International bank	July 12, 2004	Company employees	2,979	January 11, 2008
International bank	June 09, 2006	Third parties	1,956	October 30, 2006
International bank	December 30, 2005	Third parties	1,354	July 30, 2006
International bank	June 28, 2006	Third parties	947	July 31, 2007
International bank	October 26, 2004	Company employees	542	October 23, 2006
International bank	March 29, 2005	Third parties	468	July 31, 2006
International bank	March 29, 2005	Third parties	468	July 31, 2006
International bank	March 09, 2006	Third parties	311	October 20, 2006
International bank	June 09, 2006	Third parties	277	October 30, 2006

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

19) Equity

i) Dividends

In May 2005, the Company paid interim dividends in respect of 2005 in the amount of 73,332 or 0.084 roubles per share.

In June 30, 2006, the Company declared dividends in respect of 2005 in the amount of 473,357 or 0.542 roubles per share.

ii) Transfers of Ownership Interests in Subsidiaries and Distributions to Owners

In December 2004, the Group signed an agreement with an entity under common control with the Group on the purchase of 100% ownership interest in Sinara Trading AG, an entity registered in Switzerland, for the consideration of 8,787 thousand Swiss francs (215,130 at the exchange rate as of December 31, 2004). The title transferred to the Group and control over Sinara Trading was obtained by the Group on May 25, 2005. The amount of 214,142 was paid by the Group prior to December 31, 2004. The Group additionally paid the amount of 3,428 in 2005. These payments were recorded as a reduction in accumulated profits in the accompanying interim condensed consolidated financial statements.

Sinara Trading paid dividends in the amount of 212,463 for 2005 in May 2005 to its former owner, before the transfer of Sinara Trading shares to TMK.

In June 2005, the Group signed an agreement with an entity under common control with the Group for the purchase of 100% ownership interest in Sinara Handel GmbH, an entity registered in Germany, for the consideration of 40,000 thousand US dollars (1,137,828 at the exchange rate as of June 10, 2005). The title to the 100% ownership interest in Sinara Handel GmbH was transferred to the Group on March 1, 2006. The amount of 575,650 was paid by the Group prior to December 31, 2005 and amount of 560,558 was paid by the Group on March 3, 2006.

iii) Acquisition of Minority Interests in Subsidiaries

In the six-month period ended June 30, 2005, the Company purchased 0.49% of OAO "Tagmet" shares, 0.07% of OAO "STZ" shares and 1.19% of OAO "SinTZ" shares. The total amount paid for the shares was 171,812.

In the six-month period ended June 30, 2006, the Company purchased 0.42% of OAO "Tagmet" shares, 0.21% of OAO "STZ" shares and 1.17% of OAO "SinTZ" shares. The total amount paid for the shares was 352,910.

iv) Dividends by Subsidiaries of the Group to the Minority Owners in Subsidiaries

Dividends declared by subsidiaries of the Group to the minority owners in subsidiaries were recorded as a reduction in minority interests of 13,171 and 33,712 in the accompanying interim condensed consolidated financial statements for the six-month periods ended June 30, 2006 and 2005, respectively.

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

20) Financial Risks

Credit Risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

The Group maintains its available cash in Russian affiliates of international banks and major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

Foreign Exchange Risk

The Group exports production to European countries and attracts substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets and liabilities give rise to foreign exchange exposure.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. However, management believes that the Group is secured from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

Interest Rate Risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. Interest rates on long-term borrowings are fixed, except for 1,514,631 of variable-rate debt. Interest rates are disclosed in Note 16.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of cash, short-term and long-term investments, short-term accounts receivable and payable, long-term accounts receivable, short-term and long-term loans payable, approximate their fair value.

The fair value of the bonds issued by the Group in October 2003 with a nominal amount of 2,000,000 is equal to 2,012,800 as of June 30, 2006. The fair value of the bonds issued by the Group in March 2005 with a nominal amount of 3,000,000 is equal to 3,041,400 as of June 30, 2006. The fair value of the bonds issued by the Group in February 2006 with a nominal amount of 5,000,000 is equal to 4,975,000 as of June 30, 2006. The fair value of the bonds was determined based on market quotations.

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Selected Notes to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

(All amounts in thousands of Russian Roubles, unless specified otherwise)

21) Events after the Balance Sheet Date

In July and August 2006, the Company purchased additional 0.14% of “SinTZ” shares for 21,060. The Company’s interest in the subsidiary increased to 92.43%.

In July and August 2006, the Company purchased additional 0.20% of “STZ” shares for 35,332. The Company’s interest in the subsidiary increased to 92.01%.

On August 25, 2006, the Group signed an agreement on the purchase of 75% ownership interest in Open Joint-Stock Company “Orsk Engineering Plant” for 45,512 thousand US dollars from an entity under common control with the Group. In addition to the information disclosed in respect of this acquisition, IFRS 3, Business Combinations, requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquiree’s assets, liabilities and contingent liabilities. It is impracticable to the Group to disclose this information because the acquired subsidiary has not prepared its financial statements in accordance with IFRS at the time these interim condensed consolidated financial statements were authorised for issue. This purchase of a subsidiary from an entity under common control with the Group will be accounted for using the pooling of interests method.

On August 28, 2006, the Board of Directors of the Company recommended that the meeting of the shareholders of the Company approve a loan to be granted by the Company to TMK Steel Limited, the controlling shareholder of the Company, in the aggregate principal amount of up to 780 million US dollars (21,121,542 at exchange rate as of June 30, 2006) for a term of not more than five years at an interest rate of not less than 0.05% per annum. As of the date of authorization of these financial statements for issue, the meeting of the shareholders of the Company was not held.