OAO TMK

Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 2010

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Six-month period ended June 30, 2010

Contents

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Report on review of interim condensed consolidated financial statements

The Shareholders and Board of Directors
OAO TMK

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of OAO TMK and its subsidiaries ("Group"), comprising the interim consolidated statement of financial position as at June 30 , 2010 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

Ernst & Young LLC

September 10, 2010

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Unaudited Interim Consolidated Income Statement

Six-month period ended June 30, 2010

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30, 2010	2009
Revenue:	1	2,566,180	1,478,578
Sales of goods		*2,522,041*	*1,447,031*
Rendering of services		*44,139*	*31,547*
Cost of sales	2	(1,980,366)	(1,254,717)
Gross profit		**585,814**	**223,861**
Selling and distribution expenses	3	(198,915)	(146,406)
Advertising and promotion expenses	4	(4,800)	(2,246)
General and administrative expenses	5	(110,048)	(98,531)
Research and development expenses	6	(6,260)	(4,757)
Other operating expenses	7	(23,413)	(13,782)
Other operating income	8	4,229	4,102
Impairment of goodwill		–	(9,645)
Impairment of property, plant and equipment		–	(28,074)
Foreign exchange gain/(loss), net		13,829	(11,658)
Finance costs		(199,080)	(211,675)
Finance income	9	8,560	31,967
Gain on changes in fair value of derivative financial instrument	18	31,811	–
Share of profit in associate		–	764
Profit/(loss) before tax		**101,727**	**(266,080)**
Income tax (expense)/benefit	10	(34,419)	62,272
Profit/(loss) for the period		**67,308**	**(203,808)**
Attributable to:			
Equity holders of the parent entity		69,038	(198,780)
Non-controlling interests		(1,730)	(5,028)
		67,308	**(203,808)**
Earnings/(loss) per share attributable to equity holders of the parent entity (in US dollars):			
Basic	11	**0.08**	**(0.23)**
Diluted	11	**0.06**	**(0.23)**

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

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Unaudited Interim Consolidated Statement of Comprehensive Income

Six-month period ended June 30, 2010

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009
Profit/(loss) for the period		**67,308**	**(203,808)**
Exchange differences on translation to presentation currency [(a)]		(26,164)	48,053
Foreign currency loss on hedged net investment in foreign operation [(b)]	21 (v)	(36,043)	(164,946)
Income tax [(b)]	21 (v)	7,209	15,872
		(28,834)	**(149,074)**
Net unrealised gain on available-for-sale investments		–	312
Income tax		–	(62)
		–	**250**
Other comprehensive loss for the period, net of tax		**(54,998)**	**(100,771)**
Total comprehensive income/(loss) for the period, net of tax		**12,310**	**(304,579)**
Attributable to:			
Equity holders of the parent entity		16,806	(292,993)
Non-controlling interests		(4,496)	(11,586)
		12,310	**(304,579)**

(a) The amount of exchange differences on translation to presentation currency represented other comprehensive loss of 23,398 and other comprehensive income of 54,627 attributable to equity holders of the parent entity for the six-month period ended June 30, 2010 and 2009, respectively. Other comprehensive loss attributable to non-controlling interests amounted to 2,766 and 6,574 for the six-month period ended June 30, 2010 and 2009, respectively.

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

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Unaudited Interim Consolidated Statement of Financial Position

At June 30, 2010

(All amounts in thousands of US dollars)

	NOTES	June 30, 2010		December 31, 2009	
ASSETS					
Current assets					
Cash and cash equivalents	12	84,972		243,756	
Financial investments		3,973		4,075	
Trade and other receivables		653,274		578,956	
Accounts receivable from related parties	19	2,477		1,240	
Inventories	13	1,002,522		926,394	
Prepayments and input VAT		152,740		176,489	
Prepaid income taxes		2,845	**1,902,803**	46,104	**1,977,014**
Non-current assets					
Intangible assets	15	516,011		558,359	
Accounts receivable from related parties	19	59		68	
Property, plant and equipment	14	3,284,499		3,402,680	
Goodwill	15	552,148		555,462	
Deferred tax asset		141,461		135,652	
Other non-current assets		35,353	**4,529,531**	51,874	**4,704,095**
TOTAL ASSETS			**6,432,334**		**6,681,109**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	16	491,405		573,518	
Advances from customers		265,583		325,549	
Accounts payable to related parties	19	17,265		21,772	
Accrued liabilities		126,207		145,247	
Provisions		9,904		9,455	
Interest-bearing loans and borrowings	17, 18	828,583		1,537,382	
Derivative financial instrument	18	3,644		–	
Dividends payable		938		469	
Income tax payable		12,590	**1,756,119**	8,596	**2,621,988**
Non-current liabilities					
Interest-bearing loans and borrowings	17, 18	2,815,297		2,214,168	
Deferred tax liability		270,095		271,664	
Provisions		26,736		21,851	
Employee benefit liability		21,229		18,441	
Other liabilities		13,241	**3,146,598**	13,701	**2,539,825**
Total liabilities			**4,902,717**		**5,161,813**
Equity	21				
Parent shareholders' equity					
Issued capital		305,407		305,407	
Treasury shares		(318,351)		(37,378)	
Additional paid-in capital		383,909		104,003	
Reserve capital		15,387		15,387	
Retained earnings		1,088,243		1,019,322	
Foreign currency translation reserve		(15,551)	1,459,044	36,681	1,443,422
Non-controlling interests			70,573		75,874
Total equity			**1,529,617**		**1,519,296**
TOTAL EQUITY AND LIABILITIES			**6,432,334**		**6,681,109**

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

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Unaudited Interim Consolidated Statement of Changes in Equity

Six-month period ended June 30, 2010

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Net unrealised losses**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2010	**305,407**	**(37,378)**	**104,003**	**15,387**	**1,019,322**	**36,681**	**–**	**1,443,422**	**75,874**	**1,519,296**
Profit/(loss) for the period	–	–	–	–	69,038	–	–	**69,038**	(1,730)	**67,308**
Other comprehensive income/(loss)	–	–	–	–	–	(52,232)	–	**(52,232)**	(2,766)	**(54,998)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**69,038**	**(52,232)**	**–**	**16,806**	**(4,496)**	**12,310**
Contributions from shareholders for share capital increase (Note 21 i)	–	–	279,427	–	–	–	–	**279,427**	–	**279,427**
Purchase of treasury shares (Note 21 iv)	–	(280,973)	–	–	–	–	–	**(280,973)**	–	**(280,973)**
Dividends by subsidiaries of the Group to the non-controlling interest owners in subsidiaries (Note 21 iii)	–	–	–	–	–	–	–	**–**	(8)	**(8)**
Acquisition of non-controlling interests (Note 21 vi)	–	–	479	–	(117)	–	–	**362**	(797)	**(435)**
At June 30, 2010	**305,407**	**(318,351)**	**383,909**	**15,387**	**1,088,243**	**(15,551)**	**–**	**1,459,044**	**70,573**	**1,529,617**

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

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Unaudited Interim Consolidated Statement of Changes in Equity

Six-month period ended June 30, 2010 (continued)

(All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Reserve capital**	**Retained earnings**	**Foreign currency translation reserve**	**Net unrealised losses**	**Total**	**Non-controlling interests**	**TOTAL**
At January 1, 2009	**305,407**	**(37,827)**	**97,915**	**15,387**	**1,343,255**	**89,274**	**–**	**1,813,411**	**97,011**	**1,910,422**
Loss for the period	–	–	–	–	(198,780)	–	–	**(198,780)**	(5,028)	**(203,808)**
Other comprehensive income/(loss)	–	–	–	–	–	(94,447)	234	**(94,213)**	(6,558)	**(100,771)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**(198,780)**	**(94,447)**	**234**	**(292,993)**	**(11,586)**	**(304,579)**
Purchase of the Company's shares for the purpose of realisation of the Share Options Programme	–	(89)	–	–	–	–	–	**(89)**	–	**(89)**
Dividends by subsidiaries of the Group to the non-controlling interest owners in subsidiaries (Note 21 iii)	–	–	–	–	–	–	–	–	(2,302)	**(2,302)**
Acquisition of non-controlling interests	–	–	345	–	(2,174)	–	–	**(1,829)**	(4,775)	**(6,604)**
At June 30, 2009	**305,407**	**(37,916)**	**98,260**	**15,387**	**1,142,301**	**(5,173)**	**234**	**1,518,500**	**78,348**	**1,596,848**

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

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Unaudited Interim Consolidated Cash Flow Statement

Six-month period ended June 30, 2010

(All amounts in thousands of US dollars)

	NOTES	Six-month period ended June 30, 2010	Six-month period ended June 30, 2009
Operating activities			
Profit/(loss) before tax		101,727	(266,080)
Adjustment to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment		107,789	96,645
Amortisation of intangible assets	15	42,482	54,064
Loss on disposal of property, plant and equipment	7	7,269	1,683
Impairment of goodwill		–	9,645
Impairment of property, plant and equipment		–	28,074
Foreign exchange (gain)/loss, net		(13,829)	11,658
Finance costs		199,080	211,675
Finance income	9	(8,560)	(31,967)
Gain on changes in fair value of derivative financial instrument	18	(31,811)	–
Share of profit in associate		–	(764)
Allowance for net realisable value of inventory		79	23,152
Allowance for doubtful debts		383	2,622
Movement in other provisions		10,065	5,358
Operating cash flow before working capital changes		**414,674**	**145,765**
Changes in working capital:			
(Increase)/decrease in inventories		(93,834)	88,778
(Increase)/decrease in trade and other receivables		(86,108)	189,159
Decrease in prepayments		19,354	29,291
Increase/(decrease) in trade and other payables		785	(90,471)
Decrease in accrued liabilities		(14,224)	(32,696)
Decrease in advances from customers		(53,353)	(2,150)
Cash generated from operations		**187,294**	**327,676**
Income taxes reimbursed/ (paid)		9,503	(41,725)
Net cash flows from operating activities		**196,797**	**285,951**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(165,011)	(163,808)
Proceeds from sale of property, plant and equipment		217	896
Acquisition of subsidiaries, net of cash acquired		–	(507,542)
Issuance of loans		(863)	(657)
Proceeds from repayment of loans issued		608	533
Interest received		1,653	844
Dividends received		1,691	–
Dividends received from associate		–	1,746
Net cash flows used in investing activities		**(161,705)**	**(667,988)**
Financing activities			
Purchase of treasury shares	21 (iv)	(280,973)	–
Proceeds from shareholders for share capital increase	21 (i)	279,427	–
Proceeds from borrowings		1,042,620	1,880,548
Repayment of borrowings		(1,050,506)	(1,350,022)
Interest paid		(181,966)	(199,688)
Reimbursement of interest paid		2,474	2,796
Payment of finance lease liabilities		(1,421)	(1,294)
Capital contribution by non-controlling interest owners to a subsidiary		–	44
Acquisition of non-controlling interest		(333)	(7,870)
Dividends paid to non-controlling interest shareholders		(16)	(170)
Net cash flows from financing activities		**(190,694)**	**324,344**
Net decrease in cash and cash equivalents		(155,602)	(57,693)
Net foreign exchange difference		(3,182)	523
Cash and cash equivalents at January 1		243,756	143,393
Cash and cash equivalents at June 30		**84,972**	**86,223**

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

Corporate Information

These interim condensed consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the six-month period ended June 30, 2010 were authorised for issue in accordance with a resolution of the General Director on September 10, 2010.

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

As at June 30, 2010, the Company's controlling shareholder was TMK Steel Limited. TMK Steel Limited is ultimately controlled by D.A. Pumpyanskiy.

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

Basis of Preparation

Basis of Preparation

The interim condensed consolidated financial statements for the six-month period ended June 30, 2010 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, 2009. Operating results for the six-month period ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

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, 2009, 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, 2010, result from adoption of the following new or revised standards:

<u>IFRS 2 Share-based Payment – Group Cash-settled Share-based Payment Transactions</u>

The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

Basis of Preparation (continued)

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

The Group applies the revised standards from January 1, 2010. IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. The amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment had no effect on the financial position or performance of the Group.

IFRIC 17 Distribution of Non-cash Assets to Owners (effective for annual periods beginning on or after July 1, 2009)

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation had no effect on the financial position or performance of the Group.

Improvements to IFRSs

In April 2009 the International Accounting Standards Board issued “Improvements to International Financial Reporting Standards”, primarily with a view to removing inconsistencies and clarifying wording. These are separate transitional provisions for each standard. The document sets out amendments to different International Financial Reporting Standards, which are mainly related to accounting changes for presentation, recognition or measurement purposes terminology or editorial changes. The group illustrates the adoption of these amendments.

Index to the Notes

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

1) Segment Information

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

- Russia segment represents the results of operations and financial position of plants located in Russian Federation, a finishing facility in Kazakhstan, Oilfield service companies and traders located in Russia, Kazakhstan, the United Arab Emirates, Switzerland, South Africa that are selling their production (seamless and welded pipes).
- Americas segment represents the results of operations and financial position of plants located in the United States of America and trader located in the United States of America (primarily 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, inventory and doubtful debts allowances and movement in other provisions, determined based on IFRS Financial Statements. Group financing (including finance costs and finance income) is managed on a group basis and are not allocated to operating segments.

The following tables present revenue and profit information regarding the Group's reportable segments for the six-month periods ended June 30, 2010 and 2009, respectively.

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

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

1) Segment Information (continued)

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

Six-month period ended June 30, 2009	Russia	Americas	Europe	TOTAL
Revenue	1,110,785	286,527	81,266	**1,478,578**
Cost of sales	(893,004)	(299,099)	(62,614)	**(1,254,717)**
GROSS PROFIT/(LOSS)	**217,781**	**(12,572)**	**18,652**	**223,861**
Selling, general and administrative expenses	(153,281)	(81,507)	(17,152)	**(251,940)**
Other operating income/(expenses), net	(10,397)	(228)	945	**(9,680)**
OPERATING PROFIT/(LOSS)	**54,103**	**(94,307)**	**2,445**	**(37,759)**
ADD BACK:				
Depreciation and amortisation	66,304	80,379	4,026	**150,709**
Loss/(gain) on disposal of property, plant and equipment	2,674	–	(991)	**1,683**
Allowance for net realisable value of inventory	(10,348)	32,905	595	**23,152**
Allowance for doubtful debts	(335)	927	2,030	**2,622**
Movement in other provisions	2,258	3,438	(338)	**5,358**
	60,553	**117,649**	**5,322**	**183,524**
ADJUSTED EBITDA	**114,656**	**23,342**	**7,767**	**145,765**

Six-month period ended June 30, 2009	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
ADJUSTED EBITDA	**114,656**	**23,342**	**7,767**	**145,765**
Reversal of adjustments from operating profit to EBITDA	(60,553)	(117,649)	(5,322)	**(183,524)**
OPERATING PROFIT/(LOSS)	**54,103**	**(94,307)**	**2,445**	**(37,759)**
Impairment of goodwill	(9,645)	–	–	**(9,645)**
Impairment of property, plant and equipment	(2,602)	–	(25,472)	**(28,074)**
Foreign exchange gain/(loss), net	3,950	–	(15,608)	**(11,658)**
OPERATING PROFIT/(LOSS) AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	**45,806**	**(94,307)**	**(38,635)**	**(87,136)**
Finance costs				**(211,675)**
Finance income				**31,967**
Share of profit in associate				**764**
PROFIT/(LOSS) BEFORE TAX				**(266,080)**

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

1) Segment Information (continued)

The following table presents additional information of the Group's reportable segments as at June 30, 2010 and December 31, 2009:

	Russia	Americas	Europe	TOTAL
SEGMENT ASSETS				
At June 30, 2010	4,199,418	1,927,815	305,101	**6,432,334**
At December 31, 2009	4,433,558	1,903,097	344,454	**6,681,109**

The following table presents the revenues from external customers for each group of similar products and services for the six-month periods ended June 30, 2010 and 2009, respectively.

	Welded pipes	Seamless pipes	Other operations	TOTAL
SALES TO EXTERNAL CUSTOMERS				
Six-month period ended June 30, 2010	1,019,416	1,399,460	147,304	**2,566,180**
Six-month period ended June 30, 2009	396,706	990,835	91,037	**1,478,578**

2) Cost of Sales

Cost of sales for the six-month period ended June 30 was as follows:

	2010	2009
Raw materials and consumables	1,346,789	720,437
Contracted manufacture	34,808	10,716
Energy and utilities	164,348	102,263
Depreciation and amortisation	115,143	92,653
Repairs and maintenance	50,804	39,517
Freight	26,626	12,416
Rent	4,148	3,761
Insurance	431	362
Staff costs including social security	263,063	180,252
Professional fees and services	9,028	7,236
Travel	779	553
Communications	430	639
Taxes	21,519	14,772
Other	2,899	3,021
TOTAL PRODUCTION COST	**2,040,815**	**1,188,598**
CHANGE IN OWN FINISHED GOODS AND WORK IN PROGRESS	(71,903)	19,918
COST OF SALES OF EXTERNALLY PURCHASED GOODS	11,620	15,405
OBSOLETE STOCK AND WRITE-OFFS	(166)	30,796
COST OF SALES	**1,980,366**	**1,254,717**

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

3) Selling and Distribution Expenses

Selling and distribution expenses for the six-month period ended June 30 were as follows:

	2010	2009
Freight	103,095	48,534
Rent	3,200	3,078
Insurance	787	688
Depreciation and amortisation	40,605	50,034
Staff costs including social security	26,096	22,225
Professional fees and services	10,951	8,397
Travel	2,057	1,231
Communications	642	597
Utilities and maintenance	1,065	1,135
Taxes	755	1,766
Consumables	7,845	5,236
Bad debt expense	1,021	2,622
Other	796	863
	198,915	**146,406**

4) Advertising and Promotion Expenses

Advertising and promotion expenses for the six-month period ended June 30 were as follows:

	2010	2009
Media	285	295
Exhibits and catalogues	1,871	741
Outdoor advertising	2,353	1,094
Other	291	116
	4,800	**2,246**

5) General and Administrative Expenses

General and administrative expenses for the six-month period ended June 30 were as follows:

	2010	2009
Staff costs including social security	59,504	50,075
Professional fees and services	22,105	20,054
Depreciation and amortisation	6,232	7,232
Travel	4,001	3,227
Transportation	2,481	2,111
Rent	2,907	2,962
Communications	1,797	2,580
Insurance	1,875	2,119
Utilities and maintenance	4,057	3,333
Taxes	2,902	2,244
Consumables	1,097	1,259
Other	1,090	1,335
	110,048	**98,531**

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

6) Research and Development Expenses

Research and development expenses for the six-month period ended June 30 were as follows:

	2010	2009
Staff costs including social security	4,412	3,743
Professional fees and services	933	266
Depreciation and amortisation	287	280
Travel	93	49
Transportation	70	64
Communications	19	15
Utilities and maintenance	205	168
Consumables	141	105
Other	100	67
	6,260	**4,757**

7) Other Operating Expenses

Other operating expenses for the six-month period ended June 30 were as follows:

	2010	2009
Loss on disposal of property, plant and equipment	7,269	1,683
Social and social infrastructure maintenance expenses	4,396	6,052
Charitable donations	4,909	2,732
Other	6,839	3,315
	23,413	**13,782**

Other operating expenses included provisions related to taxes and fines in the amount of 4,709 and 2,376 for the six-month period ended June 30, 2010 and 2009, respectively.

8) Other Operating Income

Other operating income for the six-month period ended June 30 was as follows:

	2010	2009
Gain on sales of current assets	197	1,299
Assets received for free	461	124
Gain from penalties and fines	1,223	132
Other	2,348	2,547
	4,229	**4,102**

9) Finance Income

Finance income for the six-month period ended June 30 was as follows:

	2010	2009
Gain on extinguishment of debts	–	30,979
Dividends received	6,691	–
Interest income - bank accounts and deposits	1,869	988
	8,560	**31,967**

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

10) Income Tax

Income tax expense/(benefit) for the six-month period ended June 30 was as follows:

	2010	2009
Current income tax expense	35,830	6,140
Current income tax benefit	–	(25,277)
Adjustments in respect of income tax of previous periods	22	(456)
Deferred tax expenses arising from write-down of deferred tax asset	–	1,425
Deferred income tax benefit related to origination and reversal of temporary differences	(1,433)	(44,104)
TOTAL INCOME TAX EXPENSE/(BENEFIT)	**34,419**	**(62,272)**

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 June 30, 2010, 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.

	Six-month period ended June 30,	
	2010	2009
Net profit/(loss) attributable to the equity holders of the parent entity	69,038	(198,780)
Effect of convertible bonds, net of tax	(12,347)	–
Net profit/(loss) attributable to the equity holders of the parent entity adjusted for the effect of dilution	56,691	(198,780)
Weighted average number of ordinary shares outstanding	855,572,838	865,833,951
Weighted average number of ordinary shares outstanding adjusted for the effect of dilution	894,288,769	865,833,951
Earnings/(loss) per share attributable to equity holders of the parent entity (in US dollars)		
Basic	**0.08**	**(0.23)**
Diluted	**0.06**	**(0.23)**

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 on March 24, 2010 (Note18).

12) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2010	December 31, 2009
Russian rouble	42,173	185,710
US dollar	33,279	43,363
Euro	5,550	13,810
Romanian lei	3,597	149
Other currencies	373	724
	84,972	**243,756**

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

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

13) Inventories

Inventories consisted of the following:

	June 30, 2010	December 31, 2009
Raw materials and Supplies	435,641	416,046
Finished goods and WIP	588,482	532,481
GROSS INVENTORIES	1,024,123	948,527
Allowance for net realisable value of inventory	(21,601)	(22,133)
NET INVENTORIES	**1,002,522**	**926,394**

14) Property, Plant and Equipment

Movement in property, plant and equipment was as follows in the six-month period ended June 30, 2010:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
COST							
Balance at January 1, 2010	1,243,839	2,370,728	59,571	40,466	9,439	567,204	**4,291,247**
Additions	–	–	–	–	–	130,239	**130,239**
Assets put into operation	4,926	75,678	2,597	4,589	221	(88,011)	**–**
Disposals	(799)	(18,072)	(902)	(435)	–	(152)	**(20,360)**
Currency translation adjustments	(49,837)	(91,400)	(4,414)	(1,480)	(49)	(18,994)	**(166,174)**
BALANCE AT JUNE 30, 2010	**1,198,129**	**2,336,934**	**56,852**	**43,140**	**9,611**	**590,286**	**4,234,952**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2010	(150,761)	(692,309)	(23,150)	(20,758)	(1,589)	–	**(888,567)**
Depreciation charge	(18,703)	(95,535)	(2,077)	(3,215)	(618)	–	**(120,148)**
Disposals	132	10,807	684	244	–	–	**11,867**
Currency translation adjustments	7,577	36,485	1,560	849	(76)	–	**46,395**
BALANCE AT JUNE 30, 2010	**(161,755)**	**(740,552)**	**(22,983)**	**(22,880)**	**(2,283)**	**–**	**(950,453)**
NET BOOK VALUE AT JUNE 30, 2010	**1,036,374**	**1,596,382**	**33,869**	**20,260**	**7,328**	**590,286**	**3,284,499**
NET BOOK VALUE AT JANUARY 1, 2010	**1,093,078**	**1,678,419**	**36,421**	**19,708**	**7,850**	**567,204**	**3,402,680**

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

15) Intangible Assets

Movement in intangible assets was as follows in the six-month period ended June 30, 2010:

	Patents and trademarks	Goodwill	Software	Customer relationships	Proprietary technology	Backlog	Other	TOTAL
COST								
Balance at January 1, 2010	209,740	568,891	17,049	472,300	14,100	8,500	5,708	**1,296,288**
Additions	15	–	63	–	–	–	486	**564**
Disposals	–	–	–	–	–	–	(152)	**(152)**
Currency translation adjustments	(49)	(3,724)	(551)	–	–	–	(171)	**(4,495)**
BALANCE AT JUNE 30, 2010	**209,706**	**565,167**	**16,561**	**472,300**	**14,100**	**8,500**	**5,871**	**1,292,205**
ACCUMULATED AMORTISATION AND IMPAIRMENT								
Balance at January 1, 2010	(217)	(13,429)	(8,930)	(147,092)	(2,737)	(8,500)	(1,562)	**(182,467)**
Amortisation charge	(43)	–	(1,560)	(39,648)	(881)	–	(350)	**(42,482)**
Disposals	–	–	–	–	–	–	76	**76**
Currency translation adjustments	18	410	341	–	–	–	58	**827**
BALANCE AT JUNE 30, 2010	**(242)**	**(13,019)**	**(10,149)**	**(186,740)**	**(3,618)**	**(8,500)**	**(1,778)**	**(224,046)**
NET BOOK VALUE AT JUNE 30, 2010	**209,464**	**552,148**	**6,412**	**285,560**	**10,482**	**–**	**4,093**	**1,068,159**
NET BOOK VALUE AT JANUARY 1, 2010	**209,523**	**555,462**	**8,119**	**325,208**	**11,363**	**–**	**4,146**	**1,113,821**

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

	June 30, 2010		December 31, 2009	
	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	5,849	–	6,855	–
Kaztrubprom Plant	8,110	–	8,365	–
Oilfield division	30,918	–	31,891	–
Other cash generating units	34,303	–	35,383	–
	552,148	**208,700**	**555,462**	**208,700**

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate the carrying value may be impaired. At June 30, 2010 there were indicators of impairment of Kaztrubprom Plant cash generating unit, therefore, the Group performed an impairment test at that date in respect of this unit.

The projected cash flows related to Kaztrubprom Plant cash generating unit were updated to reflect the increased demand for products and a pre-tax discount rate of 10.23% (December 31, 2009: 14.05%) was applied. All other assumptions remained consistent with those disclosed in the annual statements for the year ended December 31, 2009. As a result of the updated analysis, management did not identify an impairment for this cash generating unit to which goodwill of 8,110 is allocated.

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

15) Intangible Assets (continued)

The calculation of Kaztrubprom Plant cash generating unit's fair value was the most sensitive to the following assumption:

Commodity Prices

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

If the actual prices of Kaztrubprom Plant cash generating unit were 5% lower than those assumed in the impairment test, this would lead to the impairment of goodwill in the amount of 7,044.

16) Trade and Other Payables

Trade and other payables consisted of the following:

	June 30, 2010	December 31, 2009
Trade payables	388,963	417,108
Accounts payable for property, plant and equipment	77,969	138,092
Notes issued to third parties	8,694	5,941
Sales rebate payable	3,923	1,541
Other payables	11,856	10,836
	491,405	**573,518**

17) Interest-Bearing Loans and Borrowings

Interest-bearing loans and borrowings consisted of the following:

	June 30, 2010	December 31, 2009
Current:		
Bank loans	211,544	1,251,575
Interest payable	24,287	24,891
Current portion of non-current borrowings	434,478	105,858
Current portion of bearer coupon debt securities	160,280	165,321
Unamortised debt issue costs	(3,582)	(11,858)
	827,007	**1,535,787**
Finance lease liability - current	1,576	1,595
TOTAL SHORT-TERM LOANS AND BORROWINGS	**828,583**	**1,537,382**
Non-current:		
Bank loans	2,727,368	2,160,060
Bearer coupon debt securities	726,230	352,021
Unamortised debt issue costs	(79,466)	(63,470)
Less: current portion of non-current borrowings	(434,478)	(105,858)
Less: current portion of bearer coupon debt securities	(160,280)	(165,321)
	2,779,374	**2,177,432**
Finance lease liability - non-current	35,923	36,736
TOTAL LONG-TERM LOANS AND BORROWINGS	**2,815,297**	**2,214,168**

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

17) Interest-Bearing Loans and Borrowings (continued)

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

	Interest rates for period ended	June 30, 2010	Interest rates for period ended	December 31, 2009
Russian rouble	Fixed 8% - 14%	1,131,140	Fixed 5% - 17%	1,153,219
	Fixed 10%	191,999	Fixed 10%	192,812
	Fixed 5.25%	373,989		
	Fixed 7% - 9%	1,632,322	Fixed 6.48% - 12.1%	2,048,035
US Dollar	Variable:	19,234	Variable:	4,179
	Libor (1m) + 5.65%		Libor (3m) + 1.7%	
	Libor (1w) + 2%		Libor (1w) + 1.8%	
	Fixed 1.3% - 7%	81,387	Fixed 1.3% - 5.11%	91,044
	Cost of funds + 1.25% (*)	14,280	Cost of funds + 1.25% (*)	34,611
	Variable:	159,990	Variable:	189,319
	Euribor (1m) + 0.23% - 1.6%		Euribor (1m) + 0.23% - 1.6%	
	Euribor (3m) + 4%		Euribor (3m) + 0.45% - 4%	
Euro	Euribor (6m) + 0.23% - 4%		Euribor (6m) + 0.23% - 4%	
Romanian Lei	Fixed 10.5% - 13.5%	2,040		–
		3,606,381		**3,713,219**

(*) Cost of funds is advised at the time of rate fixing.

Russian bond obligations

On February 16 and 19, 2010 a buy-back option on the 5,000,000 outstanding interest-bearing coupon bonds issued on February 21, 2006 took place. The full bonds issue was left outstanding. The new rate for the ninth and tenth semi-annual coupons was set at 9.8%.

Bank Loans

In February 2010, the Group repaid VTB loan facility in the amount of 300,000 and other short-term loans for the total amount of 109,886 using the proceeds from issuance of 4,125 unsecured guaranteed convertible bonds with a nominal value of 100,000 US dollars each.

In March 2010, the Group amended agreement with VTB for borrowing facilities of 450,000 extending the loan term from 1 to 3 years with an option to extend the maturity up to five years and reducing interest rate. As at June 30, 2010 the principal outstanding balance of the loan was 450,000.

On March 23, 2010, the Group fully repaid a short-term loan from VTB in the principal amount of 90,185 in accordance with the terms of the loan agreement and entered into a new loan agreement with VTB in the amount of 94,000 with an initial maturity of 1 year and an option to extend the maturity up to 5 years. As at June 30, 2010 the principal outstanding balance of the loan was 94,000.

In March 2010, the Group amended agreement with Gazprombank for 5,000,000 thousand Russian roubles credit line reducing interest rate. As at June 30, 2010 the principal outstanding balance was 5,000,000 (160,280 at the exchange rate at June 30, 2010).

17) Interest-Bearing Loans and Borrowings (continued)

Bank Loans (continued)

In April 2010, the Group entered into two short-term credit line arrangements with Uralsib in the amounts of 2,800,000 thousand Russian roubles and 93,300. As at June 30, 2010 the principal outstanding balances were 820,000 thousand Russian roubles (26,286 at the exchange rate at June 30, 2010) and nil, respectively.

Unutilised Borrowing Facilities

As at June 30, 2010, the Group had unutilised borrowing facilities in the amount of 194,715 (December 31, 2009: 411,175).

18) 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 conversion can be exercised at the option of bondholders on any date during the period commencing 41 days following the February 11, 2010 and ending on the date falling seven London business days prior to the maturity date or, if earlier, ending on the seventh day prior to any earlier date fixed for redemption of the Convertible bonds. The bonds will be convertible into GDRs at conversion price of $23.075 per GDR. In connection with the issue of convertible bonds the Group purchased 64,478,432 treasury shares to guarantee the fulfillment of an obligation to bondholders (Note 21 iv).

The Group can early redeem all outstanding bonds, in whole but not in part, at any time on or after March 4, 2013 at their principal amount plus accrued interest, if the volume weighted average price of the GDRs traded on the London Stock Exchange during 30 consecutive dealing days exceeds 130 per cent of the conversion price (the "Issuer Call"). In addition, the Group has the option to redeem the bonds at the principal amount plus accrued interest if 15% or less of the bonds remain outstanding. Bondholders have the right to request redemption of the bonds on the third anniversary following the issue date at the principal amount plus accrued interest.

There were no conversions of the bonds in the six-month period ended June 30, 2010.

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").

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

18) Convertible Bonds (continued)

The Embedded Conversion Option in foreign currency was classified as financial instrument at fair value through profit or loss. The Embedded Conversion Option was initially recognised at the fair value of 35,455. 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 800 bps and 900 bps as at the initial recognition date and June 30, 2010, respectively. The change in the fair value of the embedded derivative during the reporting period resulted in a gain of 31,811, which has been recorded as gain on changes in fair value of derivative financial instrument in the income statement for the six-month period ended June 30, 2010.

The fair value of the host component of 368,149 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 of 412,500 adjusted for transaction costs of 8,896. The host component is subsequently carried at the amortised cost using the effective interest method. As at June 30, 2010, the carrying value of the host component was 373,989.

19) Related Parties Disclosures

The following table provides outstanding balances with related parties as at June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
Cash and cash equivalents	19,022	86,541
Accounts receivable – current	2,258	818
Prepayments – current	219	422
Accounts receivable – non-current	59	68
Accounts payable – current	(16,512)	(21,249)
Interest payable	(753)	(523)

The following table provides the total amount of transactions with related parties for the six-month period ended June 30:

	2010	2009
Sales revenue	1,651	616
Purchases of goods and services	3,569	3,379
Interest income from loans and borrowings	363	14
Interest expenses from loans and borrowings	256	233

Parent company, TMK Steel, pledged shares of OAO TMK in order to guarantee the Group's loans from Gazprombank in the amount of 1,107,542. During the six-month period ended June 30, 2010 the Group paid to the parent company 15,000 for the guarantee. Bravecorp Limited (an entity under common control with TMK Steel) pledged its shares of OAO TMK to VTB in order to guarantee the Group's loans in the amount of 750,000 from VTB. During the six-month period ended June 30, 2010 the Group paid 3,000 to Bravecorp for the guarantee. Accounts payable balance as at June 30, 2010 related principally to the unpaid fees for the guarantee provided by TMK Steel and Bravecorp in the amount of 1,300 and 13,000, respectively.

19) Related Parties Disclosures (continued)

Compensation of Key Management Personnel of the Group

Key management personnel comprise members of the Board of Directors, the Management Board and certain executives of the Group, totaling 26 persons as at June 30, 2010 (26 persons as at December 31, 2009). Total compensation to key management personnel included in general and administrative expenses in the income statement amounted to 6,501 and 6,895 for the six-month period ended June 30, 2010 and 2009, respectively.

Compensation to key management personnel consists of contractual salary and performance bonus depending on operating results.

The Group guaranteed debts of key management personnel outstanding as at June 30, 2010 in the amount of 3,554 with maturity in 2011 – 2017.

20) Contingencies and Commitments

Operating Environment of the Group

Significant part of the Group’s principal assets are located in the Russian Federation and therefore its significant operating risks are related to the activities of the Group in this country. The future stability of the Russian economy is largely dependent upon reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

In the wake of the global financial crisis, there are certain signs of general economic recovery. The stabilisation measures introduced by government to provide liquidity and support debt refinancing have led to stronger customer demand, increased production levels and improved liquidity in the banking sector. If the worldwide financial crisis continues it may lead to the reduction of the available credit facilities as well as substantively higher interest rates. The reduced cash from operations and reduced availability of credit may increase the cost, delay the timing of, or reduce planned capital expenditures.

The unexpected changes in economical environment could negatively affect the Group’s results and financial position in a manner not currently determinable.

Taxation

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

20) Contingencies and Commitments (continued)

Taxation (continued)

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.

In 2009 and 2010, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 653,312 thousand Russian roubles (20,943 at the exchange rate as at June 30, 2010). The Group contested the claims for the amount of 496,512 thousand Russian roubles (15,917 at the exchange rate as at June 30, 2010) in the courts; however, up to the date of authorisation of consolidated financial statements of the Group for issuance, the court proceedings had not been finalised. The remaining claims for 156,800 thousand Russian roubles (5,026 at the exchange rate as at June 30, 2010) are in the process of pre-trial settlement.

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. Consequently, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for six-month period ended June 30, 2010.

Contractual Commitments and Guarantees

As at June 30, 2010, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 1,094,037 thousand Russian roubles (35,070 at the exchange rate as at June 30, 2010), 36,214 thousand Euros (44,330 at the exchange rate as at June 30, 2010) and 10,214 thousand US dollars for the total amount of 89,614 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 22,774 with respect to such commitments.

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 9,739 (December 31, 2009: 52,458).

Insurance Policies

The Group currently maintains insurance against losses that may arise in case of property damage, accidents, transportation of goods, occupational diseases and natural disasters. 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.

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

20) Contingencies and Commitments (continued)

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding at June 30, 2010 in the amount of 4,647 (December 31, 2009: 4,246).

21) Equity

i) Share Capital

	June 30, 2010	December 31, 2009
Number of shares		
Authorised		
Ordinary shares of 10 Russian roubles each	959,167,871	873,001,000
Issued and fully paid		
Ordinary shares of 10 Russian roubles each	873,001,000	873,001,000

On February 5, 2010, the Board of Directors authorized an increase of share capital by 86,166,871 shares with par value of 10 Russian roubles each.

In June 2010 the Group received 8,589,818 thousand Russian roubles (279,427 at the historical exchange rate) as consideration from shareholders for the issuance of 64,585,094 shares with par value of 10 Russian roubles each at price of 133 Russian roubles per share.

As at June 30, 2010 share capital increase has not been finalised by the Group (Note 22).

ii) Dividends

The Company declared no final dividend in respect of 2009.

iii) Dividends by the Group's Subsidiaries to Non-controlling Interest Shareholders

During the six-month period ended June 30, 2010 and 2009, the Group's subsidiaries declared dividends to non-controlling shareholders in the amount of 8 and 2,302, respectively.

iv) Treasury shares

During the six-month period ended June 30, 2010, the Group purchased 64,478,432 shares of the Company from TMK Steel for 280,973 (including transaction fees of 2,000). As at June 30, 2010, the Group owned 71,575,796 treasury shares.

	2010	
	Number of shares	Cost
Outstanding as at January 1	7,097,364	37,378
Purchased during the year	64,478,432	280,973
Outstanding as at June 30	71,575,796	318,351

In order to facilitate the issuance of the convertible bonds, investment banks offered to certain institutional investors an opportunity to borrow GDRs of OAO TMK during the term of the bonds.

21) Equity (continued)

v) Hedge 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 US dollar denominated liabilities incurred in connection with this acquisition.

As at June 30, 2010 the Group designated 186,700 10% loan participation notes, 600,000 of liability to Gazprombank and 371,910 of liability to VTB as hedging instruments.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar/Russian rouble spot rates on the hedging instrument and on the hedged item. In the six-month period ended June 30, 2010, the effective portion of net losses from spot rate changes in the amount of 1,102,070 thousand Russian roubles (36,043 at historical exchange rate), net of income tax benefit of 220,414 thousand Russian roubles (7,209 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

vi) Acquisition of Non-controlling Interests in Subsidiaries

In the six-month period ended June 30, 2010, the Company purchased additional 0.02% of the shares of OAO "Seversky Pipe Plant", 0.04% of the shares of OAO "Sinarsky Pipe Plant", 0.02% of the shares of OAO "Taganrog Metallurgical Plant" and 49% ownership interest in OOO "TMK-SMS Metallurgical Service". The total cash consideration for the shares amounted to 435.

22) Subsequent Events

Bank loans

In August 2010, the Group amended certain agreements with Gazprombank for borrowing facilities in total amount of 1,107,542 changing the payment schedule and reducing interest rate.

In August 2010, the Group partially repaid 5,000,000 thousand Russian roubles Gazprombank's credit line facility due 2012 and entered into new credit line agreement with Gazprombank for the amount of 5,000,000 thousand Russian roubles with a maturity of 3 years.

Increase of Share Capital

On July 7, 2010, the Group finalised the increase of share capital by 64,585,094 shares with par value of 10 Russian roubles each by means of an open subscription at price of 133 Russian roubles per share. Number of shares subscribed represented approximately 7.4% of the Company's issued and fully paid share capital before additional issue. After completion of the share capital increase, the total number of the issued and fully paid shares was 937,586,094.