Strategic Development

Annual Report
2008

Contents

Company Profile and Key Indicators

TMK is one of the world's leading oil and gas pipe producers and Russia's largest manufacturer and exporter of steel pipes. In 2008, following the successful acquisition and consolidation of assets in Russia and Romania, TMK entered the US market and became a truly global company with the acquisition of IPSCO Tubulars and NS Group.

A vertically integrated company with one of the lowest cash costs in the industry, supported by steel self-sufficiency and advantageous scrap conditions, TMK has an annual production capacity of 6.5 million tonnes, including over 1.5 million tonnes of capacity in the specialised OCTG segment, the most lucrative market sub-segment with resilient demand and attractive margins.

TMK is the only company among global peers that sells more than half of its production domestically. TMK clients include such leading companies as, TNK-BP, Surgutneftegas, Gazprom, LUKOIL, Rosneft, Shell, AGIP, Total, Exxon Mobil, Occidental Petroleum, ONGC, and Saudi Aramco.

TMK focuses on supplying the oil and gas industry, which represented close to 70% of sales by volume in 2008. The Company is actively developing its Premium product offering and has ambitious plans to become one of the world's top suppliers of premium pipes.

The Company's oil and gas pipe range can be divided into five main types:

• Seamless threaded pipes for oil and gas fields, also referred to as OCTG. These are drill pipes, well casings, and tubing used in the drilling, equipping, and operation of oil and gas wells

Seamless pipes for oil and gas industry

• Seamless line pipes for infield pipelines. This product range is used to deliver crude oil and natural gas from fields to refineries, storage tank farms, loading terminals and distribution points

• Welded energy tubulars, also referred to as welded OCTG. These are used as a substitute for seamless pipes in some markets depending on their application

• Welded line pipes for infield pipelines. These are pipes used for the transportation of crude oil from fields to refineries, storage tank farms, as well as loading points and distributing centers;

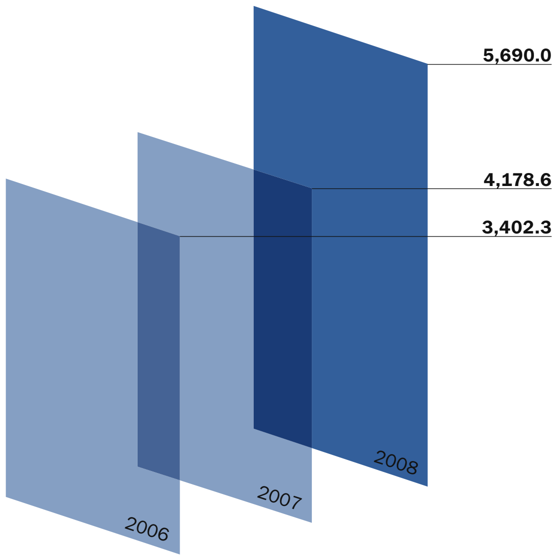
• Longitudinal and spiral large-diameter welded pipes. This product range is used in the construction of trunk pipeline systems for the long-distance transportation of natural gas, crude oil and petroleum products.

In addition to oil and gas tubulars, TMK produces a wide range of seamless pipes for industrial use as well as small and medium diameter welded pipes.

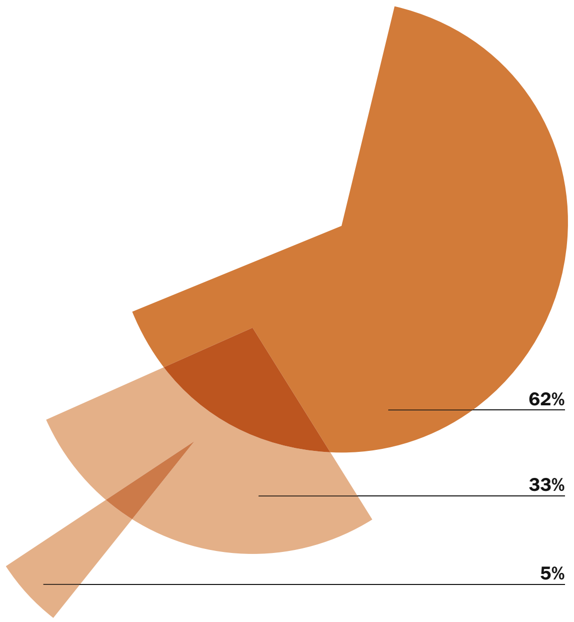
TMK products comply with Russian national standards and specifications, and with API, ASTM, and EN/DIN international standards. The quality systems in place at all the Company's manufacturing divisions are ISO 9001 and API Spec Q1 certified.

TMK shares are traded on the London Stock Exchange as GDRs and in Russia on the RTS and MICEX exchanges.

Key Indicators

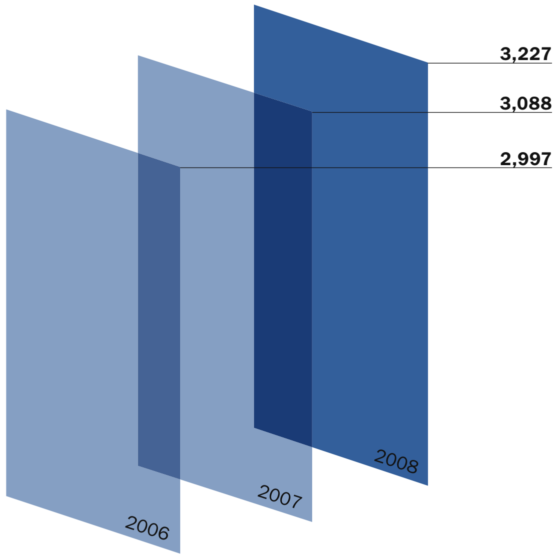


Sales, million USD

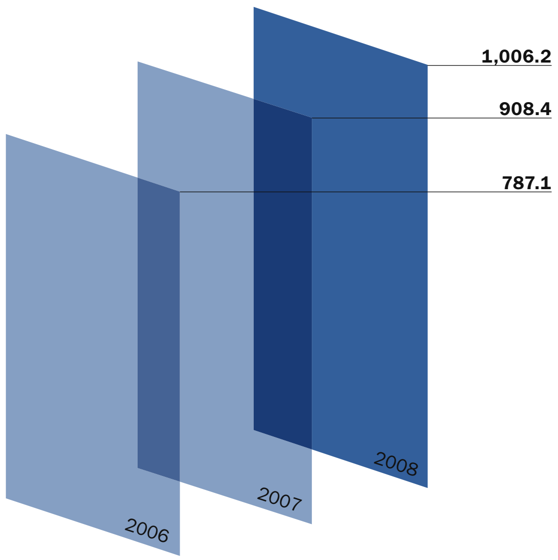


Sales structure in 2008

62% Seamless pipes
33% Welded pipes
5% Other activity



Sales volume, thousand tonnes



EBITDA[1], million USD

[1] EBITDA calculation is shown in the Financial Measures Calculation section of this Annual Report on page 111.

Chairman's Letter

Dear Shareholders,

This past year, TMK reached another major milestone in its history. Key development breakthroughs were achieved as a result of our organic growth strategy and the Company's expansion on the global pipe market.

TMK followed its development strategy and strengthened its position as the leading manufacturer and supplier of steel pipes in Russia and as one of the world's largest suppliers of pipe products to the oil and gas industry. During 2008, we significantly increased our global presence as we completed TMK's most ambitious expansion to date and acquired production assets in the United States. The creation of the TMK IPSCO Division enabled our Company to become a leading player on the world's largest oil and gas pipe market.

During the last year, in spite of the global economic downturn, we managed to successfully complete the key stages of TMK's Strategic Investment Programme and significantly enhanced the level of technology used in our production processes. Such a large-scale modernisation programme, with regard to the capital expenditures and the technology involved, ensures our Company's competitive edge for the years and even decades to come.

At the same time, such breakthroughs, when coupled with the current economic environment, provide us with new challenges. While working on strengthening our financial position, we must continue to enhance TMK's leadership in key markets and expand its geographic reach. To successfully meet these new challenges, the board of directors initiated a number of organisational decisions and appointments. I am confident that Alexander Shiryaev's professionalism and financial expertise combined with Konstantin Semerikov's commercial skills will enable TMK to successfully meet these new challenges.

Dmitriy Pumpyanskiy,
Chairman of the Board of
Directors of OAO TMK

These measures taken by the board coupled with the development of an anti-crisis programme have already yielded results and proved justified as we successfully restructured the debt raised for the acquisition of US assets.

In all the regions where it has a presence, TMK cultivates and maintains an active dialogue with a wide range of parties at the local, state and national levels. In Russia, TMK is part of the list of companies which the government considers strategically important to the economy.

We continue implementing the latest corporate governance standards in the Company's everyday practice and ensuring an adequate level of information disclosure. Our efforts in this field were recognised this year as TMK came 6th in Standard & Poor's annual Transparency and Disclosure Survey of the 90 largest publicly listed companies in Russia, a significant improvement on 2007 when, in its first year as a public company, the Company ranked 18th.

Given the current economic environment, the year ahead promises to be challenging; however, when considering the strong oil and gas industry fundamentals and the Company's recent strategic developments, TMK is well positioned to face these more difficult times. We have expanded and strengthened the Company's geographical and market presence, upgraded production capacities and significantly improved product quality, while further strengthening relationships with key partners and outlining new market entry strategies.

We value the commitment of our employees, their skills and professionalism being integral to the development of the Company. We have avoided major workforce reductions as we understand the importance of qualified personnel and the need to be prepared for the economic upturn. We are ready to use our global competitive advantages to maximise the Company's value and ensure its long-term success.

CEO's Letter

In 2008, TMK successfully completed its main investment projects, increased shipments and became a truly global pipe company thanks to its successful acquisition of North American assets.

In spite of the global downturn, which brought on a decrease in demand for pipe products, shipment volumes continued to grow and increased 5% compared to 2007.

Of course, we were not left unscathed by the crisis as pipe demand in the fourth quarter dropped 35% quarter-on-quarter. However, TMK's key oil and gas pipe segments showed more resilience than the industrial segments. While energy prices pulled back in the fourth quarter, demand for OCTG and oil and gas line pipe remained stable. As a result, although production volumes decreased domestically, TMK strengthened its leading position on the Russian steel pipe market and increased its market share from 24% in 2007, to 27% in 2008. The Company also improved its sales structure with an increase in OCTG shipments, including premium threaded pipes. In this segment, TMK remains the leading player in Russia, thanks to its R&D efforts and the development of proprietary premium connections, as well as in North America, due to the addition of ULTRA connections in the Company's premium product offering.

Every year, our customers face increasingly difficult drilling conditions. The successful upgrading of steelmaking, rolling, and finishing operations combined with the acquisition of US assets have given us one of the industry's broadest product mix, allowing us to meet our customers' requirements and giving us the ability to supply the full range of tubulars as well as increase our competitiveness.

In 2008, we continued to improve product quality with the completion and implementation of a unified corporate quality management system which was certified by Lloyd's Register Quality Assurance. As a result, TMK became the first pipe company in Russia and the CIS to have its quality management system certified.

The completion of key strategic investment projects allowed TMK to implement industry-leading technologies in its operations. In 2008, the Company successfully launched:

• A 1 million tonne capacity electric arc furnace at Seversky;

Alexander Shiryaev, President and Chief Executive Officer of OAO TMK

• A 600 thousand tonne capacity Premium Quality Finishing (PQF) rolling mill along with additional heat treatment capacity at TAGMET;

• A 650 thousand tonne capacity large-diameter longitudinal welded pipe mill with anticorrosion and smooth internal coating capacity at Volzhsky;

• New finishing capacity, including a finishing line for casing at Volzhsky, and heat treatment lines at Sinarsky and Volzhsky.

Our long-term goal remains unchanged and consists of completely replacing outdated open-hearth steelmaking with electric arc technology and to upgrade seamless rolling operations. In 2012-2013, TAGMET's last open-earth furnace is scheduled to be shut down and Seversky's Pilger pipe operations will be replaced with a continuous Fine Quality Mill (FQM). Until then, we will continue focusing on the newly launched capacity and increasing the Company's market share in our key markets, mainly Russia, the CIS and North America.

In order to better control business processes throughout the Company and its mills and to control and manage, in real-time, sales, production, supplies, finances, accounting, and human resources, an SAP ERP based corporate information was implemented.

Environmental safety remains a top priority at TMK and we constantly seek to minimise the environmental impact of operations when implementing our investment projects. In 2008, the commissioning of the arc furnace at Seversky was recognised as The Best Environmental Project of 2008 in Russia. TMK was also recognised in the Russian Ministry of Natural Resources' Ecological Efficiency of the Economy programme, confirming the Company's commitment to the environment.

TMK is a socially responsible company and a good employer. Even under the current economic downturn, the Company managed to preserve its human resources and continues to provide social protection to employees. The measures undertaken in 2008 have given the Company the necessary resources to overcome the effects of the crisis. This foundation will serve as the basis for our sustainability in the current year and the more distant future, allowing TMK to achieve its production targets and fulfil its commitments to investors, partners and employees.

2008 Key Events

January Volzhsky Pipe Plant (Volzhsky) launched 600 thousand tonnes of smooth internal coating capacity for large-diameter pipes.

February TMK finalised TMK-Resita's privatisation, with all investment obligations undertaken at the time of purchase fulfilled ahead of schedule.

March TMK established TMK Oilfield Services. The service division assumed management of Orsky Machine Building Plant, Truboplast, TMK Pipe Maintenance Department and TMK Central Pipe Yard.

TMK began shipments of large-diameter pipes to Gazprom for use in the onshore section of the Nord Stream pipeline.

April TMK shipped the first batch of pipes with premium threaded connections to Rosneft for exploration drilling in the Vankor field.

A new 200 thousand tonnes per annum (tpa) heat treatment line was commissioned at Sinarsky Pipe Plant (Sinarsky).

TMK completed the implementation of an SAP ERP corporate information system at its Russian plants.

May TMK became the first Russian company to join the German Institute for Standardisation (DIN).

TMK and Turkmenneft signed a cooperation agreement, which included the establishment of a TMK service center in Turkmenistan.

June Under a transaction with Evraz Group S.A., TMK acquired 100% of the share capital in IPSCO Tubulars Inc. and 51% of the share capital in NS Group Inc. for approximately USD 1.14 billion. TMK and Evraz also entered into a call / put option agreement for the remaining 49% of the NS Group Inc. shares.

TMK acquired 100% share capital in TOO Kaztrubprom. The Uralsk, Kazakhstan-based Company specialises in the threading and finishing of tubing and casing pipes used in the oil and gas industry.

July TMK-Artrom commissioned a new cogging mill enabling it to use billets from TMK-Resita for all its pipe production needs.

TMK successfully placed its second Eurobonds issue. The proceeds of the USD 600 million 3 year Eurobond maturing in July 2011 with a coupon yield of 10% were used to partly refinance the acquisition of US assets.

August Electrical installations required for Seversky's steelmaking operations were integrated into the national power grid. A 65 km long 220 kV high-voltage line and a 220/35 kV transformer substation were commissioned to supply Seversky's electrical needs.

Line pipes

Seamless pipes for oil and gas industry

September TMK-Premium Service entered into an agreement to licence TMK FMC premium connection technology to Beijing Huayou Xingye Materials Co. (China).

A 340 thousand tonne capacity heat treatment line was put into operation at Volzhsky Pipe Plant.

October TAGMET commissioned a 600 thousand tonne capacity Premium Quality Finishing (PQF) seamless rolling mill and brought on line an additional 200 thousand tonnes of heat treatment capacity.

A 200 thousand tpa finishing line for casing pipe was commissioned at Volzhsky Pipe Plant.

November The Board of Directors appointed Alexander Shiryaev as TMK CEO and Konstantin Semerikov as CEO of Trade House TMK and OAO TMK.

A 650 thousand tpa large-diameter longitudinal welded pipe mill was commissioned at Volzhsky. Additionally, a 650 tpa exterior anti-corrosion coating line for large-diameter longitudinal and spiral welded pipes was commissioned.

Seversky commissioned a one million tpa electric arc furnace.

A new 200 thousand tpa heat treatment line began operations at TAGMET.

December TMK finalised the pre-registration of chemical substances contained in its products under the EU's REACH regulation.

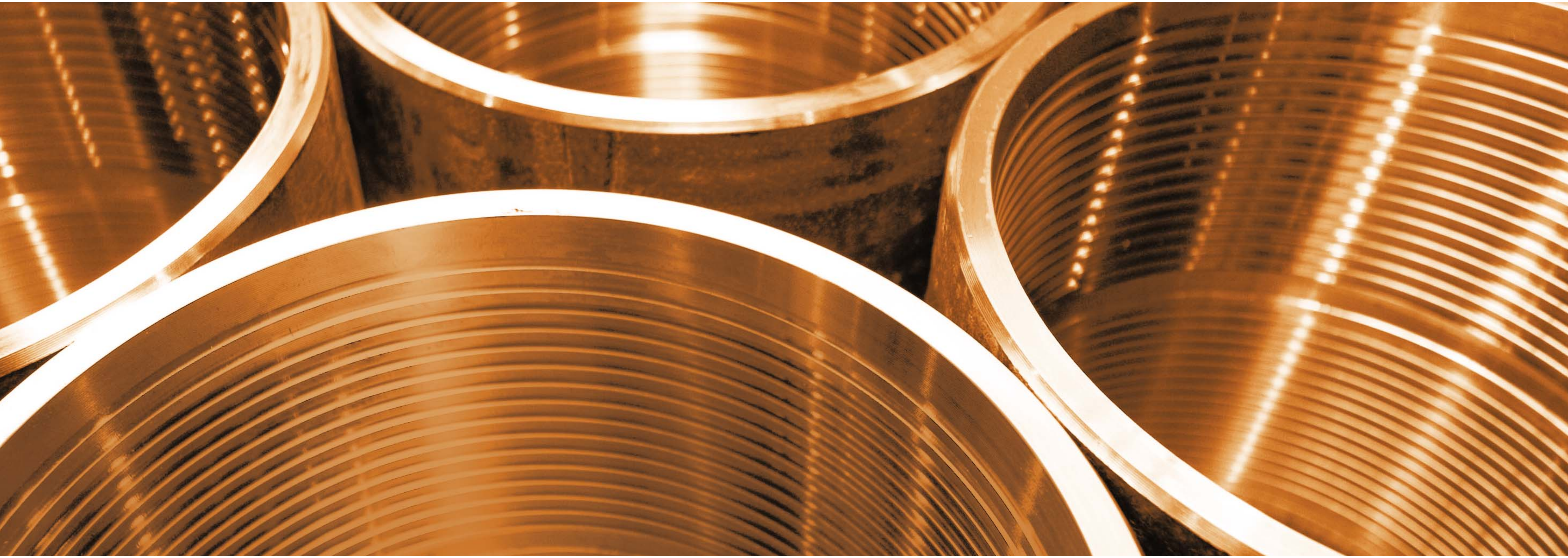
Key events after 2008

January TMK obtained a set of 30 month loans from Gazprombank for a total amount of about USD 1.1 billion for the repayment of the remainder of a syndicated bridge facility arranged for the financing of the purchase of the US tubular assets of IPSCO Inc. and 49% of NS Group Inc. from Evraz Group S.A. under the call/put option.
The Company acquired 49% of NS Group Inc. shares from Evraz Group S.A, giving it full control of NS Group Inc.

February TMK received ISO 9001:2000 certification from Lloyd Register Quality Assurance.

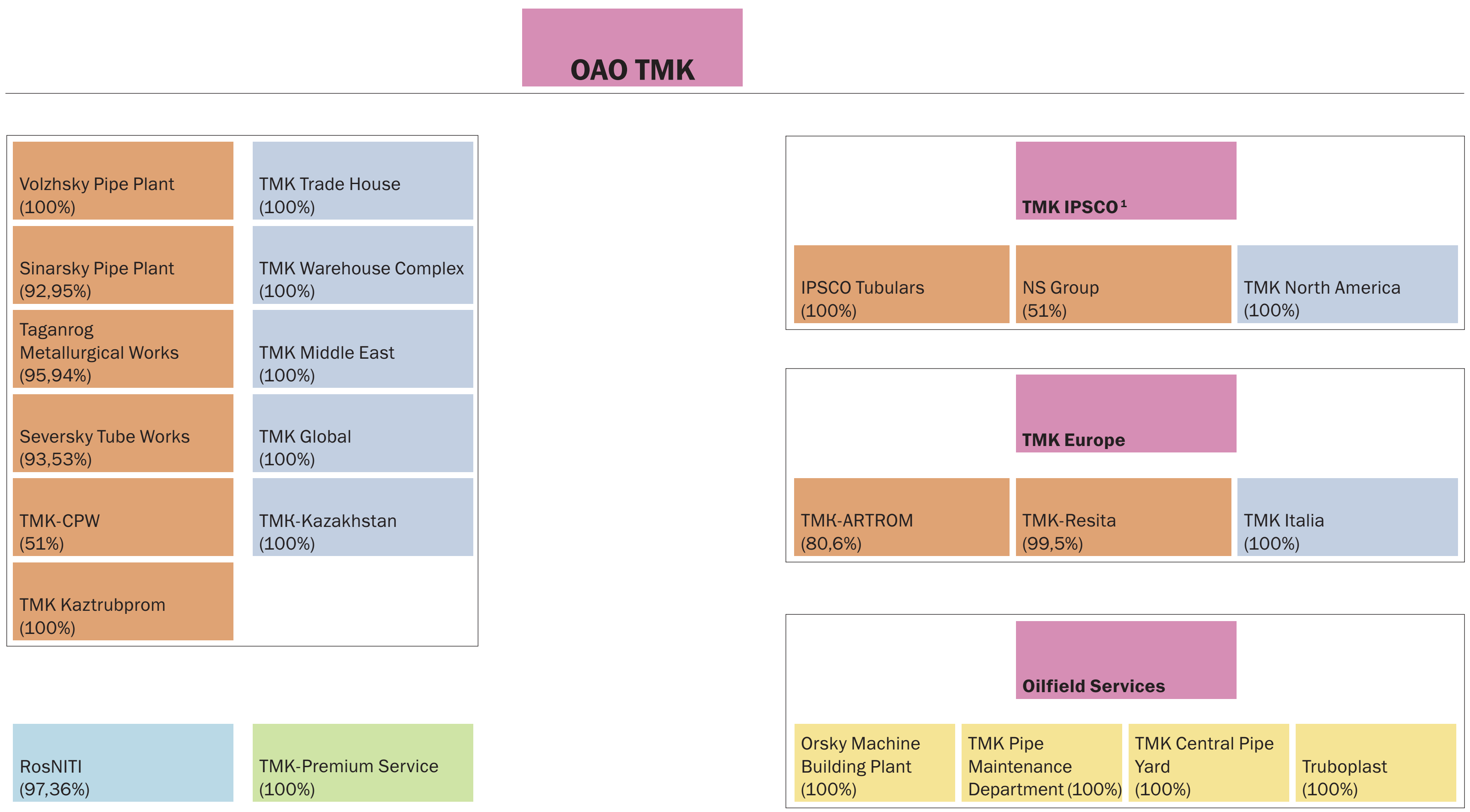
March TMK began shipments of large-diameter longitudinal welded pipes to Gazprom for the construction of the Bovanenkovo-Ukhta gas pipeline.

About the Company



Structure

TMK's organisational structure representing its activities as of December 31, 2008, is shown below.



- Management
- Production
- Oil and Gas Services
- Scientific and Technical Center
- Sales and Marketing
- Premium and Threaded Connections

TMK produces the following types of pipes:

Production	Total Capacity (thousand tonnes per year)	Primary Application
Seamless pipes		
OCTG	1,508	Oil and gas industry
Line pipe	745	Oil and gas industry
Industrial pipe	667	Machine building and energy sectors
Welded pipes		
Large-diameter	1,200	Oil and gas industry
OCTG	520	Oil and gas industry
Line pipe	570	Oil and gas industry
Industrial pipe	1,300	Public utilities, energy and construction sectors

In 2008, TMK's annual production capacity grew by 2.3 million tonnes following the acquisition of US assets and the implementation of key projects within the Company's Strategic Investment Programme.

[1] TMK IPSCO includes IPSCO Tubulars Inc. and NS Group Inc. (10 US-based production facilities) acquired in 2008. On January 30, 2009, the Company acquired 49% of NS Group Inc. shares from Evraz Group S.A. and gained control of 100% of NS Group Inc. TMK's production facilities are located in the Russian Federation, USA, Romania and Kazakhstan. The Company comprises over 20 enterprises.

Assets


TMK Pipe Maintenance Department
Truboplast
Seversky Tube
Works, TMK-CPW
Sinarsky Pipe Plant
Russian Research Institute for the Pipe Industry
TMK
Headquarters
TMK Central Pipe Yard
TMK-Kaztrubprom
Orsky Machine Building Plant
TMK-Kazakhstan
Volzhsky Pipe Plant
TMK Europe
TMK Global
TMK-Resita
Taganrog Metallurgical Works
TMK Italia
TMK-Artrom
Trade House TMK in Azerbaijan
Trade House TMK in Turkmenistan
Trade House TMK in China
Downers Grove
Koppel
Camanche
Ambridge
Geneva
Wilder
Tulsa
Blytheville
Odessa
Baytown
Houston
TMK North America
TMK Middle East
Trade House TMK in Singapore
Management
Production
Oil and Gas Services
Scientific and Technical Center
Sales and Marketing

TMK's market position

The year 2008 was challenging for the global pipe industry. Despite the challenges encountered, the Company nevertheless managed to finish the year with positive financial results. In addition, the year was one of considerable change and development in the Company's business. TMK successfully completed all scheduled investment projects, making it possible to substantially expand the range of products and creating the necessary conditions for strengthening its position both in Russia and on international markets. The Company established itself in the USA, the world's largest pipe market, through the acquisition of US assets of IPSCO Tubulars Inc. and NS Group Inc. Throughout 2008, TMK continued to improve its market share in the segment of high-end products and services for the oil and gas industry, secured a number of contracts with major oil and gas companies and considerably increased shipments of premium threaded OCTG pipes.

The first 9 months of 2008 were defined by increased steel pipe consumption. However, in the fourth quarter of 2008, the world financial crisis brought about a sharp demand contraction in a number of sectors. As a result, the Company estimates that global pipe consumption shrank 2% in 2008. The most significant decrease in demand on the global pipe market was observed in the welded pipe segment which contracted 3%, mostly due to a 6% decrease in demand for industrial welded pipes.

In 2008, there was insignificant growth in the global consumption of seamless pipes as a result of lower seamless industrial and line pipe consumption. At the same time, sales of seamless OCTG pipes, the Company's most lucrative market sub-segment, increased 5%.

Although oil prices began to decline in the second half of 2008, global demand for OCTG and line pipe products remained strong. In 2008, the North American OCTG and oil and gas line pipe market grew between 7 and 8%. Increased demand for these products lead to a growth in prices despite falling steel prices.

The positive effects of favourable raw material prices were partly offset by the global financial crisis and falling demand for industrial seamless and welded pipes in the second half of the year. In the fourth quarter of 2008, the Russian industrial pipe market fell by about 50% quarter-on-quarter, while prices fell some 15% from their August peak.

Oil pumping units

Negative trends on the industrial pipe market affected TMK less than other pipe manufacturers and metallurgical companies due to the Company's high exposure to the oil and gas sector.

Market Share

TMK is the leader of the Russian pipe industry and one of the key players on the global oil and gas pipe market. The Company estimates that in 2008, it remained second in terms of production and its share in the global steel pipe market increased from 2.78% in 2007, to 2.97% as a result of the acquisition of US assets.

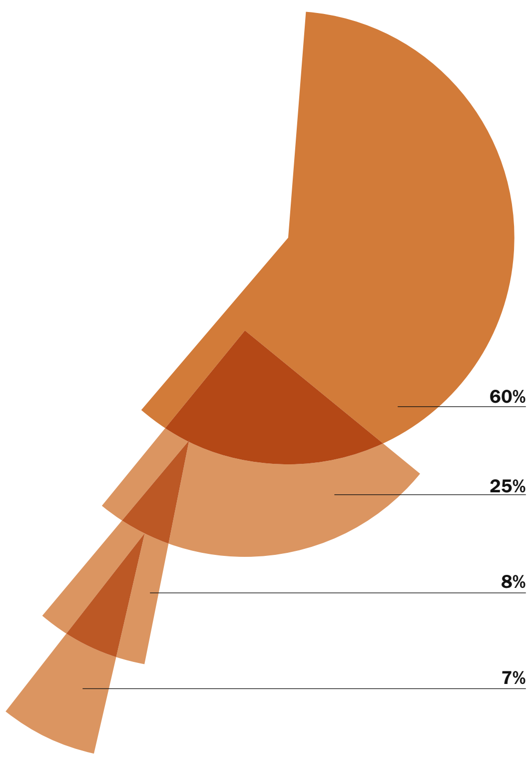
TMK holds leading positions in all the high-margin segments of the Russian pipe market. Over the course of 2008, the Company's share on the Russian steel pipe market increased from 24.1% to 27.1%. Sales of pipe products outside Russia accounted for 37% of total TMK sales.

The Company's global presence is ensured by its extensive trade network. Sales are conducted through Trade House TMK and a number of other distributors. TMK has a diverse geography of sales and supplies products to more than 60 countries.

TMK has a strong industry structure of customers in which the main customers for TMK products are oil and gas companies. These accounted for 69% of the customer structure in 2008. A significant part of TMK's pipe production is also used in the public utilities and construction sectors. In 2008, their share in the Company's customer structure decreased from 25% to 15%.

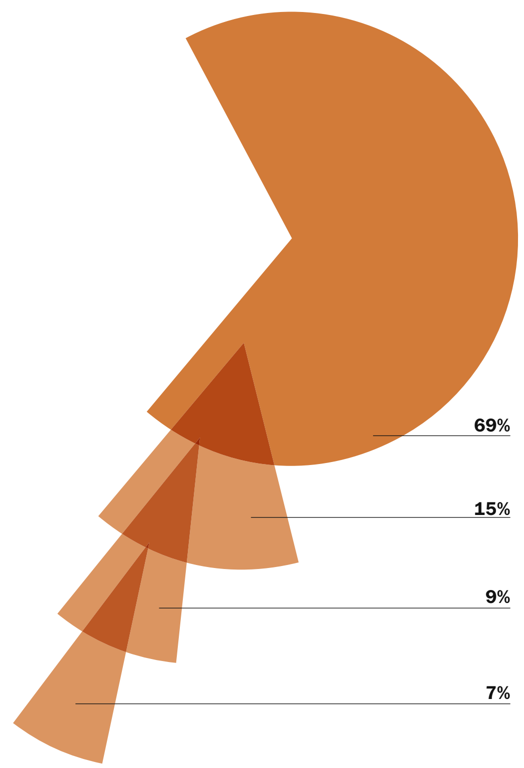
In 2008, TMK shipped 3,227 thousand tonnes of steel pipes, 5% more than in 2007.

The growth in shipment volumes was mostly brought on by the acquisition of production assets in the United States in mid-2008. TMK IPSCO, specialising in the production of welded and



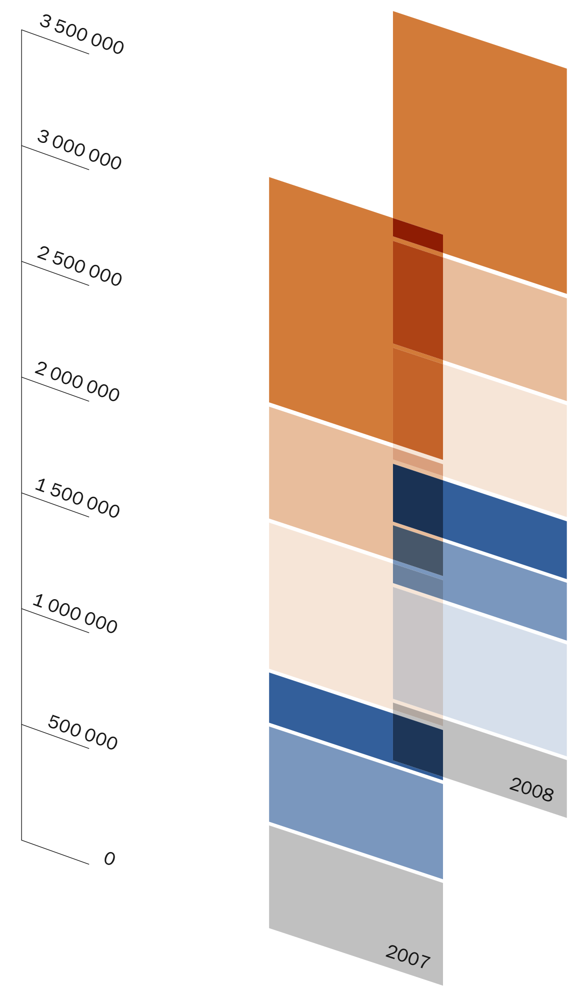
TMK's customer structure in 2007

60%	Oil and gas
25%	Public utilities and construction
7%	Machine building
8%	Other



TMK's customer structure in 2008

69%	Oil and gas
15%	Public utilities and construction
7%	Machine building
9%	Other



2007–2008 Shipment volumes by segment

	2007	2008
Seamless OCTG	31%	31%
Seamless line pipe	15%	14%
Seamless industrial	20%	16%
Welded OCTG	–	8%
Welded line pipe	7%	8%
Welded industrial	13%	15%
Large diameter welded	14%	8%

seamless OCTG pipes, had a positive effect on TMK shipment volumes in the second half of 2008. The acquisition of new production assets enabled TMK to expand its product range and increase shipments of welded and seamless OCTG pipes, including of premium threaded pipes.

Without TMK IPSCO, 2008 TMK pipe shipments amounted to 2,738 thousand tonnes, 11% less than in 2007. The decrease was mainly related to the modernising of TAGMET rolling capacity and the installation of a PQF mill which necessitated production stoppages, a 38% decrease in large-diameter pipe shipments from Volzhsky due to postponements in the implementation of a number of major pipeline projects, as well as a decrease in demand for industrial seamless pipes in the fourth quarter of 2008.

The Company's high level of product diversification enabled it to perform better than the Russian pipe industry average and, in spite of lower shipment volumes, to increase its market share on the Russian pipe market. While the Russian large-diameter pipe market fell 42% in 2008, compared to 2007, the Company's large-diameter pipe shipments decreased 38%. Given the high demand for seamless line pipe, the Company redirected some of its production capacity from OCTG to increase production of seamless line pipe. This allowed TMK to achieve better pricing and higher profitability in the seamless oil and gas pipe segment, as rolling and finishing capacities for seamless OCTG and line pipe are interchangeable. TMK also increased production of welded OCTG pipe from its TMK-CPW joint venture with the Greek pipe company Corinth Pipe Works.

TMK's main markets are Russia, North America, the CIS, Europe and the Middle East. In 2008, the Company considerably expanded its presence on the North American market.

On the Russian market, the Company's largest consumers are Surgutneftegas, TNK-BP, Gazprom, Rosneft, and LUKOIL. Together, these accounted for more than 30% of total pipe shipments. TMK's 10 largest customers accounted for 36% of total sales in 2008. TMK products are also used by major international oil and gas companies, including Shell Group, Agip, Total, Exxon Mobil, Occidental Petroleum, and state oil companies like ONGC, Saudi Aramco, Sonatrach, and KOC.

A substantial portion of TMK products is sold through participation in major international and Russian pipeline construction projects. In particular, TMK previously supplied pipe products for the construction of the Caspian Project Consortium pipeline, the Baltic Pipeline System, the Yamal-Europe gas pipeline, the reconstruction of the Central Asia-Center gas pipeline system and the implementation of the Sakhalin-1 project. In 2008, TMK continued to deliver pipes for the expansion of the Urengoy gas transmission system and the Zapolyarnoye-Urengoy pipeline, as well as the construction of the onshore section of Nord Stream and the Pochinki-Gryazovets pipeline.

In 2008, TMK qualified various types of pipe, including new pipe products, with 18 major companies. TMK products are qualified with 60 international companies, including Shell, Saudi Aramco, KOC, KNPC, Agip KCO, PDVSA, Karachaganak Field Development Project, Technip, Coflexip, and Saipem. To broaden the international recognition of its products, TMK is currently engaged in qualification activities with more than 70 companies. Qualification documents are being prepared for TMK IPSCO products, PQF mill production from TAGMET and longitudinal large-diameter welded production from Volzhsky.

Seamless and welded OCTG pipe market

The main demand drivers for seamless oil and gas pipes, which include OCTG and line pipe, are the dynamics of oil and gas exploration and production (E&P) budgets. These are allocated by oil and gas companies for exploration and production activity and also correlate with the changing conditions of oil and gas production. In the first half of 2008, the development trends in the global oil and gas industry were favourable to the implementation of investment programmes by oil and gas companies as the high costs of hydrocarbons fuelled exploration and production in challenging operating environments. However, in the fourth quarter of the year, the drop in demand for energy brought on by the global financial crisis resulted in spending cutbacks by oil and gas operators.

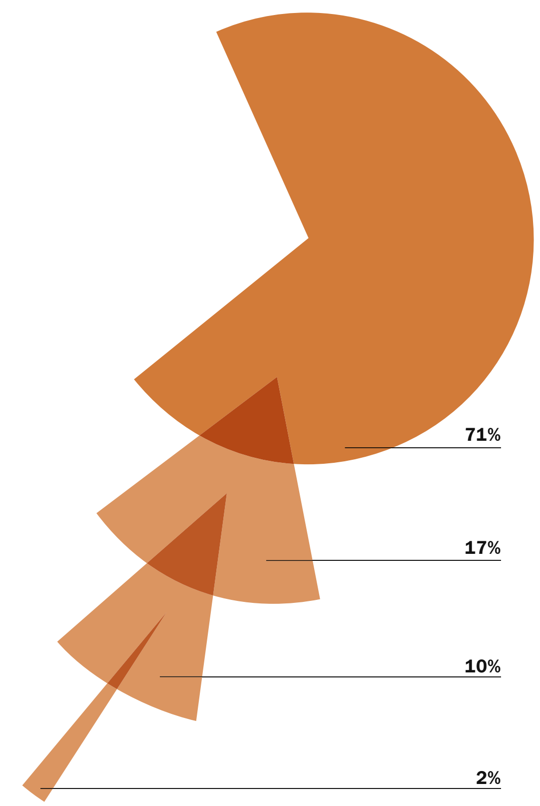
While TMK is well positioned on international markets, the Company is the leading supplier of seamless pipes to the Russian oil and gas industry. In 2008, the Company's seamless OCTG market share in Russia and globally remained unchanged at 59% and 11%, respectively. At the same time, TMK's seamless line pipe market share in Russia increased from 56% in 2007 to 59% in 2008, and increased from 14.7% to 15.1% globally.

The acquisition of US pipe assets considerably strengthened TMK's presence on the global welded oil and gas pipe market. In 2008, TMK's welded line pipe market share rose from 5% to 6% and its welded OCTG market share from 0.3% to 8%. In Russia, TMK's welded line pipe market share was 30% at the end of 2008, a 7% increase over 2007 while its share of the welded OCTG market slightly decreased from 4% in 2007 to 3% in 2008.

Large-diameter welded pipe market

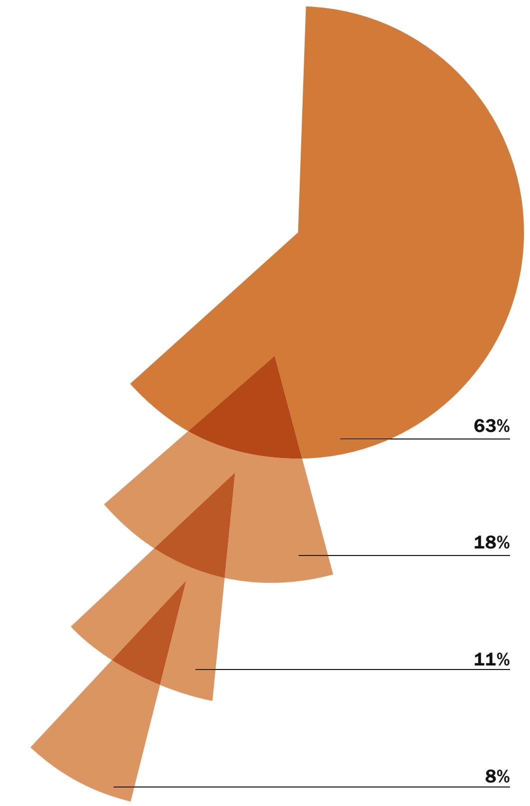
The Company's main sales markets for large-diameter pipes are Russia and the other CIS countries. The fact that oil and gas deposits are located rather far from the principal regions of energy consumption, and the need to construct new bypass pipelines due to the complicated political relations between Russia and a number of transit states,

Oil country tubular goods (OCTG)



2007 pipe shipments, by regions

71%	Russia
10%	CIS
2%	North America
17%	Other



2008 pipe shipments, by regions

63%	Russia
8%	CIS
18%	North America
11%	Other

both act as a powerful driving force for the development of pipeline transportation in the region.

The main distinguishing feature of the large-diameter pipe market is an uneven pattern of consumption strongly determined by the construction period and rates of implementation of pipeline projects. As a result of delays in the construction of a number of major pipelines in 2008, the Russian large-diameter pipe market shrank by 42% as compared to 2007. At the same time, TMK's market share rose from 11.7% in 2007 to 13.3% in 2008.

The commissioning of a new line for the production of large-diameter longitudinal welded pipes at Volzhsky Pipe Plant at the end of 2008, complemented the mill's existing spiral welded large-diameter capacity, and has removed product range restrictions in the segment, effectively providing the basis for a considerable expansion of the Company's market share.

Industrial seamless pipe market
The dynamics of the industrial seamless pipe market mostly reflect the development trends of the petrochemical, power generation, machine building, automotive and aerospace industries. The industrial seamless pipe market remained virtually unchanged in 2008, compared to 2007, as the growth observed over the first nine months was offset by a significant fall in demand in the fourth quarter of 2008 as a result of the unfolding global crisis.

The main regions of TMK's presence in this segment are Russia, the CIS and Europe. In 2008, the Company estimates that the Russian industrial seamless pipe market decreased 11% compared to the previous year. TMK is second in Russia in terms of industrial seamless pipe output with 25% of the Russian market.

Industrial welded pipe market
Industrial welded pipes are used for basic applications in such sectors as agriculture, construction and utilities. The production is predominantly local, with a large number of suppliers involved. The main sales markets for TMK in this segment are the Russian Federation and neighbouring CIS states.

In 2008, the Russian industrial welded pipe market declined an estimated 10% over the previous year as a result of the vulnerability of the above-mentioned industrial sectors during periods of economic downturn. At the same time, TMK's market share increased slightly to reach 14%. TMK industrial welded pipe shipment volumes were up 12% in 2008, compared to 2007.

Competition

The domestic and foreign pipe product markets are characterised by strong competition which is also affected by the growing number of regional pipe manufacturers.

TMK's main competitors in Russia are OMK, Interpipe and the ChTPZ Group; its global competitors include Tenaris, Vallourec, Sumitomo and China's TPCO and Baoshan Iron and Steel.

Line pipes

Due to the ongoing economic crisis, there is a trend towards stronger protectionist measures and a growing number of trade barriers in most of the key pipe-consuming regions, first and foremost, in North America and the European Union.

The growth of TMK's competitiveness on the local and global markets was favourably affected by the large-scale reconstruction of the main production lines and processes undertaken at the Company's mills. In addition, the acquisition of the TMK IPSCO assets in the USA, the Kaztrubprom plant in Kazakhstan and the development of service divisions, have all lead to a considerable diversification of the Company's product mix and sales channels.

Strategy

In 2008, the structure of the Company's assets underwent a qualitative transformation; at the same time, TMK's global operations became more balanced and its dependency on the Russian and CIS markets less pronounced.

TMK strives to further reinforce its position, both domestically and internationally. To this effect, the Company has established the following key strategic goals:

- **To increase profitability** by strengthening its global presence, developing services and creating additional benefits for customers.

- **To create maximum** added value by implementing leading technologies and carrying out a comprehensive cost-optimisation programme.

The latest macroeconomic developments in the world economy make it necessary to take certain new realities into account in TMK's strategy for the period up to 2020 and to adjust business development plans for the Company's divisions over the period to 2015.

TMK's medium-term strategic priorities

Enhance Leading

• Maintain focus on running the core energy tubular business

• Pursue growth opportunities within a value context through high return investments into operating platform

• Broaden coverage of core customer needs by new and enhanced tubular products and services

• Align financial policies to support sustained profitable growth

Exploit Global

• Leverage TMK's local brands/global scale to expand North American footprint

• Focus on seamless and Premium connections: global products with attractive local market potential

• Leverage measurable synergy benefits from integration into TMK's scope

• Accelerate transfer of best practice and knowledge to drive local operational performance

Institutionalise

• Ramp-up implemented strategic Capex to reach industry benchmark levels

• Launch cost and operational improvements in high impact areas

• Drive a company wide lean culture and value-oriented execution discipline deep into the organisation

• Drive commercial excellence with focus on strategic account management

• Continue to strengthen management capabilities and talent

• Optimise shared services consumption and technology spendings

Capture Key Adjacencies

• Expand into adjacent customer segments and markets to move up the value chain

• Seed selective investments and partnership in promising market

TMK's strategic development is comprised of three stages:

2009–2013 Modernisation and technical upgrade

2014–2016 Qualitative growth and leadership consolidation

2017–2020 Sustainable development

Longitudinally welded large diameter pipes

Premium Quality Finishing (PQF) seamless rolling mill at TAGMET

The global scale of the business determines the components of TMK's strategy up to 2020:

1. Modernisation/reconstruction of existing capacities:

• Focusing capital investments up to 2015 on raising operational efficiency: replacing obsolete technologies, bringing new capacity into full operation, achieving costs savings and increasing productivity;

• Expanding the product range.

2. Construction of new production sites:

• Possible construction of new production facilities beyond 2013 in regions where the Company has an operating presence and based on the confirmation of a long-term trend in market demand and the balance of production capacities in the industry.

3. Target acquisitions

• Selective acquisitions and entering adjoining business segments, improving product mix and customer services;

• Improving TMK's positioning in the value-added chain.

Strategic Investment Programme

TMK's Strategic Investment Programme is a key element in reaching the Company's goals. In spite of the difficult economic conditions of 2008, the main stage of the Strategic Investment Programme was completed, with total Programme investments for the year reaching around USD 550 million, out of a total of USD 840 million used to acquire production equipment in 2008[1]. As of today, the Company has implemented most of its investment programme.

[1] TMK's Strategic Investment Programme includes the modernisation of existing facilities and the construction of new production capacities to meet the Company's strategic goals. In addition to these projects, TMK plants acquire supplementary equipment, maintain existing capacities and realise social projects.

Key investment projects completed in 2008

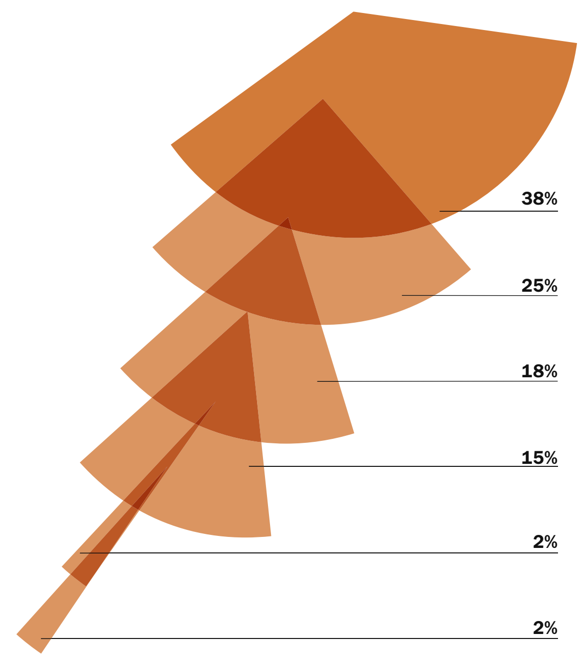
Construction of a Premium Quality Finishing (PQF) seamless rolling mill
The construction of a PQF seamless rolling mill, produced by SMS Meer (Germany), was a crucial part of the reconstruction of TAGMET's seamless rolling capacity. The Company made a great technological leap forward by replacing Pilger rolling processes with the PQF's three-roller technology. TAGMET's new mill is the first of its kind in Russia and the second in Europe.

The PQF seamless rolling mill distinguishes itself by its high level of automation and the high quality standards of finished pipes. The new rolling technology makes it possible to produce pipes with geometry that twice surpasses GOST and API requirements. The PQF mill produces hot-rolled tubes for the manufacturing of oil and gas pipes, including drill pipe, casing, tubing and line pipe, with diameters ranging from 73 to 273 mm and wall thickness ranging from 5 to 25 mm. This state-of-the-art rolling capacity enables the Company to meet the requirements of the most demanding applications in the oil and gas and machine building industries.

In addition to higher product specifications, including more precise geometry, other key advantages brought on by the PQF mill are lower steel consumption ratios along with a fundamentally new level of equipment efficiency.

With the new pipe rolling mill on line, TAGMET obtained up to 600 thousand tonnes per year of oil and gas pipes with enhanced performance characteristics. Moreover, the commissioning of a new heat-treatment line enables the mill to produce up to 200 thousand tonnes of high-strength pipes to API international standards and customer requirements.

This new generation of oil and gas pipes is designed for aggressive and complex operating environments such as those found in Caspian Sea offshore operations and Arctic shelf projects in the Kola Peninsula and the Barents Sea. The production of PQF seamless tubes will also meet the needs and requirements of the machine building, energy, chemical and petrochemical industries and other demanding applications.



Strategic Investment Programme Allocation Structure 2004-2008

38%	Upgrading of equipment for the production of steel billets for seamless pipe production
25%	Increasing seamless pipe production capacity and quality
18%	Increasing heat treatment and finishing capacity
15%	Increasing large-diameter pipe production capacity
2%	Enhancement of environmental protection systems
2%	Upgrading of testing and control equipment

Construction of a large-diameter longitudinal welded pipe production line
A new line for the production of large-diameter longitudinal welded pipes, manufactured by Switzerland's Haeusler AG, was commissioned at Volzhsky in 2008.

This successful commissioning completed one of the largest projects in TMK's Strategic Investment Programme. Prospects for the large-diameter pipe market are linked to the growing demand for pipes with extra-thick walls designed for high pressure and aggressive operating environments. Large-diameter pipes are used in long distance oil and gas pipelines including offshore pipelines, oil field pipelines, general purpose pipelines, and in the construction of heating systems and nuclear power stations.

The mill utilises leading edge roll bending technology which ensures high productivity and high quality production characteristics, while the equipment is renowned for its operational reliability.

The new 650 thousand tonne mill, the first of its kind in Russia, produces longitudinal welded pipes of up to X100 grade with diameters ranging from 530 mm to 1420 mm and wall thickness of up to 42 mm.

Additionally, exterior anticorrosion coating capacity for longitudinal and spiral welded pipes with diameters ranging from 508 to 1420 mm was added to the mill. The equipment has the capacity to coat 650 thousand tonnes of pipes per year. The coating line can apply one- and two-layer epoxy coating two- and three-layer polyethylene coating and two- and three-layer polypropylene coating. The external coating considerably extends pipeline lifetime to a minimum of 30 years.

Volzhsky also operates a 600 thousand tonne capacity smooth internal coating line for longitudinal and spiral welded pipes with diameters ranging from 508 to 1420 mm.

These new LD production and coating capacities at the Volzhsky Pipe Plant enable TMK to reinforce its position as the leader of the pipe industry in Russia and the CIS, as well as expand its participation in major pipeline projects for companies like Gazprom, Transneft, Rosneft, TNK-BP, Surgutneftegas, and Turkmenneft. These projects include the Nord Stream and Eastern Siberia – Pacific Ocean pipeline systems.

Construction of an electric arc furnace
In the fourth quarter of 2008, Seversky commissioned a state-of-the-art electric arc furnace manufactured by SMS Demag (Germany). The implementation of the project enabled the plant to switch from the open-hearth process to high-tech electric steelmaking technology and created an advanced complex which also includes a ladle furnace and a continuous caster.

The commissioning of this new EAF makes it possible to expand smelting operations, including high alloy and anti-corrosion steel production. The EAF also provides Seversky with a greater degree of quality and production cost control over the steel used in its pipe-making operations. The main advantage of the electric arc furnace is a reduction in the consumption of production materials as it decreases the metal consumption index by raising the number of fusions in a cycle. With the electric arc furnace, the number of fusions per cycle rose from 3–4 to 8–12.

This new equipment will substantially reduce the environmental impact of steelmaking operations by decreasing atmospheric emissions and reducing production waste by 70%. The operational efficiency of the furnace's gas cleaning system is unparalleled in Russia and the CIS, fine particle emissions from steelmaking operations are twice lower than Russian norms and 1.3 times lower than European Union requirements.

The furnace is capable of producing up to 1 million tonnes of liquid steel, or 950 thousand tonnes of steel billets, enough to supply Seversky and Sinarsky, which does not have steelmaking capacity, for seamless pipe production.

Other 2008 TMK investment projects
• Volzhsky and Sinarsky completed the construction of heat treatment lines, which are currently ramping-up. Once at full capacity, the new lines will increase total heat treatment capacity by 540 thousand tonnes a year.

• A new casing production line with a capacity of 200 thousand tonnes per year was installed at Volzhsky. The equipment is currently undergoing testing.

• Sinarsky commissioned a water treatment facility intended for the bio-chemical treatment of chemically polluted industrial waste waters. This equipment will prevent any adverse effect on surface and ground waters.

Electric arc furnace at Seversky Tube Works

Production of welded pipes at Blytheville facility, USA

• Various projects have been implemented to improve product quality, expand the product range and improve the quality of pipe finishing, control measures and monitoring procedures.

Plans for implementation of the Strategic Investment Programme in 2010–2011
Given the current financial and economic situation, the Company is adjusting its Strategic Investment Programme accordingly. In the coming years, TMK plans to implement the following major projects:

• The construction of a 600 thousand tonne three-roller FQM continuous rolling mill producing pipes with diameters of 168 to 365 mm and wall thickness ranging from 6.0 to 40.0 mm at Seversky;

• The installation of cold drawing equipment for carbon and stainless steel pipes at Sinarsky;

• The upgrading of Volzhsky's hot-rolling capacity;

• The construction of a new 1 million tonne electric arc furnace at TAGMET.

Acquisitions

Acquisition of IPSCO Tubulars Inc. and NS Group Inc.
On March 14, 2008, the Company entered into an agreement with Evraz Group S.A., whereby TMK acquired 100% of IPSCO Tubulars Inc. and 51% of NS Group Inc (jointly – TMK IPSCO) for approximately USD 1.14 billion. In June 2008 the transaction was completed, OAO TMK used a USD 1.2 billion short-term syndicated loan to pay for this acquisition. On January 30, 2009, the Company acquired 49% of NS Group Inc. from Evraz Group S.A. and now controls 100% of NS Group Inc.

Acting as a strategic investor with a successful track record in the integration, control and development of pipe and metallurgical assets outside Russia, the Company was guided in the transaction by the following strategic rationale:

• Access to the US market, the world's largest oil and gas pipe market;

• The transaction was in line with TMK's strategic focus on pipe products for the energy sector and oil and gas industry;

• Balancing the Company's business across various regions: diversification of production and sales geography and customer base structure, while reducing emerging market risks;

• Improving the Company's status and positioning, giving a new impetus to the implementation of TMK's strategy;

• Progressive positive effect from the implementation of TMK IPSCO's investment initiatives (both completed and in progress) over the 2006–2008 period;

• Access to new technologies to better supply the oil and gas industry;

• Benefits from sharing advanced practices and experience;

• Advantageous domestic producer position in the event that protectionist measures are introduced.

In addition to 50 years of production history and a recognised brand, the industry-specific logic of the transaction was determined by the unique position of TMK IPSCO's US pipe assets within the North American pipe industry:

• Broad product mix and a growing share of high value-added products;

• Strategically located production sites with integrated seamless production and well-balanced finishing facilities;

• Efficient and flexible operations, the industry's leading positions in terms of labour productivity;

• In-house development of proprietary premium connections – ULTRA connections portfolio;

• Well-established relations with distributors and end consumers; availability of long-term agreements with major US oil and gas companies (Anadarko, Marathon, Apache).

The acquisition of US pipe assets will enable TMK to realise the following market synergies:

• Improved TMK product offering on the North American market: supplementing the product range of the US production sites with the range of products made by the Company's Russian and Romanian enterprises.

• Efficient growth of the combined premium connection businesses. Expanding sales of ULTRA connections outside the US, including Russia and the CIS, through the supply of seamless pipes from TMK and the introduction of ULTRA technology at Russian mills.

• Better commercial positioning with independent distributors and the development of long-term supply agreements with end consumers;

• Expanding sales of industrial pipes manufactured by TMK's Russian and Romanian enterprises to TMK IPSCO's existing customer base in the USA and Canada.

Acquisition of TOO Kaztrubprom

In June 2008, TMK acquired 100% of TOO Kaztrubprom (Uralsk, Republic of Kazakhstan), a casing and tubing threading and finishing center. Production capacity is about 60 thousand tonnes of pipes a year. After the acquisition, the enterprise was renamed TMK-Kaztrubprom.

This acquisition increased TMK's output of high-technology products on the global market and strengthened the Company's position in the promising markets of Kazakhstan and other CIS states, including Uzbekistan, Turkmenistan and Azerbaijan, where the oil and gas sector is being actively developed. TMK raised Kaztrubprom's production efficiency through production synergies resulting from its integration into the Company's production chain, having organised supplies of green pipes from TMK's Russian factories to manufacture finished products. In addition, TMK became more flexible in distribution of production orders among its own production sites and in the servicing of oil and gas companies operating in the Southern Urals, North Caucasus and the Volga region.

For the plant's further development, TMK will implement investments for the period up to 2011 aimed at expanding the product mix and increasing production efficiency. An important part of TMK-Kaztrubprom's growth strategy involves the development of oil and gas premium threaded connections and the increase of production capacity.

Premium connections

Premium-class threaded connections ensure high sealability in vertical, deviated and horizontal wells in challenging operating environments, including those located in offshore and deepwater areas. The sealability of the connections is certified by specialised national and international testing laboratories and is subject to the ISO 13679 standard. Unlike standard connections, premium connections feature high technology and innovation components and are certified by national and international patents.

In Russia, premium threaded pipes are currently manufactured at TAGMET, Volzhsky, Seversky and Sinarsky, while ULTRA connections are produced at TMK IPSCO threading facilities. In 2008, the customers for these pipes in Russia, which represent a reliable substitute for imported products, included Rosneft, Gazprom, Surgutneftegas, LUKOIL, Arcticgas, Salym Petroleum Development N.V., and Novatek.

In 2008, premium threaded pipe shipments rose 29% to reach more than 94 thousand tonnes.

In 2008, TMK established TMK-Premium Service to increase the Company's presence on the Russian and global premium connection markets.

TMK-Premium Service offers a comprehensive solution for the construction, repair and efficient operation of wells, including:

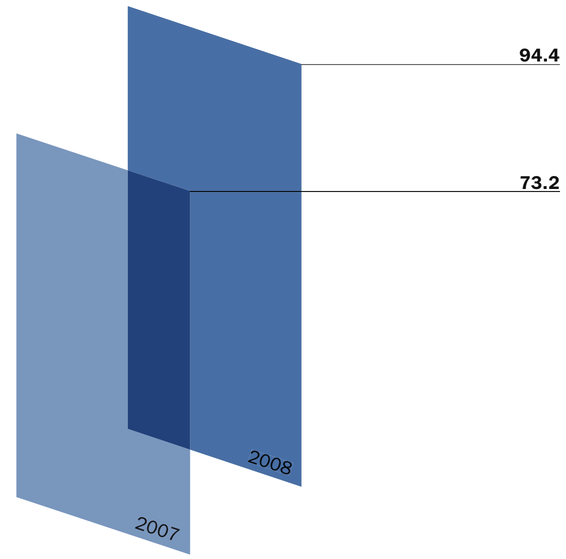
• Urgent delivery of premium threaded tubing, casing and drill pipe;

• Equipment and mounting with premium connections for construction of wells;

• Substitution with premium connections for an optimum string formation;

• Related materials;

• Logistics support;



Premium threaded pipe shipments, thousands of tonnes

ULTRA QX premium connection

TMK FMC premium connection

• Participation in complex well designs involving the running of TMK premium connections;

• Supervision in connection makeup and breakout operations;

• Assistance during running and repair operations; engineering and process consulting;

• Repair of tubing pipe.

TMK-Premium Service offers a range of patented connections developed by TMK R&D specialists. Within the Company's licencing activities in 2008, the rights to use TMK FMC, TMK PF, TMK PF ET, TMK GF and TMK FMT patented connections were given to the Company's partners. In September 2008, TMK-Premium Service entered into an agreement to licence TMK FMC premium connection technology to Chinese tubular producer Beijing Huayou Xingye Materials Co (BHXM), marking the first time the Company's premium connection technology was licenced to a foreign partner. Work is currently under way regarding the licencing of other TMK technologies. TMK is constantly expanding its portfolio of threaded connections patents which contribute to the growth of the Company's intellectual property.

The plans for TMK-Premium Service's development include the introduction of new types of connections and couplings, securing new licencing production capacity, and expanding the range of services offered. TMK's premium connections are certified and tested at Russian and international research institutes, such as Oil States Industries Ltd. (UK) and the Tubular Goods Research Center of China National Petroleum Corporation (China).

TMK IPSCO, the Company's US-based division, has its own patented range of premium connections. The Division's ULTRA connections are internationally recognised proprietary premium connections which have long been used by American and Canadian oil and gas companies.

TMK intends to develop the production of ULTRA connections at its Russian facilities to supply the needs of the Russian oil and gas industry during the implementation of large-scale plans outlined in Russia's Energy Strategy.

Management Discussion and Analysis of the Company's Financial Condition and Results of Operations

This review of TMK's operational results and financial condition should be read in conjunction with the consolidated financial statements of TMK and the related notes for the twelve months ended 31 December 2008 and 2007.

The information contained in this section, including information on TMK's development strategy, constitutes forward-looking statements about TMK and inherently involves a degree of uncertainty. When assessing this analysis, various risk factors must be kept in mind, which means that TMK's actual results may differ significantly from the indicators presented in these statements.

Manufacturing of seamless pipes

Overview

TMK occupies a leading position among manufacturers and suppliers of steel pipes in Russia and is one of the world's largest manufacturers of pipe products. Based on the Company's assessment, in 2008, its share of the world market of seamless pipes, the most profitable segment of TMK's business, remained at the level of 2007 and constituted 6%, while the share of seamless OCTG was 11%.

The development of the global financial and economic crisis has halted the previous years' increases of consumption of steel pipes. As a result, the growth of the world pipe market in 2008 has literally halted while consumption has stayed at the 2007 level. The demand for pipe products, including the most profitable OCTG and line pipes, declined considerably in the second half of 2008. In spite of these negative factors, TMK managed to increase sales volumes in 2008 by 4.5% (up to 3.2 million tonnes) as compared to 2007, including increased volumes of seamless OCTG by 5.6%.

The Company's share of the Russian market for steel pipes increased to 27% as compared to 24% in 2007. The share of the seamless pipes market constituted 46% and 59% of the seamless OCTG pipe market.

In 2008, the Company's sales outside the Russian Federation constituted 547 thousand tonnes of pipe products, produced by TMK's Russian plants, which accounted for 44% of all steel pipe exports from Russia. The share of pipe products sold on foreign markets increased to 37% of the Company's total sales volumes up from 29% in 2007.

TMK also strengthened its position on the US market, the world's largest market for pipe products, with the acquisition of the US-based business of IPSCO Tubulars Inc. and NS Group Inc. (hereinafter TMK IPSCO). The volume of TMK IPSCO's sales for the period from 12 June 2008 until 31 December 2008 in the total volume of Company's sales in 2008 constituted 15% or 488 thousand tonnes, including 349 thousand tonnes of seamless and welded OCTG.

Liquidity and capital requirements

The main capital requirements in 2008 were for financing the Strategic Investment Programme and the growth of working capital.

TMK has used cash flows from operating activities and short-term borrowings for financing working capital. Cash and cash equivalents as at 31 December 2008 amounted to USD 143.4 million which is 61.1% more as compared to cash as at 31 December 2007. In 2008, the net cash inflow from operating activities amounted to USD 739.5 million as compared to USD 324.1 million in 2007. However, TMK had a working capital deficit as at 31 December 2008, (the excess of short-term liabilities over current assets) amounting to USD 1,449.2 million. The main reason for the working capital deficit was an increase in the Company's short-term debt: the amount of outstanding short-term debt as at 31 December 2008, doubled to USD 2,217.8 million as compared to USD 1,034.5 million as at 31 December 2007. This was connected with the raising of short-term borrowings to finance the acquisition of IPSCO Tubulars Inc. and NS Group Inc.

TMK is working on changing its debt structure towards increasing the share of long-term borrowings as compared to short-term, in order to bring the maturity of liabilities in line with the turnover of assets. In the beginning of 2009, TMK succeeded in refinancing a significant part of its debt, including:

- In January 2009, TMK took out a series of loans from OAO Gazprombank for a total of USD 1.1 billion for 2.5 years to refinance the remainder (USD 600 million) of the syndicated bridge facility taken on for the acquisition of TMK IPSCO and to exercise the call option (USD 507.5 million) on the remaining 49% of shares in NS Group Inc.;

• In March 2009, TMK received a loan from OAO Bank VTB for an amount of USD 90.2 million with the purpose of fulfilling obligations under the rouble bond loan series 02 for the sum of RUB 3 billion which matured on 24 March 2009. In the same period, the Company repaid the bond liability;

• In January – March 2009, TMK refinanced other short-term loans in an aggregate amount of USD 177.9 million raised to finance current activity and replenish working capital.

Given the ongoing financial market crisis and the difficult fundraising environment, TMK's management implements anti-crisis measures aimed at improving liquidity. Given all possible risks connected with the future activity assessment, the Company believes it is able to continue as a going concern in the foreseeable future. TMK also constantly negotiates with banks on refinancing the current debt of the Company. In particular, a preliminary agreement has been made on refinancing of its Eurobonds in the amount of USD 300 million maturing in September 2009.

Changes in the Group structure and acquisitions in 2008

On 14 March 2008, TMK and Evraz Group S.A. concluded an agreement on the acquisition of the US companies and assets of IPSCO Tubular's business from Svenskt Stal AB. On 12 June 2008, TMK completed this transaction and acquired from Evraz Group S.A. 100% of the shares in IPSCO Tubulars Inc. and 51% of NS Group Inc. shares, both companies are located in the USA. TMK and Evraz also concluded an option agreement for the remaining 49% of NS Group Inc., to be exercised in 2009 at an approximate cost of USD 0.5 billion. TMK acquired ten production sites that allowed it to enter the North American pipe market, increase oil and gas pipe production and finishing capacities, including Premium class threaded connections, and expand its product mix. The combined annual production capacity of TMK IPSCO is more than 1 million tonnes of pipes, including about 300 thousand tonnes of seamless pipes, as well as 450 thousand tonnes of billets. Additionally, TMK IPSCO has 450 thousand tonnes of heat treatment capacity, 750 thousand tonnes of threading capacity and the capacity to thread 240 thousand premium connection joints per year.

Running a drill string

In March 2008, TMK set up OOO TMK Oilfield Services for the management of oilfield services companies belonging to TMK (including OMZ, Truboplast, TMK Pipe Maintenance Department and TMK Central Pipe Yard). The creation of the oilfield services division is in line with TMK's strategic vision of strengthening its position in the oilfield maintenance and procurement services market by enhancing the quality and expanding the range of services it offers. In early July 2008, the TMK Central Pipe Yard line for the production of oil well tubing was upgraded to provide customers a range of services including, apart from pipe repairs, the production of high technology pipe products.

On 9 June 2008, TMK acquired 100% of the authorised capital of TOO Kaztrubprom for USD 8.4 million. Kaztrubprom, located in Uralsk, Republic of Kazakhstan, specialises in the threading and finishing of tubing and casing pipes for the oil and gas industry. Production capacity is about 60 thousand tonnes of pipes a year. This acquisition will help increase production volumes of high technology products, as well as strengthen the Company's position in such CIS countries as Kazakhstan, Uzbekistan, Turkmenistan and Azerbaijan and in the Russian regions of the Southern Urals, the Northern Caucasus and the Volga Region.

Exchange rates fluctuations

The exchange rate fluctuations between the rouble and both the US dollar and the euro significantly affect the results of operations of TMK, since the prices for the Company's products and expenses are expressed in roubles, US dollars, Euros and Romanian leis.

The table below shows the nominal exchange rate and movement of the rouble against the US dollar and euro:

	30.04.2009	31.12.2008	31.12.2007
US dollar exchange rate	33.25	29.38	24.55
EUR exchange rate	43.84	41.44	35.93
Average exchange rate [RUB/USD] (from the year beginning)	33.84	24.86	25.58
Average exchange rate [RUB/EUR] (from the year beginning)	44.38	36.43	35.02

Source: Central Bank of the Russian Federation

Operating results

The table below shows the consolidated income statement of TMK for the reporting years ended 31 December:

	2008		2007	
	million USD	% of revenues	million USD	% of revenues
Revenue	5,690.0	100.0%	4,178.6	100.0%
Cost of sales	(4,252.5)	–74.7%	(2,890.6)	–69.2%
Gross profit	**1,437.5**	**25.3%**	**1,288.0**	**30.8%**
Selling expenses	(295.2)	–5.2%	(238.2)	–5.7%
Advertising and promotion expenses	(10.1)	–0.2%	(5.3)	–0.1%
General and administrative expenses	(316.7)	–5.5%	(218.3)	–5.3%
Research and development expenses	(15.2)	–0.3%	(10.1)	–0.2%
Other operating expenses	(52.0)	–1.0%	(56.2)	–1.3%
Other operating income	7.1	0.1%	5.0	0.1%
Goodwill impairment loss	(3.5)	–0.1%	–	–
Fixed assets impairment loss	(59.8)	–1.1%	–	–
Financial assets impairment loss	(23.7)	–0.4%	–	–
Foreign exchange loss/gain, net	(99.8)	–1.7%	20.5	0.5%
Finance costs	(272.2)	–4.8%	(102.4)	–2.5%
Finance income	8.7	0.2%	12.6	0.3%
Profit share in associated company	3.0	0.1%	1.0	0.0%
Excess of acquirer's interest in the net fair value of the acquired company's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	–	–	2.2	0.1%
Profit before tax	**308.1**	**5.4%**	**698.8**	**16.7%**
Income tax expense	(109.6)	–1.9%	(192.5)	–4.6%
Net profit	**198.5**	**3.5%**	**506.3**	**12.1%**
Attributable to:				
Equity holders of the parent company	199.4	3.5%	487.1	11.6%
Minority interests	(0.9)	0.0%	19.2	0.5%
	198.5	**3.5%**	**506.3**	**12.1%**

Sales volumes

The following table shows TMK's pipe sales volumes for the reporting years ended 31 December:

	2008 (thousands of tonnes)	2007 (thousands of tonnes)	% change	2008 % of total tonnes	2007 % of total tonnes
Seamless pipes	**1,980**	**2,039**	**–2.9%**	**61.4%**	**66.0%**
Russia	1,313	1,367	–4.0%	40.7%	44.2%
Non-Russia	667	672	–0.7%	20.7%	21.8%
Welded pipes	**1,247**	**1,049**	**18.9%**	**38.6%**	**34.0%**
Russia	713	824	–13.5%	22.1%	26.7%
Non-Russia	534	225	137.3%	16.5%	7.3%
Total pipes	**3,227**	**3,088**	**4.5%**	**100.0%**	**100.0%**
of which					
Russian sales	2,026	2,191	–7.5%	62.8%	71.0%
Non-Russian sales	1,201	897	33.9%	37.2%	29.0%

Despite the economic crisis during the second half of 2008, TMK was able to increase overall sales volumes in 2008 by 4.5% or by 139 thousand tonnes of pipes, even though the Company's pipe sales volumes in the Russian Federation decreased by 7.5%. This took place due to an increase of sales outside the Russian Federation by 33.9%, which result from the acquisition of the business in America in June 2008. Excluding TMK IPSCO, sales volumes decreased by 11.3% to 2,738 thousand tonnes as compared to 2007.

Accordingly, the share of sales of TMK's pipe products outside the Russian Federation increased to 37.2% but fell to 62.8% on the Russian market. On the whole, the Russian pipe market reflected the negative influence of such factors as a significant increase in the cost of raw materials in the first half of 2008, thus causing an increase in the prices for pipe products; oil and gas companies, TMK's main pipe product customers decreasing their capital expenditures in the 4th quarter of 2008; a fall in demand for large-diameter pipes due to postponements in the construction of some large pipeline projects (Nord Stream, Eastern Siberia – Pacific Ocean, etc.); and a reduction in the real sector of economy in the 4th quarter 2008.

In 2008, seamless pipe sales volumes decreased by 2.9% to 1,980 thousand tonnes. The principal factors of the decrease were a decrease of production volumes at TAGMET due to the modernisation of seamless production, as well as a fall in demand in the industrial seamless pipe segment in the 4th quarter of 2008.

In the seamless OCTG segment, TMK's share of the Russian market increased to 59% as compared to 58% in 2007. The Company's seamless OCTG sales volumes increased by 5.6% to 970 thousand tonnes. The sales volumes in Russia increased marginally by 1.1% to 728 thousand tonnes but the growth in sales volumes outside Russia was 22.2% up to 242 thousand tonnes as compared to 198 thousand tonnes in 2007. At the same time TMK IPSCO's share in the seamless OCTG sales outside Russia was 41.1%. The sales volume growth in Russia was influenced by a cut in production of seamless pipes as a result of the decommissioning of a part of the outdated capacity for seamless pipe production at TAGMET at the end of 2007. In October 2008, operational testing at the PQF seamless rolling mill, designed to strengthen TMK's position in this segment, was commissioned.

In the seamless line pipe segment, considering that the world and Russian markets in 2008 significantly downsized, TMK's share increased from 14.7% to 15.1% on the world market and from 55.6% to 58.9%, in Russia. At the same time, the relevant pipe sales volumes decreased by 3.9% as a result of a decline in sales on the Russian market by 9.4%, partly compensated by a 9.8% increase in sales of these pipes abroad.

The sales volumes of industrial seamless pipes in 2008 decreased by 14.2% and amounted to 556 thousand tonnes, including 18.2% outside Russia and 10% on the Russian market. The principal factor in the reduction was the decreased demand from the construction and machine-building industries in the 4th quarter of 2008.

Welded pipes sales volumes increased by 18.9% in 2008 and amounted to 1,247 thousand tonnes. The largest growth was shown by the segment of welded OCTG, where sales volumes increased from 10 thousand tonnes in 2007 to 257 thousand tonnes in 2008 due to the acquisition of the business in America.

The slowdown in execution of large pipeline projects caused a reduction in demand for large diameter pipes on the Russian market. The large diameter pipes sales volume was 259 thousand tonnes in 2008 and decreased by 38.0%, including a 34.1% decrease on the Russian market and a 47.6% decrease outside Russia. The share of sales of large-diameter pipes in the total sales volume of TMK also reduced and constituted 8.0% (13.5% in 2007). TMK compensated this reduction by selling increased quantities of welded OCTG, line pipes and industrial pipes.

Welded line pipes sales volumes in 2008 amounted to 244 thousand tonnes and increased by 19.2% as compared to 2007. Sales grew by 10.7% on the Russian market and by 62.0% outside Russia. The major part of this growth was from TMK IPSCO sales which accounted for around 40% of the sales volume outside Russia.

In 2008, the Company sold 487 thousand tonnes of industrial welded pipes, a 16.6% increase as compared to 2007. This was achieved by the doubling of sales volumes outside Russia, with TMK IPSCO's 50% share of sales outside Russia. Sales in Russia decreased by 7.5% principally due to a significant reduction in demand from customers in the construction and machine-building industries.

Revenue

The table below shows TMK's revenues by operating segment for the reporting years ended 31 December:

	2008 (million USD)	2007 (million USD)	% change	2008 (as a percentage of total revenues)	2007 (as a percentage of total revenues)
Seamless pipes	3,546.1	2,849.4	24.5%	62.3%	68.2%
Welded pipes	1,876.1	1,118.5	67.7%	33.0%	26.8%
Total revenues from pipes	**5,422.2**	**3,967.9**	**36.7%**	**95.3%**	**95.0%**
Other operations	267.8	210.7	27.1%	4.7%	5.0%
Total revenues	**5,690.0**	**4,178.6**	**36.2%**	**100.0%**	**100.0%**

The table below shows an analysis of the growth in revenue from the sale of pipes in 2008 as compared to 2007:

	Due to change in prices		Due to change in sales volumes		Total	
	(million USD, other than percentages)					
Seamless pipes	802.3	28.2%	–105.6	–3.7%	696.7	24.5%
Welded pipes	459.3	41.1%	298.3	26.6%	757.6	67.7%
Total change	**1,261.6**	**31.8%**	**192.7**	**4.9%**	**1,454.3**	**36.7%**

Revenue from sales increased by 36.2% in 2008 as compared to 2007 and constituted USD 5,690.0 million. Significant growth was provided by the acquisition of the business in America. Excluding TMK IPSCO, revenues of TMK increased by 7.7% in 2008 and amounted to USD 4,500.0 million.

In 2008, revenue from the sale of seamless pipes increased by 24.5%, or, excluding the revenue of TMK IPSCO, by 11.8%, to USD 3,186.7 million. The share of revenue from the sales of seamless pipes in total revenue constituted 62.3% of the total revenue (68.2% in 2007). The main factor of revenue growth in 2008 as compared to 2007 was an increase in average sales prices for seamless pipes which compensated for the effects of lower sales volumes. In 2008, the average price per tonne in the seamless pipe segment increased by 28.2% to USD 1,791.

In 2008, the revenue from sales of welded pipes increased by 67.7% as compared to 2007. Its share in the overall revenue structure also increased and constituted 33.0% as compared to 26.8% in 2007. Revenue from sales of welded pipes, excluding TMK IPSCO, declined by 2.4% as compared to 2007 to USD 1,092.0 million. The revenue growth from sales of welded pipes was mainly due to an increase in sales volumes and an increase in average sales prices. In 2008, the average price per tonne in the welded pipe segment increased by 41.1% to USD 1,504.

In 2008, revenue from other activities increased by 27.1%, while their share in total revenue decreased to 4.7%. Revenue from other operations includes sales of steel pipe billets and other goods and services. In 2008, the revenue from sales of steel billets increased approximately by 8.8% as compared to 2007, following the acquisition of the business in America. Revenue from sales of steel billets by TMK IPSCO amounted to USD 46.5 million, and its share in total revenues from sales of steel pipe billets was 47.3%. Excluding TMK IPSCO, the revenue of TMK from sales of billets in 2008 declined approximately by 42.7%.

The share of revenue from services in total revenue in 2008 amounted to 1.5% as compared to 0.8% in 2007. One of the main factors of growth was that several service organisations providing services to companies in the oil and gas sector for insulation and anti-corrosive coatings on steel pipes, repair of tubing, drill pipes and sucker rods, became part of TMK at the end of 2007.

Cost of goods sold

In 2008, the cost of goods sold increased by 47.1% as compared to 2007 and amounted to USD 4,252.5 million. Excluding business acquired in America, the cost of goods sold increased by 17.5% to USD 3,395.8 million.

The main components of TMK's cost of production are raw materials, labour and energy expenses.

Raw materials and supplies

The costs of raw materials and supplies include materials used in the production process of pipe products, such as strips, steel sheets, metal scrap, pig iron, ferrous alloys, billets and other materials. In 2008, the costs of raw materials and supplies increased by 37.8% as compared to 2007 and their share in the total structure of TMK's cost of production amounted to 69.3% as compared to 72.9% in 2007. Excluding TMK IPSCO, the increase of TMK's cost of raw materials and supplies was 12.7% as compared to 2007.

Prices for certain types of raw materials and supplies may vary depending on the region. In 2008, especially in the first half, considerable growth in the prices for production raw materials was observed. In 2008, as compared to 2007, the average purchase cost of metal scrap increased approximately by 39–42% whilst in the first half of 2008, as compared to 2007, it increased by 41–50%. In the second half of 2008, the prices for scrap dropped considerably in line with the general price for steel. Prices for strips in 2008 as compared to 2007 increased on average by 37–44% and the increase in prices for pig iron by 50–67%.

Labour cost

Labour costs as part of production costs include wages and social security payments of workers directly engaged in the production of finished product and personnel of the main and auxiliary production.

In 2008 labour costs increased by 41.1% as compared to 2007, and their share in the general structure of production cost remained practically unchanged as compared to 2007 amounting to 12.0%. The increase in labour costs was basically due to the inclusion of labour costs of acquired companies, as well as the indexation of wages of

Company personnel. The increase in costs, excluding business acquired in America, was 20.1%.

Cost of energy and other utilities

The cost of energy and other utilities increased in 2008 by 20.8%. Its share in the general structure of TMK's production costs decreased to 6.7% from 8.0% in 2007. This was due to increases in tariffs for energy resources, as well as the inclusion of energy and other utility costs of the American pipe assets. Costs, excluding TMK IPSCO, increased by 11.0% as compared to 2007. Electricity and natural gas prices differ depending on the region. In 2008, the average electricity prices increased approximately by 18.4% and natural gas prices by 25.1%.

Gross profit

The table below shows the profitability of sales (ratio of gross profit to revenue) by product segment for the reporting years ended 31 December:

	2008	2007
Seamless pipes	30.7%	38.4%
Welded pipes	17.5%	16.8%
Other operations	7.8%	2.9%
Gross margin	**25.3%**	**30.8%**

TMK's gross profit in 2008 increased by 11.6% and amounted to USD 1,437.5 million as compared to USD 1,288.0 million in 2007. However, the profitability of sales reduced from 30.8% to 25.3%. A significant increase in gross profit in 2008 resulted from the acquisition of TMK IPSCO, whose share in the gross profit of TMK amounted to 23.2% whilst its profitability of sales constituted 28%. TMK's gross profit, excluding TMK IPSCO, reduced by 14.3% as compared to 2007 and at the same time the profitability of sales constituted 24.5%.

The increase in sales prices in 2008 and the favourable price environment for raw materials in the 4th quarter of 2008, resulted from the global economic crisis, did not compensate for the unprecedented increase of prices for raw materials purchased in the first half of 2008. This factor had a negative influence on profitability of sales of the most profitable seamless pipes which dropped in 2008 from 38.4% to 30.7%.

In 2008, the share of large-diameter pipes significantly decreased and the share of industrial welded pipes with lower profitability increased. However, as a consequence of the acquisition of American pipe assets, the sales of OCTG significantly increased in the second half of 2008. As a result the profitability of sales in the welded pipe segment increased in 2008 to 17.5%.

The profitability of sales of other goods and services in 2008 increased to 7.8% as compared to 2.9% in 2007. This growth was due to the acquisition of the American pipe assets and service companies providing services to the oil and gas sector.

Operating expenses

In 2008, TMK's selling expenses increased by 24% as compared to 2007 and amounted to USD 295.2 million of which USD 2.0 million are from TMK IPSCO operations in 2008. The growth of selling expenses was connected mainly with the increase in costs for the transportation of finished products which was associated with higher transportation tariffs. The other main reason for the increase in selling expenses was the increase in wages and social security payments, resulted from wage indexing, and the increase in the reserve for doubtful accounts receivable.

TMK's advertising and promotion expenses include the costs of participating in industrial exhibitions, printing product brochures, maintaining the corporate website and advertising in printed media. In 2008, the advertising expenses increased as compared to 2007 from USD 5.3 million to USD 10.1 million.

General and administrative expenses in 2008 increased by 45.1% as compared to 2007 and amounted to USD 316.7 million. The increase in these expenses is primarily due to the acquisition of TMK IPSCO whose share in the general and administrative expenses constituted 24%. Wages and social security are the most significant part of TMK's general and administrative expenses and amount to 43.8%; however, in absolute terms, the amount of expenses increased moderately in 2008. The bulk of general and administrative expenses in 2008 was, as in 2007, for professional services by third party organisations and the depreciation of fixed and intangible assets. The structure of general and administrative expenses of TMK IPSCO influenced the structure of

TMK's expenses. Thus, the share of depreciation expenses significantly increased to 21.1%, as compared to 3.9% in 2007. TMK IPSCO's share in depreciation is 82.6% of TMK's total depreciation expenses. The increase in general and administrative expenses was also related to an increase in expenses for professional services, in particular audit and legal services. TMK's general and administrative expenses, without taking account of TMK IPSCO, in 2008 increased by 9.8% compared to 2007.

TMK's expenses on research and development in 2008 increased as compared to 2007 and amounted to USD 15.2 million. TMK IPSCO's share of expenses amounted to 2.2% of the total expenses for research and development. The main factor was the increase in expenses on wages and social security as a result of indexation; wages amounted to 60.6% of all expenses on research and development.

Loss from impairment of non-current assets

The Company performed impairment tests on the non-current assets of TMK companies as at 31 December 2008, which indicated that value in use of non-current assets of TMK-Artrom, TMK-Resita and OMZ and a recoverable amount of goodwill allocated to TMK Pipe Maintenance Department and Truboplast determined on the basis of discounted future cash flows were lower than their carrying values. As a result, the Company recognised a loss from the impairment of non-current assets totaling to USD 63.3 million. The main reason for the impairment loss was the negative influence of the economic crisis that resulted in a decrease in sales volumes forecast and an increase in discount rates.

Foreign exchange loss/gain, net

The functional currency of the Company and its subsidiaries located in the Russian Federation, Kazakhstan and Switzerland is the Russian rouble. The functional currency of the Romanian subsidiaries is the Romanian leu and that of TMK Europe and TMK Italia is the euro. The functional currencies of TMK IPSCO, TMK North America and TMK Middle East are the US dollar and the dirham, respectively. Foreign currency transactions are initially reflected in the functional currency at the exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the balance sheet date. All resulting differences are taken to profit and loss, with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

In 2008, TMK reported losses from exchange rate fluctuations for an amount of USD 99.8 million as compared to a gain from exchange rate fluctuations of USD 20.5 million in 2007. In 2008, due to the global economic crisis, the Russian rouble depreciated against the US dollar by 19.7% as compared to an appreciation of 6.8% in 2007. Against the euro, the rouble depreciated by 15.3% in 2008, whereas in 2007 the depreciation was 3.6%. The exchange rate loss was mainly due to the revaluation into roubles of US dollar and euro-denominated loans and Eurobonds due to the rising exchange rate of the US dollar and the euro against the Russian rouble in the second half of 2008.

Finance costs

Finance costs include accrued interest and the amortisation of borrowings issuance costs. In 2008, TMK's finance costs increased by 165.8% as compared to 2007 and amounted to USD 272.2 million due to the increase of the portfolio of short-term and long-term borrowings by 106.0% from USD 1,538.6 to USD 3,169.9 million in 2008 (see section "Indebtedness").

Income Tax

As a result of the reduction of pre-tax profit by 56.0%, or by USD 390.7 million, and due to the recalculation of deferred taxes in Russia, profit tax expense, which amounted to USD 109.6 million as compared to USD 192.5 million in 2007, was reduced. In 2008, the maximum rate of profit tax established in the Russian Federation was 24%. In connection with the changes in tax legislation in the Russian Federation, according to which from 1 January 2009 the profit tax rate was established at 20%, the deferred tax assets and liabilities in the statements of the Russian-based plants as on 31 December 2008 were recalculated. Nevertheless, TMK's effective income tax rate in 2008 amounted to 35.6% as compared to 27.5% in 2007. That change is due to the consolidation of TMK IPSCO and its effective rate of 34.2% and other expenses not deductible for tax purposes.

Net profit

In 2008, TMK's net profit reduced by 60.8% as compared to 2007 to USD 198.5 million, including USD 167.0 million from the TMK IPSCO consolidation. As a consequence of the negative factors listed in this analysis of TMK's operations, TMK's profitability considerably declined in 2008 and was 3.5% against 12.1% in 2007.

Capital resources

Cash flows

The table below shows TMK's total cash flows for the reporting years ended 31 December:

	2008	2007
	(million USD)	
Profit before tax	**308.1**	**698.8**
Non-cash and other adjustments to profit	739.2	220.9
Changes in working capital	(81.2)	(385.7)
Income taxes paid	(226.6)	(212.5)
Net cash flow from operating activities	**739.5**	**321.5**
Net cash used in investing activities	**(2,024.3)**	**(568.6)**
Net cash flow from financing activities	**1,336.9**	**178.4**
Effect of exchange rate changes on cash and cash equivalents	**2.2**	**13.8**
Net increase/(decrease) in cash and cash equivalents	**54.3**	**(54.9)**

Net cash received from operating activities

Net cash flow from operating activities doubled in 2008 and amounted to USD 739.5 million from USD 321.5 million in 2007 with cash flow from TMK IPSCO operating activities representing USD 31.5 million. In spite of a reduction in pre-tax profit of 56.0% or by USD 390.7 million, the net cash flow from operating activities before changes in working capital increased by 13.9% and amounted to USD 1,047.3 million as compared to USD 919.7 million in 2007. The decrease in profit before tax is due to the significant increase in depreciation expenses and the recognition of the impairment loss on financial investments and non-current assets, foreign exchange losses and the increase in finance costs.

Net cash used for investing activities

In 2008, net cash flows used for investing activities increased by more than three times as compared to 2007 and amounted to USD 2,024.3 million. The increase resulted from the acquisition of fixed assets, shares of new subsidiaries and the purchase of minority shares in subsidiaries.

In 2008, TMK used USD 1,184.8 million for acquisitions of subsidiaries:

- In June 2008, TMK acquired 100% of shares of IPSCO Tubulars Inc. and 51% of NS Group Inc. shares from Svenskt Stal AB (SSAB). The total amount paid by TMK was USD 1,141.0 million.

- In June and July 2008, TMK paid USD 8.4 million for 100% of the authorized share capital of TOO Kaztrubprom.

- In the first half of 2008, TMK paid the remaining USD 16.6 million and USD 8.4 million for the acquisition of 100% of shares in ZAO Pipe Maintenance Department and 100% of shares of OOO Central Pipe Yard as per the agreement on acquiring service assets from TNK-BP.

- In January – February 2008, TMK paid the remaining USD 10.4 million for acquiring 100% of the shares in the authorised share capital of OOO Truboplast.

- The increase in cash outflow for investing activities was also influenced by the acquisition of production equipment in 2008 for an amount of USD 840.0 million as compared to 661.7 million in 2007, including TMK's Strategic Investment Programme.

- In 2008, TMK's expenditure on the purchase of minority shares in subsidiaries more than doubled to USD 5.1 million as compared to USD 2.7 million in 2007.

- In 2008, TMK had a net outflow of cash from the placement and return of bank deposits of USD 0.9 thousand as compared to a net inflow of USD 180.2 million in 2007. Interest income represented USD 3.0 million in 2008 and USD 11.7 million in 2007.

Net cash received from financing activities

Net cash received from financing activities in 2008 increased by more than seven times as compared to 2007 and amounted to USD 1,336.9 million as a result of increased borrowings. Net receipts from borrowings in 2008 increased by more than four times and constituted USD 1,780.5 million as compared to USD 441.0 million in 2007. This increase was related to the acquisition of businesses in America and the financing of the investment programme. Interest paid on loans amounted to USD 182.6 million and USD 105.6 million in 2008 and 2007 respectively.

In 2008, within the framework of its Option Programme, TMK spent USD 27.1 million towards the purchase of its shares.

In 2008, the Company paid its shareholders 2008 interim and 2007 full year dividends for a total amount of RUB 5,584.5 million (USD 223.6 million). Dividends to minority shareholders in TMK subsidiaries totalled USD 4.5 million.

Indebtedness

The following table gives information on TMK's debt as at 31 December 2008, including loans, borrowings and bonds, by currency and interest rates:

	In roubles	In US dollars	In euros	In Romanian lei	Total
					(million USD)
Total debt, of which	**1,207.0**	**1,698.4**	**264.1**	**0.4**	**3,169.9**
Fixed-rate debt	1,207.0	1,039.2	5.4	0.4	2,252.0
Variable-rate debt	–	659.2	258.7	–	917.9

The following table gives information on debt maturity, including loans and other borrowings as of 31 December 2008:

	Up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	Over 4 years	Unamortised debt issue costs	Total
							(million USD)
Total debt	**2,217.8**	**80.6**	**819.2**	**44.9**	**20.8**	**(13.4)**	**3,169.9**
Interest-bearing loans	1,775.7	80.6	49.0	44.9	20.8	(7.3)	1,963.7
Bearer coupon debt securities	442.1	–	770.2	–	–	(6.1)	1,206.2

As of 31 December 2008, the total volume of TMK's loans and borrowing comprised USD 3,169.9 million as compared to USD 1,538.6 million as of 31 December 2007.

The increase in TMK's debt burden in 2008 is due to the borrowings obtained to finance the acquisition of IPSCO Tubulars Inc. and NS Group Inc., as well as implement the Company's Strategic Investment Programme which includes the large-scale modernisation and increase of production capacities.

The main part of TMK's credit portfolio as at 31 December 2008 consisted of short-term loans and bond issues which made up 70% of the total borrowings or USD 2,217.8 million, twice as much short-term debt as at 31 December 2007.

Bank loans

As of 31 December 2008, the most significant borrowings (broken down by separate loan agreements) included the following:

In May 2008, TMK concluded a credit agreement for a syndicated bridge facility for USD 1.2 billion for 12 months to finance the acquisition of 100% of the shares of IPSCO Tubulars Inc and 51% of the shares in NS Group Inc. The organisers of the syndicated loan were ABN AMRO Bank N.V., Bank of Tokyo-Mitsubishi UFJ Ltd, Barclays Capital, BNP Paribas, ING Bank N.V., Natixis, Sumitomo Mitsui Finance Dublin Limited, Nomura International plc. Loan guarantors were TMK's subsidiaries including Volzhsky, Seversky, Sinarsky and TAGMET. As of 31 December 2008, TMK's debt on this loan was USD 600 million.

In the second half of 2008, TMK companies concluded with Sberbank of RF agreements for the opening of credit lines for a total amount of RUB 9.765 billion for a period of up to 12 months with the purpose of replenishing working capital. As of 31 December 2008, the debt of TMK companies against the given credit lines was RUB 9.765 billion (USD 332.4 million as at the Russian Central Bank exchange rate on 31 December 2008).

In October and November 2008, OAO Bank VTB opened a credit line to TMK companies for a total amount of RUB 7.0 billion, including for OAO TMK RUB 1.5 billion. Loans were taken up for the financing of current activities and the replenishment of working capital. The term of these credit agreements is 12 months. As of 31 December 2008, the debt of TMK companies against the given credit lines was RUB 7.0 billion (USD 238.3 million as at the Russian Central Bank exchange rate on 31 December 2008).

In October 2007 and March 2008, an agreement on the opening of credit lines with limits of RUB 2.0 billion and RUB 1.8 billion was concluded between Volzhsky and Joint Stock Bank Gazprombank for the period to 7 August 2009. As of 31 December 2008, the debt against the given credit lines was RUB 3.79 billion (USD 129.0 million as at the Russian Central Bank exchange rate on 31 December 2008).

In November 2008, TMK Trade House and OAO Uralsib concluded a general agreement on the opening of a credit line for an amount of RUB 1.8 billion until 13 March 2010. As of 31 December 2008, the loans within these lines were RUB 750 million (USD 25.5 million as at the Russian Central Bank exchange rate on 31 December 2008).

In December 2008, TMK Trade House obtained from OAO Khanty-Mansiiskiy Bank a loan for USD 55 million for a period of one year. As at 31 December 2008, TMK's debt for this loan amounted to USD 55.0 million.

Bonds

On 25 July 2008, TMK Capital S.A., a special purpose entity registered in Luxemburg, granted OAO TMK a loan for a total of USD 600 million at 10% per annum rate with a 25 July 2011 maturity. In order to finance the loan, TMK Capital S.A. issued Eurobonds in the indicated amount with a coupon yield of 10% per annum. TMK's liabilities on this loan are secured by guarantees issued by Volzhsky, TAGMET, Sinarsky, Seversky and TMK Trade House and IPSCO Tubulars Inc. The Eurobonds were registered on the London Stock Exchange. These funds were used for the partial refinancing of a USD 1.2 billion syndicated loan.

As at 31 December 2008, another issue of Eurobonds was also in circulation and was issued by the special purpose entity TMK Capital S.A. for financing a loan of OAO TMK for an amount of USD 300 million maturing on 29 September 2009, as well as two issues of rouble bond loans of OAO TMK, the Series 02 in the amount of RUB 3 billion and Series 03 in the amount of RUB 5 billion maturing on 24 March 2009, and 15 February 2011, respectively.

Capital expenditures

The following table provides information on TMK's capital expenditures by types of activity for the years ended 31 December:

	2008	2007	% change
	(million USD)		
Seamless pipes	675.4	513.1	31.6%
Welded pipes	182.0	35.0	420.0%
Other operations	11.1	2.3	382.6%
Unallocated costs	113.4	83.2	36.3%
Total capital expenditures	**981.9**	**633.6**	**55.0%**

In 2008, TMK continued its Strategic Investment Programme for the period from 2004 to 2011. Within the framework of the Strategic Investment Programme in 2008, TMK implemented several large investment projects at the production plants, thus completing the main stages of the programme to provide seamless pipe production with its own raw materials and to expand oil and gas pipe production capacity. The successful completion of investment projects allows the Company to expand the range of its products and strengthen its position both on the Russian and international markets.

In 2008, TAGMET continued the construction of a new PQF seamless continuous rolling mill with enhanced operating properties designed for the production of 600 thousand tonnes of pipes a year. In October 2008, operational testing commenced and preparation for quality tests were started. Attaining the rated capacity is planned in the first half of 2009.

Since November 2008, at Seversky, an electric arc furnace with a capacity of 1 million tonnes of steel or 950 thousand tonnes of continuously cast billets for seamless pipes a year was started on a pilot production basis. Industrial operation of the furnace is planned for June 2009. The entire transfer to high-tech electric steel-melting and the closing of open hearth furnaces at Seversky was completed in January 2009.

Since 2007, at Seversky, the reconstruction of the pipe rolling production is in progress, where it is planned to install equipment for an FQM continuous rolling mill. Commissioning of the equipment is expected in 2012. The completion of construction of the whole complex, including the construction of heat treatment facilities and cutting lines for well casing is planned for 2013.

In October 2008, Volzhsky commenced pilot production of the rolling mill producing large-diameter longitudinal welded pipes from 530 to 1,420 mm and wall thickness up to 42 mm with a capacity of 650 thousand tonnes per year. The commissioning of the new rolling mill increased production capacity of the company to 1.2 million pipes a year and strengthen TMK's position on the Russian market. Attaining the rated capacity is planned in the second quarter of 2009. Simultaneously with the rolling mill, a new line for the application of external anti-corrosive coating on longitudinal welded pipes and spiral welded pipes, designed for production of up to 650 thousand tonnes a year of pipes, was commissioned. The quality of the external pipe coating ensures the integrity of pipelines laid under ground for at least 30 years. Earlier at Volzhsky a line for the internal smooth coating of longitudinal and spirally welded pipes with diameters from 508 to 1420 mm and a capacity of 600 thousand tonnes a year of pipes was commissioned.

In 2008, at Volzhsky, the construction of a new line for heat treatment of pipes with a capacity of 340 thousand tonnes a year was completed and pilot production has begun. It is expected that the project will be finally completed in May 2009.

The implementation of these projects will allow TMK to strengthen its position as leader in the pipe industry in Russia and the CIS and increase its participation in large projects for the construction of trunk gas and oil pipelines.

TMK plans to continue financing its capital expenses from operational cash flows, borrowings and other sources.

According to the results of 2008, after acquiring the American pipe assets and implementation of the main stage of the Strategic Investment Programme, TMK's production capacities have reached 6.5 million tonnes of pipes, including 2.9 million tons of seamless pipes and 3.6 million tons of welded pipes. The production capacity of steel billets is about 3.4 million tons and, at the same time, TMK is fully providing its own continuous cast billets for the production of seamless pipes.

Key financial indices

Net debt and EBITDA

The table given below provides information on the calculation of net debt as of 31 December 2008[1]:

	2008	2007
	(million USD)	
Calculation of net debt		
Including:		
Short-term loans and current portion of long-term loans	2,216.5	1,033.3
Long-term loans, net of current portion	994.2	506.0
Total loans	**3,210.7**	**1,539.3**
Net of:		
Cash	(143.4)	(89.0)
Deposits and short-term promissory notes received	(3.9)	(103.7)
Total cash, deposits and promissory notes received	**(147.3)**	**(192.7)**
Net debt	**3,063.4**	**1,346.6**

Net debt was USD 3,063.4 million in 2008 as compared to USD 1,346.6 million in 2007. The increase was brought on by the significant increase in short-term and long-term loans used for financing the acquisition of the US-based assets, the implementation of the Strategic Investment Programme and working capital needs (see section "Financial debt").

EBITDA is shown below adjusted for exchange rate fluctuations and losses from the impairment of non-current assets for the twelve months ended 31 December:

	2008	2007
	(million USD)	
Net profit	198.5	506.3
Income tax expense	109.6	192.5
Depreciation and amortisation	247.8	140.3
Finance costs	272.2	102.4
Finance income	(8.7)	(12.6)
Effect of exchange rate fluctuations	99.8	(20.5)
Goodwill impairment loss	3.5	–
Fixed assets impairment loss	59.8	–
Financial assets impairment loss	23.7	–
Adjusted EBITDA	**1,006.2**	**908.4**

[1] The net debt calculation method is provided in annexes on page 112.

EBITDA, adjusted for exchange rate fluctuations and loss from impairment of non-current and financial assets, increased in 2008 and amounted to USD 1,006.2 million, including TMK IPSCO, as compared to USD 908.4 million in 2007. Adjusted EBITDA in 2008, excluding TMK IPSCO, amounted to USD 667.8 million.

Development trends

Against the background of the developing economic crisis, the Company expects a weakening in demand for pipes in 2009. By our estimates, the Russian OCTG and oil and gas pipe market may contract by 10–15% in the first half of this year. At the same time, prices have already decreased by 15% to 25% in the first quarter of this year, as compared to the fourth quarter of 2008, and are expected to remain stable for the remainder of the year.

The OCTG and oil and gas pipe market in the USA demonstrates a certain reduction in prices by 25–30% in line with Capex cutbacks from oil and gas field operators. Several factors will influence prices going forward; however, the Company does not forecast prices to go below beginning of 2008 levels.

In spite of the negative tendencies in the world economy, TMK expects demand for large-diameter pipe in Russia to pick-up by 10–15% in 2009, on conditions that certain pipe supply contracts will be negotiated. This concerns the continuation of such projects as Bovanenkovo – Ukhta and Nord Stream, as well as the start up of new projects, including the Sakhalin – Khabarovsk – Vladivostok, BTS-2 and Dzhugba – Lazarevskoye – Sochi pipeline systems.

Demand for industrial pipes in the first half of 2009 is expected to remain weak given the negative macroeconomic situation and the fall in demand in many sectors of the manufacturing industry, including construction.

Key risks

Industry risks

Dependence on the oil and gas sector

The Company's main customers are oil and gas companies which generate approximately 70% of revenues. As a result, demand for pipe products, including OCTG, line pipe and large-diameter pipe significantly correlates with oil and gas investment activities which, in turn, is driven by global oil and gas demand. The amount of pipe products required for maintenance and operational needs does not necessarily correlate to oil and gas prices as constant spending on pipes is necessary to maintain oil and gas production, transportation, and distribution systems. Moreover, increasingly difficult drilling conditions lead to an increase in demand for high technology pipe products. However, any reduction in oil prices may have influence on the development of the Company's business.

Change in cost of raw materials and energy

One of the main factors affecting TMK's business results is the price for raw materials including scrap metal, strips, sheet metal, steel billets, and energy.

Raw materials and supplies represent about 69% of the cost of pipes. In 2008, the average purchase price of scrap metal for TMK plants in Russia increased 39–42% as compared to 2007. At the same time, there was a price increase in the first half of the year of 41–50%. Prices for strips increased on average 37–44% and prices for pig iron 50–67% in 2008. The Company held negotiations with its main customers and partially compensated for the additional costs by increasing the prices of its products.

Energy costs make up about 7% of the cost of production. Through the implementation of its Strategic Investment Programme, TMK has been reducing its consumption of gas and increasing the share of electricity used in pipe manufacturing. The current liberalisation of the Russian electricity market may lead to an increase in prices. However, despite a possible increase in energy prices, TMK maintains its energy-price advantage over its main international competitors. TMK pays special attention to making its production more efficient; among other things, the Company has an energy-saving programme aimed at reducing the share of energy costs through the better use of its energy resources.

Further increases in prices for raw materials and energy costs may have a negative impact on TMK's business results.

Dependence on a small group of customers

Approximately 36% of TMK's total sales volumes came from its top 10 customers in 2008 as opposed to 44% in 2007. In 2008, the largest seamless pipe customers were Surgutneftegas and TNK-BP, while Gazprom was the largest customer in the welded pipe segment.

While this high level of dependence on a small group of customers highlights TMK's strong business relationships with its main customers, this situation does carry a certain risk as it could lead to a higher degree of volatility in TMK's pipe business.

Competition

The global pipe market, specifically the oil and gas segment, is characterised by a high degree of competition, based on the supplier's capacity to satisfy the individual requirements of the end user, provide services for managing the supply chain and offer advantageous commercial conditions. In the Russian and CIS markets, TMK's principal competitors, as far as standard products are concerned, are the ChTPZ Group (Chelyabinsk Pipe Rolling Plant), a seamless and welded pipes manufacturer, and OMK (United Metals Company), a welded pipes producer. On the global seamless pipes market, TMK's main competitors are a limited number of manufacturers of seamless pipe products for the oil and gas industry, such as Tenaris S.A. and Vallourec S.A., which also offer a broad range of higher value-added products and services. The main competitors of TMK IPSCO are US Steel and Maverick. In addition, Chinese and Ukrainian manufacturers, TMK's competitors in the standard grade product segment, are gradually increasing their product mix and expanding their presence in new markets. In these conditions TMK has consolidated its share on the strategic markets of seamless pipes for the oil industry in Russia and the CIS and has strengthened its commercial presence in North America. The position of supplier at the national level allows TMK to conduct an active dialogue with government bodies in Russia and the US on questions concerning the application of trade protection measures of national markets and manufacturers. However, increased competition on domestic and international markets may reduce sales and lead to pricing pressures, negatively impacting TMK's financial performance.

Financial risks

Liquidity risk

TMK's approach to managing liquidity and monitoring liquidity risks is to ensure that sufficient financial resources are maintained and available to meet upcoming liabilities, under both normal and stressed conditions, without incurring unacceptable losses or risking damaging the Company's reputation.

On 30 May 2008, with the purpose of financing the American assets of IPSCO Tubulars Inc. and NS Group Inc., TMK concluded a loan agreement for a syndicated bridge facility of USD 1,200 million for 12 months at a floating interest rate. The organisers of the syndicated facility were ABN AMRO Bank N.V., The Bank of Tokyo-Mitsubishi UFJ, Ltd, Barclays Capital, BNP Paribas, ING Wholesale Banking, Natixis, Sumitomo Mitsui Banking Corporation and Nomura International plc.

This financing has increased TMK's debt burden. As of 31 December 2008, TMK's total debt was USD 3,210.7 million. To refinance the bridge facility, on 25 June 2008 TMK placed a three-year Eurobond loan for USD 600 million with a 10% annual coupon rate. In addition, in January 2009, TMK took out a series of loans from Gazprombank for a total of USD 1.1 billion for 2.5 years, repaid the remaining part of the syndicated bridge facility and also acquired 49% of shares in NS Group Inc. from Evraz Group S.A. in accordance with the Call/Put option agreement concluded at the time of the acquisition of the American pipe assets.

The ratio of short-term and long-term borrowings has not changed from the previous year. According to the results of 2008, the share of short-term borrowing was 70% of the total amount of debt. In these difficult economic conditions, TMK is refinancing its liabilities to improve the structure of its loan portfolio. The loans taken out in January 2009 from Gazprombank reduced the share of TMK's short-term debt which, as at 31 March 2009, was 40%. Similarly, the average term of the Company's credit portfolio improved and as at 31 March 2009, was 614 days as compared to 438 days as at 31 December 2008.

Notwithstanding the above, liquidity risks may be aggravated by the following factors:

• A decrease in the Company's cash flow due to the development of the economic crisis;

• An increase of the cost of borrowing for refinancing purposes;

• A temporary reduction in the availability of existing credit lines.

The Company may experience difficulties in refinancing its debt if the negative trends associated with these risks continue to develop. In order to **monitor** and control **liquidity risks** exposure, TMK maintains adequate financial resources and access to further liquidity through its continued and mutually profitable relationships with its key strategic stakeholders, primarily Russian state owned banks. However, there is no guarantee that the Company will be able to access bank finance at acceptable terms.

Interest rate risk

TMK's credit portfolio includes loans taken out at floating interest rates which may, or may not, increase as liquidity on the money markets decreases. As of December 31, 2008, loans with floating interest rates represented USD 917.9 million or 28% of the total credit portfolio, including a USD 600 million short-term bridge facility representing 19% of the total credit portfolio. Given the tendency of the LIBOR rate to fall, hedging of the debt was not considered necessary. As at 31 March 2009, loans with floating interest rates amounted to USD 259 million or 7.5% of the total credit portfolio. Taking into account the moderate share of floating rate loans, the Company considers interest risks negligible and, at present, does not use derivative instruments to hedge such interest rate risks.

TMK is also exposed to interest rate risks when refinancing existing loans. As a result of the financial crisis, the cost of borrowing has been steadily increasing. In 2008, the average interest rate of rouble-denominated loans rose by 435 basis points (bps) and grew a further 202 bps in the first quarter of 2009.

For the same period, the average interest rate of USD-denominated loans decreased by 63 bps, due to the share of the LIBOR-based floating rate bridge loan in the Company's loan portfolio. As at 31 March 2009, the average rate of USD loans increased 496 bps due to Gazprombank loans.

In 2008, the average interest rate of Euro-denominated loans decreased 103 bps. In the first quarter of 2009, the average interest rate on Euro loans decreased 129 bps Q-o-Q. The total amount of these types of loans in the Company's debt portfolio is immaterial.

A further increase in interest rates can lead to an increase in interest expense and may negatively impact TMK's financial results.

Currency risk

Currency risk arises when entities within the group enter into transactions which are denominated in currencies which are not the functional currency of that entity. The transactions can relate to purchases and sales, or they can be items such as loans. They may be transactions with third parties, or they could also be intra-group transactions.

The group manages its currency risk by a considered choice of currency when arranging financing, and so engages in a policy of “economic hedging”; some of this hedging is treated under IFRS as hedging and is reflected as such in the financial statements. The following table compares the management's view of “economic hedging” with the financial reporting treatment.

Type of monetary item	Economically hedged in the view of management	Treated as hedged in the IFRS financial statements
Loans to purchase IPSCO	Yes – dollar loans to buy dollar assets	Yes – hedging net investment in foreign operations (IAS 39)
Loans to purchase foreign capital equipment (e.g. Euro loans to buy equipment from Germany or Italy)	Yes – hedges depreciated replacement cost of equipment	No – equipment carried at depreciated historic cost in functional currency of purchaser
General purpose USD bonds	Yes – in sensible relation to volume of future sales denominated in USD by companies with RUB as their functional currency	No – definitional problems
Intra-company loans	Yes – not external assets or liabilities of group	Yes – IAS 21-15 and 15A. Part of net investment in foreign operations
Receivables and payables, bank balances, loans etcetera in the functional currency of a group entity	Yes – not foreign currency items	Yes – not foreign currency items
Receivables and payables, bank balances, loans etcetera in foreign currency (= not in functional currency) including inter-company items apart from loans	No	No – IAS 21

The following table shows the volume of export shipments in foreign currencies of Russian and Romanian subsidiaries.

Functional currency	The volume of export shipments (USD, millions)	The volume of export shipments (EUR, millions)
Russian rouble	567.1	68.4
Romanian lei	50.3	115.7

The mentioned volumes of export revenue allow TMK to naturally hedge foreign currency borrowings of Russian and Romanian subsidiaries.

Inflation risk

TMK's main production facilities are located in Russia and a significant part of the Company's expenses are denominated in roubles. The company is experiencing inflationary growth in the cost of raw materials, transportation costs, energy and wages. In 2007 and 2008 inflation in Russia was 11.9% and 13.3% respectively. The Company may not be able to increase prices in order to maintain the existing productivity indices. Thus, high rates of inflation in Russia may increase TMK's costs, reduce profitability and have a negative influence on the Company's business.

Legal risks

Risks associated with changes in tax legislation and the Russian tax system

The following changes may influence the Company's activities:

- Introduction of changes or additions to legislation on taxes and collections;
- Introduction of additional conditions for providing tax benefits;
- Introduction of limitations on tax benefits;
- Increase of tax rates;
- Introduction of new types of taxes.

TMK companies make significant tax payments, in particular, profits tax, VAT, social and pension payments and property tax. Changes in tax legislation may lead to an increase in tax payments and, as a result, to a lowering of the Company's net profit.

In 2000–2008, the Russian Government reviewed the Russian tax system and passed a number of laws to carry out tax reforms. The new laws reduced the number of taxes and the overall tax burden on business and simplified tax legislation. Nonetheless, tax laws continued to give wide latitude to local tax authorities and left a multitude of unresolved problems which may have a negative effect on TMK's operating results.

Risks of changes to environmental law

The main ecological and environmental risks for TMK are related to regulatory measures and are associated with the expected changes and tightening of Russian environmental protection laws which may affect TMK's financial position and operating performance. Russian environmental laws are currently undergoing significant changes. The basis for these changes has been the Russian President's Decree No. 889 "On making changes to separate legislative acts of the Russian

Federation for the purpose of increasing energetic and ecological efficiency of the Russian economy.”

The government expects to use both incentives and compulsory measures to stimulate business activity in the field of environmental protection. Changes to environmental protection laws will chiefly affect the economic mechanisms of business regulations: the environmental aspects of projects will become more expensive and payments for negative environmental impacts will increase.

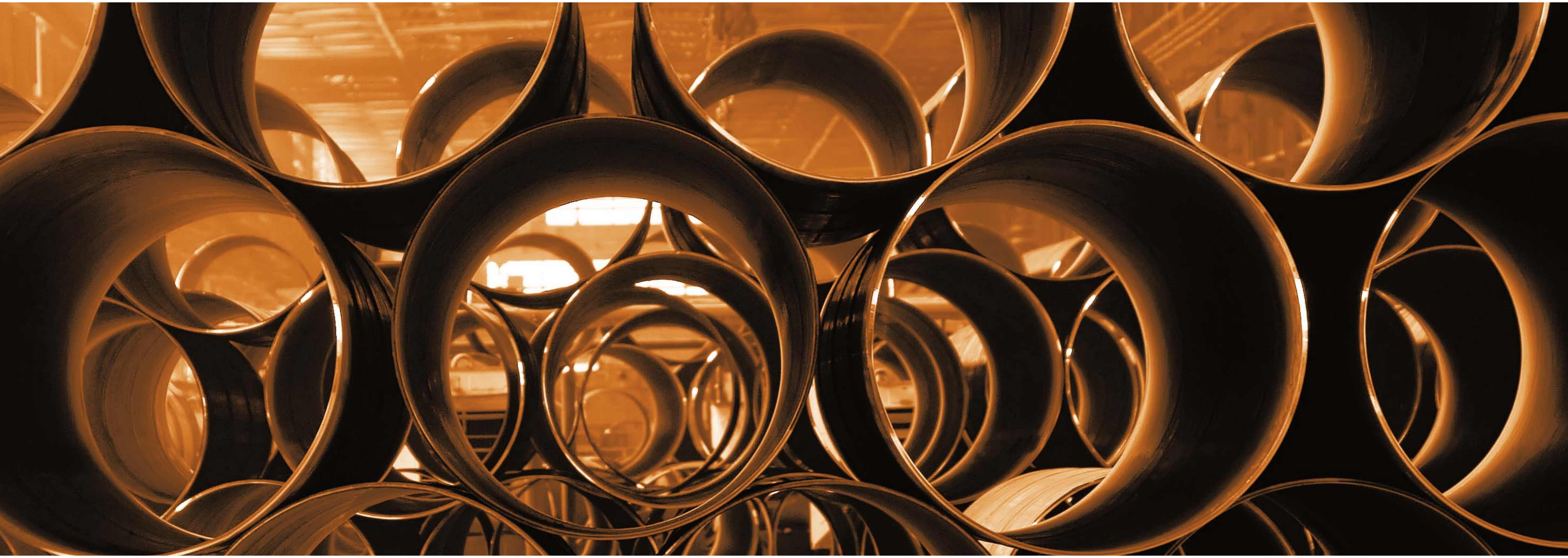
A planned change in the rate of payments for negative impact on the environment, the use of increasing payment coefficients and the introduction of stricter regulations and standards will be accompanied by closer scrutiny by state monitoring authorities regarding statutory compliance by businesses. Such changes in existing legislation may lead to actual costs and obligations which were unforeseen, namely, to an increase in payments for negative impact, the need to undertake costly measures to meet new legislative requirements, expenses on ecological insurance and compulsory ecological audits.

Other risks

Risks of equipment breakdown and decrease in production

TMK’s production facilities are subject to the risk of equipment breakdown as a result of unforeseen events, like fire, explosions and natural catastrophes. Unforeseen breakdowns and suspension of the work of such equipment may force the Company to partially shut down the manufacturing facilities concerned and reduce production at the affected manufacturing lines. The cost of major repairs, if such risks are realised, would have a negative effect on the Company’s financial performance. The Company has insurance coverage against losses that may arise in the event of property damage, production-related accidents, job-related illnesses and disasters but the level of such coverage is limited. The Company does not currently have insurance against production stoppages. Funds received under insurance policies may in future not be sufficient to cover all losses incurred by the Company should the aforementioned risks come to pass.

Corporate Governance Report



Corporate Governance System and its Improvement

OAO TMK's corporate governance system is being constantly improved and is based on the provisions of the Russian legislation, the Corporate Code of Conduct approved by the Government of the Russian Federation and recommended for use by the Federal Committee of the Central Bank of Russia, corporate governance best practices, as well as being in full compliance with the requirements of stock exchanges which include TMK's shares in their quotation lists.

The formation of a proper corporate governance system and its improvement is a key task and an object attracting the keen attention of TMK's Shareholders and the Board of Directors (OAO TMK is hereinafter referred to as the Company).

OAO TMK's corporate governance principles:

• Ensure that shareholders are given a real opportunity to exercise their rights associated with participation in OAO TMK.

• The Board of Directors is responsible for the strategic management of the Company and efficient monitoring of the activities of its executive bodies, the members of the Board of Directors being subordinated to the shareholders of the Company.

• Ensure that executive bodies efficiently manage the Company's current activities, the executive bodies being subordinated to the Board of Directors and the shareholders.

• The timely disclosure of material information about the activity of the Company enabling the taking of well-informed decisions by its shareholders and investors.

• Control the use of confidential and insider information.

• Ensure efficient monitoring of the Company's financial and business activity to protect the rights and lawful interests of the shareholders.

The corporate governance processes are regulated by the system of public documents available on the official Internet website of

Meeting of the Board of Directors

the Company (www.tmk-group.ru) the Charter, regulations regarding the management and control bodies, OAO TMK's ethical code, regulations regarding the information policy, dividend policy, insider information, as well as internal standards and regulatory documents.

The information policy of TMK's management is based on the conviction that disclosure in good faith of the information regarding its activity is the determining factor to maintain the trust of shareholders, investors, creditors, partners and other interested parties.

As in 2007, the results of the activities aimed to improve the level of information transparency were recognised by the following organisations:

• TMK came 6th in Standard & Poor's annual Transparency and Disclosure Survey of the 90 largest publicly listed companies in Russia. In 2007, its first year as a public company, TMK took 18th place;

• 3rd place in the Best Annual Report Information Disclosure category in the RTS' yearly annual report contest;

• 1st place in the Industry category in the yearly annual report contest held by the Ministry of Economic Development of the Russian Federation, the MICEX stock exchange and the Securities Market Journal.

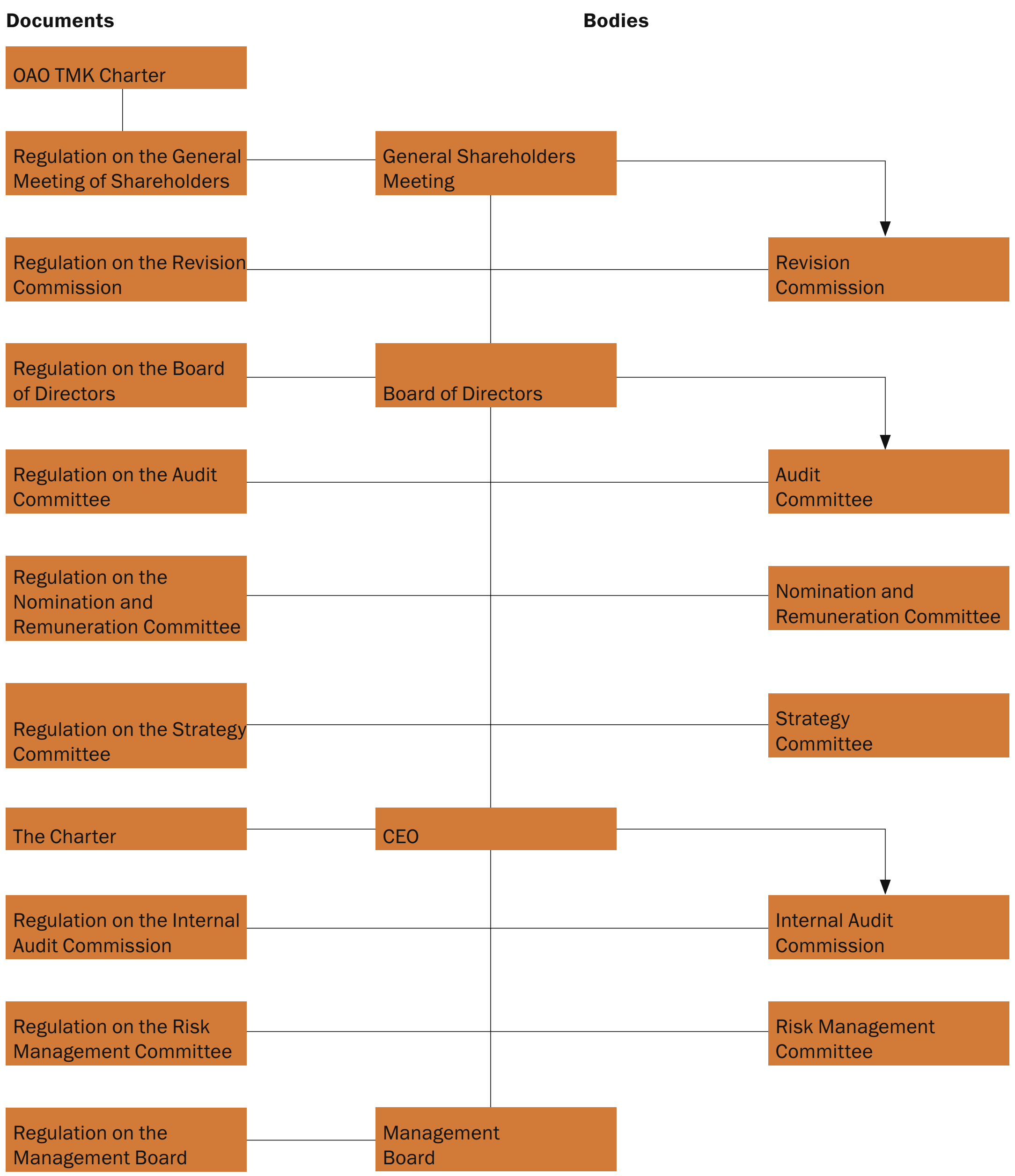
Evaluation and trends of improvement of the corporate governance system

The Board of Directors is constantly monitoring the state of the Company's corporate management system, performs annual evaluations and defines the guidelines for further improvement. Direct analysis of corporate governance practices is performed by the Nomination and Remuneration Committee. The Board of Directors reviewed and approved (minutes dated May 15, 2008) the Committee's conclusion regarding TMK's corporate governance practices in 2007–2008, which contained the following evaluation results:

• The corporate governance system and the activity of the management bodies of the Company were graded as satisfactory;

• The level of practical corporate governance at the Company was found to be quite high;

OAO TMK Corporate Governance System



• Risks related to shareholders' rights violations, the degree of efficiency of the management bodies, and the lack of information transparency were considered insignificant;

• The corporate governance system continued to actively develop, supported by the strategic initiatives of management and shareholders.

Priority trends and tasks for the improvement of the corporate governance system in 2008–2009:

• Develop a long-term motivation programme;

• Improve the management of subsidiaries and establish the Company's corporate governance standards in newly acquired assets;

• Shift from process management to results management;

• Delegate the maximum possible authority and responsibility for the results of activities to the level of business units;

• Decrease the length of time in decision-making;

• Evaluate the efficiency of the divisional management model;

• Streamline the structure of assets.

The Board of Directors and the Committees of the Board of Directors

OAO TMK's Board of Directors plays a key role in maintaining the balance between the rights and lawful interests of the shareholders and other interested parties through the definition of the Company's development strategy and the monitoring of management's activities.

OAO TMK's Board of Directors is formed in such a way as to ensure the maximum efficiency in performance of the functions entrusted to the board of directors: reputation, qualification, practical experience in different areas of activity, optimum correlation of the independent, executive and non-executive directors and compliance with the requirements of the Company's Ethical Code.

The Board of Directors has ten members, four of whom are independent directors, according to the criteria determined in the Regulations on the Board of Directors and corporate governance best practices. To preserve the established structure of the Board of Directors in terms of independence, and because an independent member of the Board, Piotr Galitzine, became an executive director of OAO TMK, some changes took place in 2008. By resolution of the Annual General Meeting of Shareholders dated June 27th, 2008, Alexander Shokhin was elected as a member of the Board, while Piotr Galitzine's membership was terminated.

All the members of the Company's Board of Directors, but for Alexander Shokhin, have held their positions continuously, since 2005.

	Membership in the Board of Directors and Committees of the Board of Directors as at December 31, 2008	Attendance according to the number of meetings held	Share in the charter capital of OAO TMK, % [1]
Pumpyanskiy D. A.	Chairman of the Board of Directors, non-executive director	71/71	0.0075 [2]
Kaplunov A. Yu.	Non-executive director	69/71	0.0124
Cobb A. N. W.	Non-executive director, member of the Audit Committee	70/71	0.001
Marous J.	Independent director, Chairman of the Strategy Committee, member of the Nomination and Remuneration Committee	70/71	0.0022
Papin S. T.	Non-executive director	69/71	0.013
Townsend G.	Independent director, Chairman of the Audit Committee	71/71	0.0022
Khmelevsky I. B.	Non-executive director, member of the Nomination and Remuneration Committee	68/71	0.011
Shiryaev A. G.	Executive director, member of the Strategy Committee	71/71	0.0162
Shokhin A. N.	Independent director, member of the Strategy Committee	23/33	–
Eskindarov M. A.	Independent director, Chairman of the Nomination and Remuneration Committee, member of the Audit Committee	61/71	0.0019

[1] OAO TMK's charter capital consists only of ordinary shares.
[2] The information about OAO TMK's beneficiary owners is provided in the section Share capital of this Annual Report, on page 53.

As of December 31st, 2008, the members of the Board of Directors of OAO TMK were:

Dmitriy Alexandrovich Pumpyanskiy
Chairman of the Board of Directors

Born in: 1964
Graduated from the Urals State Technical University, Candidate of Sciences (Engineering), Doctor of Science (Economics).
Positions in other organisations: President of ZAO Sinara Group, member of the Board of Directors of OAO Volzhsky Pipe Plant, member of the Board of Directors of OAO TAGMET, member of the Board of Directors of OAO Seversky Tube Works, member of the Board of Directors of OAO Sinarsky Pipe Plant, member of the Board of Directors of OAO Joint-Stock Commercial Bank of Support to Commerce and Business (SKB-Bank), Chairman of the Board of Directors of ZAO Sinara Group, member of the Board of Directors of OAO Sinara Transport Machines, member of the Bureau of the Board of Directors of the Russian Union of Industrialists and Entrepreneurs.
Previous positions held: Chief Executive Officer of OAO TMK.

Andrey Yurievich Kaplunov
First Deputy Chief Executive Officer of OAO TMK

Born in: 1960
Graduated from the Moscow Finance Institute, Candidate of Sciences (Economics)
Positions in other organisations: Chairman of the Board of Directors of OAO Seversky Tube Works, Chairman of the Board of Directors of OAO Volzhsky Pipe Plant, Chairman of the Board of Directors of OAO TAGMET, Chairman of the Board of Directors of OAO Sinarsky Pipe Plant, Chairman of the Board of Directors of ZAO Trade House TMK, Deputy Chairman of the Board of Directors of OAO Joint-Stock Commercial Bank of Support to Commerce and Business (SKB-Bank), member of the Board of Directors of ZAO Sinara Group, member of the Board of the Interregional Non-State Big Pension Fund.
Previous positions held: Vice President of ZAO Sinara Group, Deputy Chief Executive Officer for Organisational Development of OAO TMK, Deputy Chief Executive Officer of Administration of OAO TMK.

Adrian Cobb
Advisor to the Deputy Chief Executive Officer – Director of business development (American division) of OAO TMK

Born in: 1949
Graduated from the University of Durham (United Kingdom), a Fellow of the Institute of Chartered Accountants of England and Wales.
Positions in other organisations: member of the Board of Directors ZAP Sinara Group, member of the Board of Directors of OAO Joint-Stock Commercial Bank of Support to Commerce and Business, member of the Board of Directors of IPSCO Tubulars Inc, member of the Board of Directors of NS Group, Inc.

Previous positions held: Advisor of the President of ZAO Sinara Group, Senior Financial Advisor of Shell Exploration and Production Services. B.V.

Josef Marous

Born in: 1949
Graduated from Johann Wolfgang Goethe University, Frankfurt-am-Main.
Positions in other organisations: Head of the Representative Office of Thyssen Krupp AG in the Russian Federation, member of the Board of Directors of OOO Thyssen Krupp Elevator, member of the Board of Directors of OOO Thyssen Krupp Materials, member of the Board of Directors of OOO Polisius.
Previous positions held: Chairman of the Manufacturers of Automobile Components Committee of the Association of European Business in Russia.

Sergey Timofeyevich Papin

Born in: 1955
Graduated from the Donetsk Polytechnical Institute.
Positions in other organisations: Vice President of ZAO Sinara Group, member of the Board of Directors of ZAO Sinara Group, member of the Board of Directors of ZAO Intourist-Sinara, member of the Board of Directors of OAO Burgas Vacation Hotel, member of the Board of Directors of OAO Sinara Transport Machines, member of the Board of Directors of OAO Arkhyz-Sinara.
Previous positions held: Deputy Chief Executive Officer for External and Special Projects of OAO TMK.

Geoffrey Townsend

Born in: 1949
Graduated from St. Catherine's College (Oxford), a Fellow of the Institute of Chartered Accountants of England and Wales.
Positions in other organisations: member of the Board of Directors of OAO Raspadskaya, Deputy Chief Executive Officer of OOO Arnika.
Previous positions held: Independent consultant at KPMG.

Igor Borisovich Khmelevsky

Born in: 1972
Graduated from the Urals State Law Academy.
Positions in other organisations: Vice President of ZAO Sinara Group, member of the Board of Directors of ZAO Sinara Group, member of the Board of Directors of TMK STEEL LIMITED, member of the Board of Directors of BRAVECORP LIMITED, member of the Board of Directors of TIRELLI HOLDINGS LIMITED, member of the Administrative Board of SC T.M.K.-ARTROM SA, member of the Administrative Board of SC TMK-RESITA SA, member of the Board of Directors of TMK Global AG, member of the Board of Directors of SINARA CAPITAL MANAGEMENT SA, member of the Board of Directors of FERDBERG SERVICES LIMITED
Previous positions held: Deputy Chief Executive Officer for Legal Work of OAO TMK, Head of the Department of Legal Issues of ZAO SINARA Group.

Alexander Georgievich Shiryaev
Chief Executive Officer, Chairman of the Board

Born in: 1952
Graduated from the Sverdlovsk Institute of National Economy.
Positions in other organisations: member of the Board of Directors of OAO Joint-Stock Commercial Bank of Support to Commerce and Business (SKB-Bank), member of the Board of Directors of ZAO Sinara Group, member of the Board of Directors of OAO Central Stadium, member of the Board of Directors of OAO Arkhyz-Sinara, member of the Board of Directors of OAO Sinara Transport Machines, member of the Board of Directors of OOO SINARA-INVEST, member of the Board of Directors of ZAO Sinergo, member of the Board of Directors of OOO KOM BILLDING.
Previous positions held: Vice President, Chief Executive Officer of ZAO SINARA Group, Deputy Chief Executive Officer of Finance and Economics of OAO TMK, Deputy Chief Executive Officer of Development of ZAO SINARA Group.

Alexander Nikolaevich Shokhin

Born in: 1951
Graduated from the Moscow State University named after M.V. Lomonosov, Doctor of Sciences (Economics), Professor.
Positions in other organisations: President of the All-Russian public organisation Russian Union of Industrialists and Entrepreneurs, President of the State University – Superior School of Economic, Member of the Public Chamber of the Russian Federation, Member of

the Board of Directors of OAO LUKOIL, member of the Board of Directors of OAO Russian Railways, member of the Board of Directors of OAO TKG-10, member of the Board of Directors OAO Brewing company Baltika, member of the Board of Directors of OOO Drilling company Eurasia, member of the Board of Directors of OAO TNK-VR management.
Previous positions held: Chairman of the Supervisory Board of the IG Renaissance Kapital.

Mukhadin Abdurakhmanovich Eskindarov

Born in: 1951
Graduated from the Moscow Finance Institute, Doctor of Sciences (Economics), Professor.
Positions in other organisations: Rector of the Finance Academy under the Government of the Russian Federation, member of the Board of Directors of OAO Bank of Moscow.
Previous positions held: First Vice Rector of the Finance Academy under the Government of the Russian Federation.

Results of operations of the Board of Directors in 2008

The considerable worsening of the macroeconomic situation in 2008 required that the Board of Directors not only treat with special thoroughness matters regarding the development strategy but also assume a greater part of responsibility for the resolution of current issues regarding the Company's management.

The key role of the Board of Directors was both to consider the most current development issues at the regularly held meetings and involved the direct participation of certain members of the Board of Directors in the activity of executive bodies beginning in the fourth quarter of 2008. The sound balance and thoroughness of the resolutions adopted were achieved as a result of the preliminary consideration of information by the committees of the Board of Directors which actively held joint and open meetings.

In 2008, the Board of Directors held 71 meetings, including 10 through joint attendance.

Throughout 2008, the Board of Directors focused its attention mainly on the following material issues:

- Implementation of the restructuring programme regarding non-core, auxiliary and service subdivisions of TMK enterprises;
- Integration and development of TMK in North America;
- The state of environmental, occupational and industrial safety at TMK companies;
- Implementation of HR policies and measures ensuring labour productivity growth;
- Approval of the reports on the work of the Board Committees of OAO TMK;
- Results of the work of the Internal Audit Service of OAO TMK;
- Implementation of SAP ERP and fulfilment of the project Automatic Process and Control System at TMK's plants;
- The anti-crisis measures programme;
- Approval of various asset management transactions.

Committees of the Board of Directors

The Board of Directors has three standing committees:

- The Audit Committee (AC);
- The Nomination and Remuneration Committee (NRC);
- The Strategy Committee (SC).

Each Committee is headed by an independent director; with a majority composed of independent members of the Board in each committee.

Committee meetings are open for participation to all the members of the Board of Directors, in person or through video and telephone conferences. The most complicated issues are discussed during joint meetings of the committees: one meeting of all committees and four joint meetings of the AC and SC were held in 2008. To obtain additional information and produce better reasoned and constructive recommendations in regard to certain issues, the Board of Directors on occasion invited members of the executive bodies and senior managers to the meetings.

Attendance of the members of the Board of Directors in committee meetings in 2008:

	The Audit Committee (10 + 5 joint meetings)	The Nomination and Remuneration Committee (8 + 1 joint meeting)	The Strategy Committee (6 + 5 joint meetings)
	Attendance according to the number of meetings held		
Galitzine P. D.			3/5
Kaplunov A. Yu.		8/8	
Cobb A.	14/15		
Marous J.		8/9	11/11
Townsend G.	15/15		
Shiryaev A. G.			8/11
Khmelevsky I. B.		1/1	
Shokhin A. N.			2/6
Eskindarov M. A.	6/15	8/9	

The Audit Committee Report

Period covered by the report

The report covers the 2008 calendar year; where relevant to the appreciation of the 2008 consolidated financial statements, activities undertaken between 1st January 2009 and 30th April 2009 were included.

Committee Membership in 2008

Townsend G. R.	Chairman of the committee Independent director
Eskindarov M. A.	Chairman of the Nomination and Remuneration Committee Independent director
Cobb A. N. W.	Non-executive director

G. Townsend and A. Cobb have recent and relevant financial experience as recommended by the Smith Guidelines to the Combined Code. At the same time, M. Eskindarov is highly qualified and has a deep understanding of the Russian financial sector, being Rector of the Finance Academy under the Government of the Russian Federation, Professor and Doctor of Sciences, Economics.

On 26 February 2009, A. Cobb resigned from the committee upon taking up an executive role in the company, and was replaced by I. Khmelevsky who is a non-executive director. The board considers that throughout their membership both A. Cobb and I. Khmelevsky have been independent in substance whilst not in form. Article 3.2 of the Regulations on the Audit Committee permits their membership.

Access to committee meetings

In general, Board members are invited to attend meetings of the Audit Committee. However, the Committee holds at least two meetings per year which are closed to other Board members; the closed meetings include sessions with the external auditor.

Internal control

The Audit Committee is active in this area through its oversight of the Risk Management Committee and the Internal Audit Service.

Areas of focus in 2008

The Audit Committee has paid particular attention to the reporting issues arising from the IPSCO acquisition and to exchange risk management.

External Auditor

The Audit Committee has established a procedure for the appointment/ reappointment of the external auditor; the procedure commences eight months before the annual general meeting at which the auditor is appointed. The procedure is designed to identify and resolve potential problems with quality, service level and remuneration in a timely manner so that a search for a new auditor could, if necessary or desirable, be completed before the annual general meeting.

TMK's practice concerning awarding contracts for non-audit services to the external auditor is extremely restrictive. The overwhelming majority of fees is for services directly concerned with the performance of the annual audit or for other services where the opinion of the auditor is required.

The external auditor has adequate procedures for rotation of audit partners and senior audit staff.

The Committee has recommended to the Board of Directors that it recommends to the shareholders the reappointment of Ernst & Young as external auditor for the 2009 financial year.

Committee oversight of the external audit of the financial statements for 2008

This section describes the Audit Committee's oversight of the external audit of the Company's consolidated financial statements for 2008 (IFRS) and the parent company financial statements prepared according to Russian accounting standards for 2008. Most of this work was carried out in 2009. The external auditor discussed its audit plans with the Committee before commencement of the audit. During the course of the audit the external auditor discussed potential problems and their resolution with the Audit Committee. At the conclusion of the audit, the external auditor presented to the Audit Committee:

• a summary on the audit adjustments proposed by the auditor and accepted by TMK;

• a summary on the audit adjustments proposed by the auditor and not accepted by TMK. The external auditor considers the non-acceptance of these proposed adjustments to be immaterial in the context of forming an opinion on the economic performance and financial status of the Company from the financial statements.

As a result of its work on the oversight of the external audit, the Audit Committee believes that the audit was performed professionally and that there are no obvious conflicts of interest, and recommends to the Board of Directors that the financial statements be submitted for the approval of shareholders at the Annual General meeting.

Independent advice

In accordance with the recommendation given in point 2.15 of the Smith Guidance, the Audit Committee has the right to seek independent advice when it deems such advice to be necessary. The Committee did not feel the need to receive such advice during the year.

The Nomination and Remuneration Committee

Members of the Nomination and Remuneration Committee as of the end of 2008:

Eskindarov Mukhadin Abdurakhmanovich	Chairman of the Committee and member of the Audit Committee, independent director
Josef Marous	Chairman of the Strategic Development Committee, independent director
Igor Borisovich Khmelevsky	Non-executive director, member of the Committee since 11.11.2008
Andrey Yurievich Kaplunov	Non-executive director, member of the Committee till 11.11.2008.

There have been changes in the membership of the Committee concerning the appointment of Committee member, Andrey Kaplunov, to the office of First Deputy Chief Executive Officer of OAO TMK and his consequent transition to the status of executive director. In accordance with the Regulations of the Committee, only independent and non-executive directors of the Company may be its members. In accordance with the resolution of the Board of Directors of OAO TMK dated 11.11.2008, the member of the Board of Directors, Igor Khmelevsky, became a member of the Committee.

Recommendations of the NRC had considerable practical value for TMK's activity in 2008. The Board of Directors and the executive management of the company took them into account when taking decisions related to the development and implementation of:

• Implementation of the Company's HR policy, regular monitoring of the social and economic situation in the regions where TMK companies are present;

• Measures for optimisation of quantity, personnel expenses and administrative-business expenses in the light of changes in the macroeconomic situation and for the social protection of the TMK employees under the new market conditions;

• Salary adjustments;

• Programmes for the formation, training and sustainment of the HR reserve of potential leaders for TMK's subdivisions and structural units.

In 2008, the Committee:

• Supervised the development of a complex programme for labour productivity increase using the experience of competitors and companies of the Company (TMK plants in North America and Romania) in terms of production organisation and use of HR resources;

• Considered the results of the comparative quantitative analysis of the personnel engaged in maintenance of similar equipment in the Russian companies, in TMK IPSCO and ТМК-Артром;

• Performed an analysis of the divisional management model; supervised the formation of TMK service division;

• Monitored the implementation of the restructuring programme;

• Considered the organisational and general HR situation and the existence of service maintenance contracts at TMK IPSCO;

• Monitored labour relations with TMK's top managers, considered the results of their activity and the motivation system.

One of the NRC's key tasks is the supervision of compliance with good corporate governance practice and the drafting of recommendations for TMK's corporate structure, including changes in the membership of the Board of Directors, Committees, executive management and other related issues.

The Committee prepared a draft conclusion on the corporate governance practice of OAO TMK and emphasised the interaction of the Board of Directors with the executive management of the Company, as well as the strategic tasks in the area of technological development as one of the key factors for market capitalisation improvement.

In 2009, the NRC plans to focus on issuing recommendations for the implementation of HR and social policies, development of the TMK's overseas divisional structure, selection and training of personnel, including those engaged in Company's activities abroad, fulfilment of the restructuring programme, implementation of automated systems to support management decision-making, formation of manager's portal in SAP, further development of long-term management motivation programmes, improvement of the subsidiaries' and dependent companies' management systems and strengthening of the corporate procedures related with new assets of the TMK.

The Strategy Committee

The year 2008 witnessed the following changes in the committee: as Piotr Galitzine acquired the status of executive director of the Company, Alexander Shokhin, who is an independent director, was elected as a member of the SC (minutes of the meeting of the Board of Directors of OAO TMK dated 30.06.2008).

Two of the three members of the Committee are independent directors. One member of the Committee, Alexander Shiryaev, formerly a non-executive director, became an executive director on 12.11.2008.

The membership of the Strategic Development Committee in 2008 was:

Josef Marous	Chairman of the Committee, member of the Nomination and Remuneration Committee, independent director
Shokhin Alexander Nikolaevich	Independent director, member of the Committee since 27.06.08
Shiryaev Alexander Georgievich	Non-executive director till 11.11.2008, Chief Executive Officer, Chairman of the Executive Management since 12.11.2008
Galitzine Piotr Dmitrievich	Independent director, member of the Committee till 27.06.08

In 2008, the Committee has reviewed and presented to the Board of Directors recommendations regarding the following main issues:

• Efficiency of TMK's investment activity; correction of the investment programme in the light of the anti-crisis measures;

• Merger and acquisition transactions;

• Integration of the US tubular assets of the Company;

• TMK's target structure;

• Implementation of the Company's Growth Strategy;

• Dividends;

• Liquidity management policy.

In joint meetings with other committees of the Board of Directors, recommendations have been made on the following issues:

• The anti-crisis measures programme;

• The establishment of a management company for TMK's Service Division;

• OAO TMK's 2007 Annual Report;

• Results of TMK's investment activity in 2008 and investment plans for 2009;

• The oil and gas service market development perspectives;

• Establishment of long-term relations with suppliers;

• OAO TMK's interaction with the Russian Pipe Industry Development Fund, etc.

Committee's perspective and priority tasks:

• Strategic development plans up to 2010–2015;

• Strategic initiatives for production improvement of the highly profitable segments;

• Strategic Investment Programme.

Executive management

OAO TMK's day-to-day activities are managed by two executive bodies, the Chief Executive Officer and the Management Board, whose areas of authority are segregated as the Chief Executive Officer is not entitled to make decisions which are attributed to the competence of the Management Board.

The more complex issues are attributed to the competence of the Management Board. The membership of OAO TMK's executive bodies, the clear distribution of authority, and a fair remuneration system create the conditions aimed at both maximum efficiency in their activities and the stable development and increase of Shareholder value.

The year 2008 saw the following changes in the executive bodies of the Company, in accordance with the resolutions of the Board of Directors:

• Early termination of the authority of a member of the Management Board, Oleg Borisov, due to the expiry of the labour contract with OAO TMK (minutes dated 21.02.2008).

• Elena Blagova and Piotr Galitzine were re-elected as members of the Management Board at the annual re-election of the Management Board (minutes dated 30.06.2008).

• Early termination of the authority of the members of the Management Board Sergey Agafonov and Sergey Bilan (minutes dated 12.11.2008).

• Konstantin Semerikov and Andrey Kaplunov were elected as members of the Management Board (minutes dated 12.11.2008).

• Alexander Shiryaev was elected as Chief Executive Officer of the Company (minutes dated 12.11.2008). Konstantin Semerikov, the former CEO, continued his work with the Company as Chief Executive Officer of ZAO Trade House TMK, as a member of the Management Board, and as First Deputy Chief Executive Officer of OAO TMK.

The Executive Management's main focus in 2008 was concentrated on:

• the development and operational adjustment of the production programmes and sales plans, resulting from a monitoring of the current situation and the 2009 pipe market forecast;

• the achievement of approved quality standards by the Company's plants;

• the results of issues pertaining to customer claims at TMK's plants;

• IFRS consolidated results ;

• pricing policy;

• reducing production expenses.

As at December 31st, 2008 OAO TMK's Management Board included the following 15 members:

Shiryaev Alexander Georgievich
Chief Executive Officer of OAO TMK, Chairman of the Management Board
(further information is provided on page 41 of this report)

Blagova Elena Evgrafovna
Managing Director of OAO Volzhsky Pipe Plant

Born: 1959
Graduated from the Chelyabinsk Technical Institute, the Moscow State Open University.
Previous positions held: First Deputy Managing director – Director for finance and economy in OAO Volzhsky Pipe Plant, Deputy Chief Executive Officer for finance and economy of OAO Volzhsky Pipe Plant.

Brizhan Anatoliy Illarionovich
Managing Director of OAO Sinarsky Pipe Plant

Born: 1942
Graduated from the Kirov Urals Polytechnical Institute.
Previous positions held: Chief Executive Officer of OAO Sinarsky Pipe Plant.

Galitzine Piotr Dmitrievich
Deputy Chief Executive Officer – Director for Business Development (American division)

Born: 1955
Graduated from the Massachusetts Technical Institute, MBA from the New York University.
Previous positions held: Chief Executive Officer of ZAO BASF for Russia and CIS, Head of the Representative Office of BASF SF in Russia, Director of Galitzine Consulting Ltd.

Degai Alexei Sergeevich
Managing Director of OAO Seversky Tube Works

Born: 1958
Graduated from the Kirov Urals Polytechnical Institute.
Positions in other organisations: Chief Executive Officer of ZAO TMK-CPW.
Previous positions held: Chief Executive Officer OAO Seversky Tube Works.

Kaplunov Andrey Yurievich
First Deputy Chief Executive Officer OAO TMK
(further information is provided on page 40 of this report)

Lyalkov Alexander Grigorievich
Deputy Chief Executive Officer for Production, Technology and Quality of OAO TMK

Born: 1961
Graduated from the Volgograd Polytechnical Institute.
Positions in other organisations: Deputy Chief Executive Officer for production, technology and quality of ZAO Trade House TMK.
Previous positions held: Deputy Chief Executive Officer for production of OAO TMK, First Deputy Chief Executive Officer of ZAO Trade House TMK, Managing director of OAO Volzhsky Pipe Plant, Chief Executive Officer of OAO Volzhsky Pipe Plant.

Marchenko Leonid Grigorievich
Deputy Chief Executive Officer – Chief Engineer of OAO TMK

Born: 1951
Graduated from the Kirov Urals Polytechnical Institute, Candidate of Sciences (Technology).
Previous positions held: Deputy Chief Executive Officer – Chief engineer of ZAO Trade House TMK, Deputy Chief Executive Officer for technical development – Chief engineer of OAO TMK, First Deputy Chief Executive Officer – Chief engineer of OAO TMK.

Oborsky Vladimir Bronislavovich
Deputy Chief Executive Officer of Sales of OAO TMK

Born: 1961
Graduated from the Frunze Military Academy and Frunze Kiev Higher Combined Arms Command Academy.
Positions in other organisations: First Deputy Chief Executive Officer – Executive director of ZAO Trade House TMK.
Previous positions held: Chief Executive Officer of ZAO Trade House TMK, Executive director of OAO TMK, Deputy Chief Executive Officer for sales of OAO TMK, Head of the Department for work with JSC Transneft and gas industry enterprises ZAO Trade House TMK.

Petrosian Tigran Ishkhakovich
Deputy Chief Executive Officer of Finance and Economics of OAO TMK

Born: 1968
Graduated from the Erevan State University.
Positions in other organisations: Deputy Chief Executive Officer of Finance and Economics ZAO Trade House TMK.
Previous positions held: Deputy Chief Executive Officer for economics of OAO TMK, Head of the Directorate for economics and planning of OAO TMK.

Popescu Adrian

Born: 1961
Graduated from the Traian Vuia Politehnica University, Romania.
Positions in other organisations: President of SC T.M.K.-ARTROM S.A., President of SC TMK-Resita SA.

Semerikov Konstantin Anatolievich
First Deputy of the Chief Executive Officer – Executive Director

Born: 1959
Graduated from the Moscow Steel and Alloys Institute.
Positions in other organisations: Chief Executive Officer of ZAO Trade House TMK
Previous positions held: Chief Executive Officer of OAO TMK, Chief Executive Officer of ZAO Trade House TMK, Executive Director of OAO TMK, Deputy Chief Engineer and Deputy Chief Executive Officer of Production of OAO TMK, Mayor and Head of the city administration of the city of Taganrog.

Fartushny Nikolai Ivanovich
Managing director of OAO TAGMET

Born: 1949
Graduated from the M.I. Arsenichev Dneprodzerzhinsky Red Banner of Labour Industrial Institute.
Previous positions held: Chief Executive Officer of OAO TAGMET, Technical director – Deputy Chief Executive Officer of OAO TAGMET.

Khonina Natalia Borisovna
Chief Accountant of OAO TMK

Born: 1952
Graduated from the Gorky Urals State University.
Positions in other organisations: Chief accountant of ZAO Trade House TMK.
Previous positions held: Chief accountant – director of the Accounting and Reporting Directorate of OAO TMK.

Shmatovich Vladimir Vladimirovich
Deputy Chief Executive Officer of Strategy and Development of OAO TMK

Born: 1964
Graduated from the Moscow Finance Institute and the University of Notre Dame (USA).
Positions in other organisations: Deputy Chief Executive Officer for Strategy and Development of ZAO Trade House TMK.
Previous positions held: Deputy Chief Executive Officer for Finance of OAO TMK, Deputy Chief Executive Officer for Finance and Economics of OAO TMK, Deputy Chief Executive Officer for Finance and Economics of ZAO Trade House TMK, Deputy Chief Executive Officer – Director for Finance and Economics of OOO RusPromAuto, Manager of the Business Unit Udmurtia Business for the branch Survey and Extraction of OAO TNK-VR Management, Director for Financial Control in the Finance Unit of OAO Sidanco.

Member of the Management Board	Share in the charter capital of OAO TMK, %	Share in the charter capital of affiliated companies
Shiryaev A.G. – Chairman of the Management Board	0.0162	
Blagova E.E.	0.0028	
Brizhan A. I.	0.0057	0.001% of shares of OAO SinTZ
Galitzine P.D.	0.0011	
Degai A.S.	0.0039	0.0025% of shares of OAO STZ
Kaplunov A. Yu.	0.0124	
Lyalkov A. G.	0.0040	
Marchenko L. G.	0.0055	
Oborskiy V. B.	0.0082	
Petrosian T. I.	0.0045	
Popescu A.	0.0029	
Semerikov K. A.	0.0437	0.02% of shares of OAO TAGMET
Fartushny N. I.	0.0058	
Khonina N. B.	0.0036	
Shmatovich V.V.	0.0039	

Remuneration

The remuneration system for members of the Board of Directors and executive bodies of OAO TMK is based on simplicity and transparency for the shareholders. The main principle is fair compensation for the work performed.

From the evaluations of the NRC, whose competence includes the development of the principles of remuneration and motivation criteria, the currently implemented system is fair, adequate, and focused on the task of ensuring long-term growth of Shareholder value of the Company.

Board of Directors

In accordance with the Regulation on the Board of Directors of OAO TMK, only Directors who are not executives of OAO TMK are entitled to remuneration and the compensation of expenses related with the execution of their duties. Prior to 11 November 2008, only independent and non-executive directors of the Company formed the Board of Directors. As of December 31 2008, the Board of Directors is comprised of 4 independent directors, 4 non-executive directors and 2 executive directors.

The remuneration to be paid includes:

- a fixed base remuneration;
- additional remuneration for performance of the duties of Chairman or as a member of a Board Committee.

Fixed remuneration is paid on a monthly basis (1/12 of the fixed annual amount).

Additional remuneration is paid every six months (half of the approved annual additional remuneration).

In 2008, the aggregate remuneration of the members of the Board of Directors was USD 5.18 million.[1]

Executive bodies

The remuneration paid to the Chief Executive Officer and the members of the Management Board consists of:

- Fixed salaries, determined according to the employment contract and paid on a monthly basis;

- Variable salaries (bonuses), KPI-based and established individually, according to the duties performed (such as EBITDA, shipment volumes, etc.) and approved by the Board of Directors every year.

A bonus is paid to the Chief Executive Officer and members of the Management Board if they achieve their key performance indicators, based on the adoption of the relevant decision by the Board of Directors.

In 2008, the aggregate remuneration of the Chief Executive Officer and the members of the Management Board was USD 12.27 million.

Expenses for TMK's Stock Option Programme for the Board of Directors and management in the amount of USD 5.99 million are shown in TMK's 2008 IFRS consolidated financial statements. The amount was determined according to the fair value of the options on the date of grant.

External auditor

By decision of the general meeting of OAO TMK of 27 June 2007, OOO Ernst & Young (Licence E002138, approved by Order No. 223 of

[1] At the exchange rate of 1 USD for 24.8553 rouble.

the RF Ministry of Finance of 30 September 2002, issued for a five-year term; extended by the RF Ministry of Finance Order No. 573 of 17 September 2007 until 30 September 2012) was approved as the Company's auditor for 2008.

The external auditor is proposed by the executive management of the Company and is discussed by the Audit Committee and the Board of Directors.

OAO TMK places significant restrictions on awarding contracts to perform non-audit related services to the external auditor. The overwhelming majority of non-audit fees relate to mandatory procedures connected with the preparation of securities prospectuses and the share of remuneration paid to the external auditor for these services in 2008 equalled less than 15% of the total remuneration paid for the performance of the annual audit.

Internal control

The internal control system

TMK's internal control procedures were established to:

• ensure the security and growth of TMK assets;

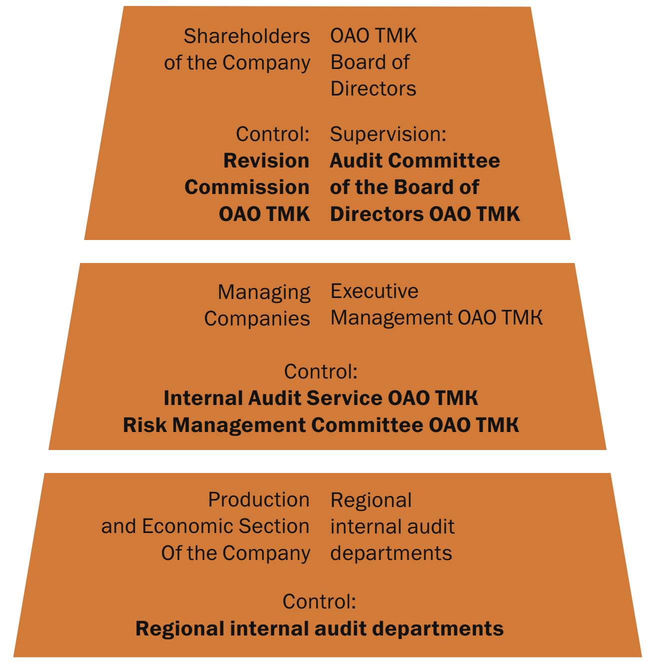
• ensure compliance with legislative requirements and the requirements of TMK's internal regulations;

• ensure the provision of complete and reliable financial statements to shareholders and all interested.

Internal control in TMK, as a function of management, is a multi-level system of permanent supervision and audit of the operations of Company divisions to evaluate the efficiency of management decisions, detect deviations and unfavourable situations, and inform management on issues regarding the reduction, management and control of risks.

The stability and efficiency of the internal control system and risk management is, in its turn, supervised by the Internal Audit system

Model of the supervisory system and internal control at TMK



which reports the results of its reviews directly to the Chief Executive Officer of OAO TMK and to the Audit Committee of the Board of Directors of OAO TMK. The Audit Committee evaluates the efficiency of the internal control system and risk management and issues appropriate recommendations for its improvement.

Organisation of internal controls

The Revision Commission of OAO TMK is in charge of supervising the financial and commercial activity of the Company on behalf of shareholders through the verification of the authenticity of accounting data and compliance with the standards set for the financial and commercial activity. The results of audits and reviews are submitted to the management bodies of OAO TMK. In 2008, the Revision Commission held 4 meetings.

The Internal Audit Service of OAO TMK (IAS) by means of audits (including through regional internal audit departments), provides the executive management of the Company and the Audit Committee of the Board of Directors with an objective and independent evaluation of the risk management processes, internal control and corporate governance, as well as recommendations to eliminate possible drawbacks and improve the existing internal control system.

The IAS interacts with the External Auditor during the external audits of TMK. The External Auditor evaluates the internal control system and the internal audit of the Company by reviewing the plans and results of the internal audit. Statements of the operating results of IAS audits are also used by the Revision Commission in the verification of the annual results of the financial and commercial activities of OAO TMK.

In addition to the evaluation of the existing risk management systems and the internal control systems in accounting and reporting information, the IAS oversaw compliance with legislative and internal corporate standards, ensuring the safety of TMK property as well as the compliance with technological norms of metal consumption in the manufacturing process. Furthermore, special attention was paid to the audit of information technologies (IT audit). The IT audit of the SAP-based corporate information system was carried out in two stages:

1. The audit of automation of the main business processes to determine the most important risks;

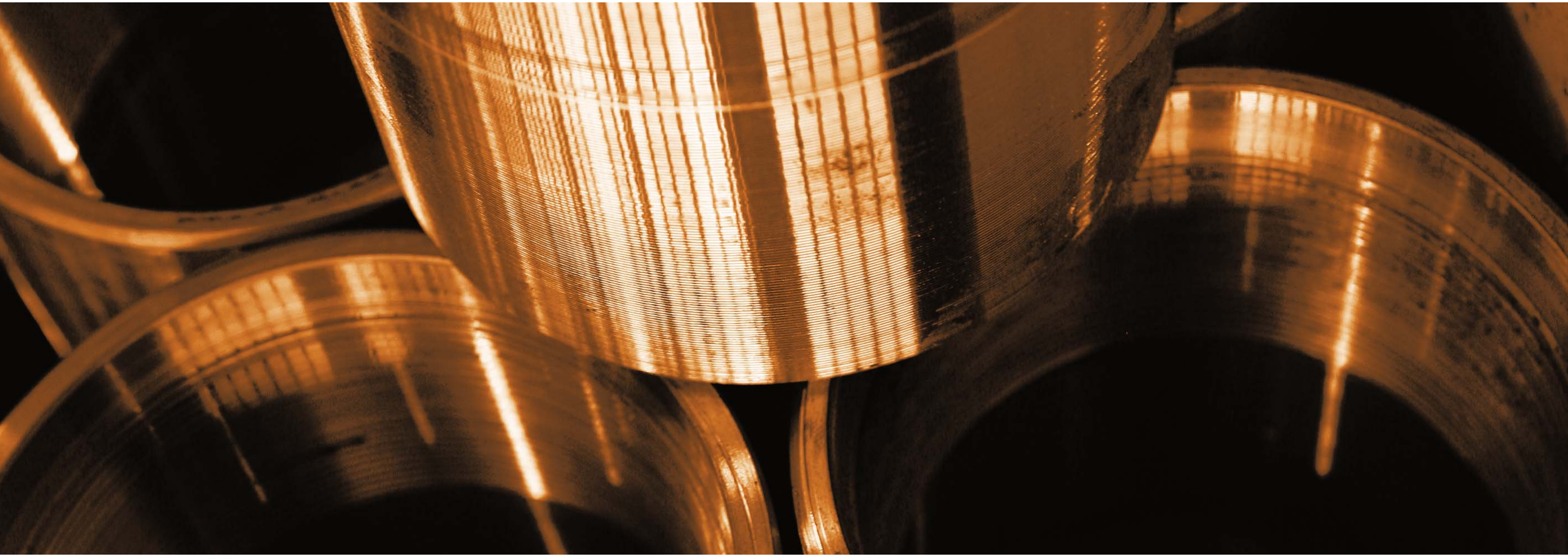
2. A detailed audit of the areas most vulnerable to risks, as detected during the first stage, with the aim of defining the control means and the development of control procedures.

The priority trend of activity for internal audit in 2009 is the audit of the implementation of the corporate resolutions for the optimisation and the reduction of expenses, in the light of the worsening macroeconomic situation, by TMK subsidiaries.

Risk management committee – a permanent body acting under the Chief Executive Officer of OAO TMK, whose purpose is to decrease risks related to the activity of TMK.

TMK management intends to continue to support the improvement of internal controls, audit and risk management systems, and considers it as the most important instrument of verification of the efficiency of management resolutions, as well as the basis for their timely correction.

Share Capital and Dividends



Share capital structure

As at December 2008, the share capital of OAO TMK consisted of 873,001,000 registered ordinary shares. The par value of one share is 10 roubles. OAO TMK does not have any outstanding or declared preferred shares. Information on shareholders holding more than 10% of shares is given below.

Company shareholders may vote on all items on the agenda of the General Meetings of Shareholders. All shares of OAO TMK have the same par value and grant identical rights to shareholders.

As at December 31, 2008, 24,354% of shares of OAO TMK are in free circulation of which approximately 92% are in the form of Global Depositary Receipts (GDR) circulating on the London Stock Exchange.

The table below gives information on the Company's cross-shareholdings as at 31 December 2008.

Cross-shareholding

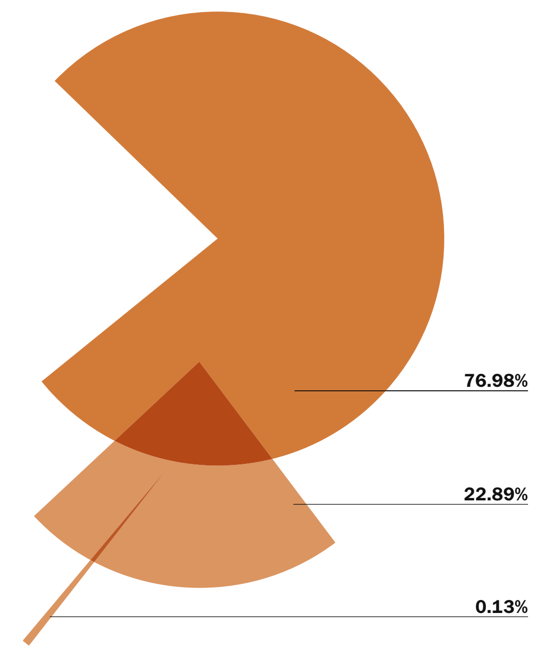
Company	Participation in the authorised capital of OAO TMK
ZAO Trade House TMK	0.006%
Rockarrow Investments Limited (wholly owned subsidiary of ZAO Trade House TMK	0.81%

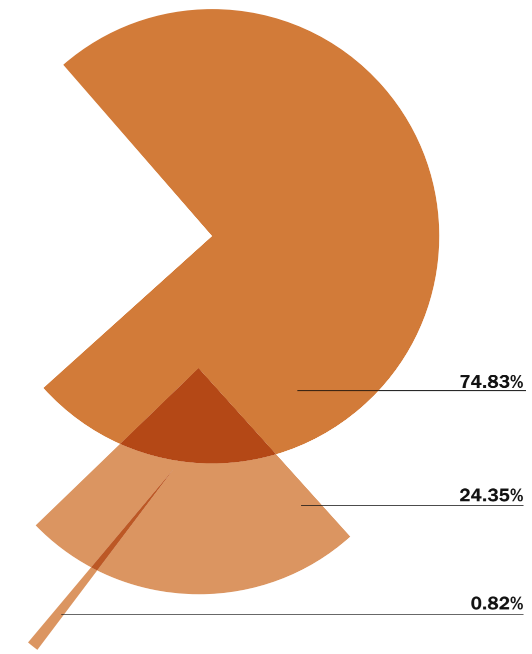
OAO TMK shares are traded on the Russian stock exchanges and are included in the Quoting list "B":

RTS (www.rts.ru) under the trade ticker TRMK on the classic market and TRMKG on the stock exchange market

MICEX (www.micex.ru) under the trade ticker TRMK

OAO TMK shares in the form of Global Depositary Receipts (GDR) are traded on the London Stock Exchange (www.londonstockexchange.com) under the trade ticker TMKS.





Structure of Share Capital as of 31 December 2007

76.98%	TMK Steel Limited, Tirelli Holdings Limited, Bravecorp Limited
0.13%	Subsidiaries of OAO TMK
22.89%	Free-float

Structure of Share Capital as of 31 December 2008

74.83%	TMK Steel Limited, Tirelli Holdings Limited, Bravecorp Limited
0.82%	Subsidiaries of OAO TMK
24.35%	Free-float

D. A. Pumpyanskiy is the main beneficiary of TMK Steel Limited, Bravecorp Limited and Tirelli Holdings Limited

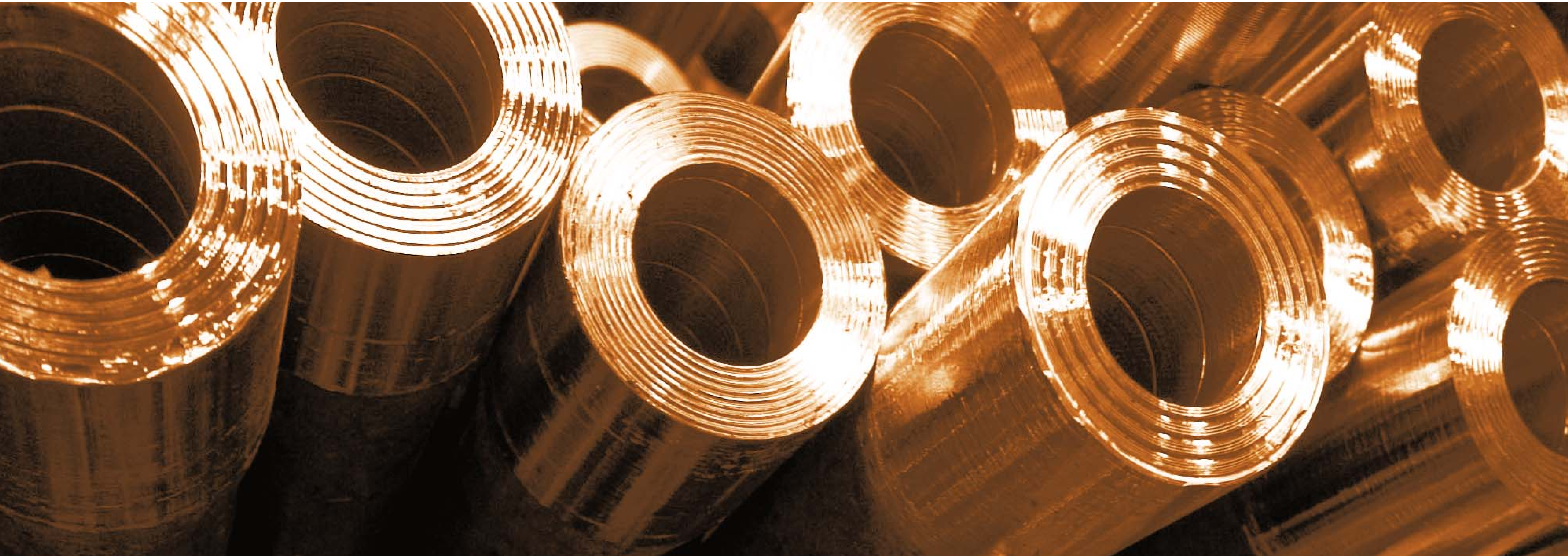
Dividends

In February 2008, shareholders of OAO TMK were paid dividends based on the results of the first 9 months of 2007 in the declared amount of 3.63 roubles per ordinary share in the aggregate amount of 3,168,993,630 roubles.

In August 2008, TMK paid dividends for the full year 2007 in the declared amount of 1.03 roubles per ordinary share for an aggregate amount of 899,191,030 roubles. Thus, the aggregate sum of the dividends for 2007 amounted to 4,068,184,660 roubles or 4.66 roubles per ordinary share.

In December 2008, by resolution of the extraordinary meeting of shareholders, TMK paid interim dividends for the first 9 months of 2008 in the declared amount of 1.75 roubles per ordinary share for an aggregate amount of 1,527,751,750 roubles.

Sustainable Development



Quality management

Our compliance with high product quality standards and requirements is a key part for our customer relationships, which is why TMK aims to follow global best practices in the management of business processes affecting product quality. Certified and annually audited quality management systems are in place at all the Company's plants. All pipe products, manufactured by TMK, comply with international and national standards and technical requirements.

TMK is constantly improving quality management systems and product quality through the implementation of special projects.

The most significant achievements in 2008 include the following:

• Implementation of an integrated corporate quality management system (CQMS), which was certified by the British audit company Lloyd Register Quality Assurance and recognised as complying with the requirements of the international standard ISO 9001. The CQMS and business processes implemented at all company levels, which include product design and development, production, marketing, shipping and servicing, allow the Company to effectively meet customer requirements. The Company is the first pipe manufacturer in Russia and the CIS to have its corporate quality management system certified to the ISO 9001 standard.

• An automated corporate database of standard technical documents was launched, creating an integrated and systematised permanently renewable collection of documents for manufactured products.

• Five TMK plants (TAGMET, Volzhsky, Seversky, Sinarsky, and Orsky) obtained preliminary registration of chemical substances included in the composition of products in accordance with the requirements of the regulation of the European Union (EU) No 1907/2006 (REACH). Compliance with these requirements is one additional instrument to ensure the safety of products and is an essential condition for shipments of products to EU countries. The registration also recognises TMK as a Company of high environmental responsibility respecting both the environment and public health. The final REACH registration is scheduled to be completed in 2010–2018.

Operator's console at piercing mill at TAGMET

• Certification of premium connections with Oil States Industries, Ltd (Aberdeen) which attests products on behalf of oil and gas majors. Tests were conducted for Salym Petroleum Development N.V., a member of the Royal Dutch/Shell group of companies. The connections also passed gas compression tests at the specialised Russian center VNIIGAZ. The official certification of the connections improves the Company's capabilities in expanding sales markets.

• A complete customer satisfaction evaluation was conducted for the first time throughout the Company. The results of this evaluation serve as the base for TMK's quality goals for the 2009–2011 period.

Short-term quality management priorities:

1. Development of the Corporate Quality Management System (CQMS):

• Transfer of the CQMS to ISO 9001:2008;

• Integration of recent acquisitions into the CQMS;

• Certification of the CQMS for compliance with API Spec Q1 Specification for Quality Programs for the Petroleum, Petrochemical and Natural Gas Industry;

• Introduction of the requirements of ISO 14001 Environmental Management Systems. Requirements with guidance for use, OHSAS 18001 Occupational Safety and Health Management Systems Requirements.

2. Organisation of external access to the corporate database of standard technical documents.

Personnel management and social policy

TMK views personnel as a key strategic resource ensuring the Company's long-term competitive advantage and preserving its leading position in the industry, whilst the cost of personnel is considered a long-term investment in the Company's development.

Today some 48,500 employees around the world contribute to the Company's success.

The acquisition of the American pipe assets and Kaztrubprom in 2008 increased the number of TMK employees outside Russia; at the same time, the total number of employees remained unchanged due to improvements in business processes, the implementation of outsourcing programmes for non-core business units, and the commissioning of high tech equipment.

2008 Human Resources Priorities:

• Assuring the availability of qualified personnel demonstrating the required business, managerial and personal competences. The creation of personnel loyalty programmes by means of fair remuneration and the transparency of personnel compensation and benefit policies;

• Improving of the organisational structure of TMK in connection with the acquisition of new assets and the subsequent adaptation of personnel to new work conditions.

TMK pursues an active policy regarding youth employment with the implementation of the following:

• The School – Training School – College – Institution of Higher Education programme offers student training at the Company's plants and the distribution of TMK grants to the most talented students.

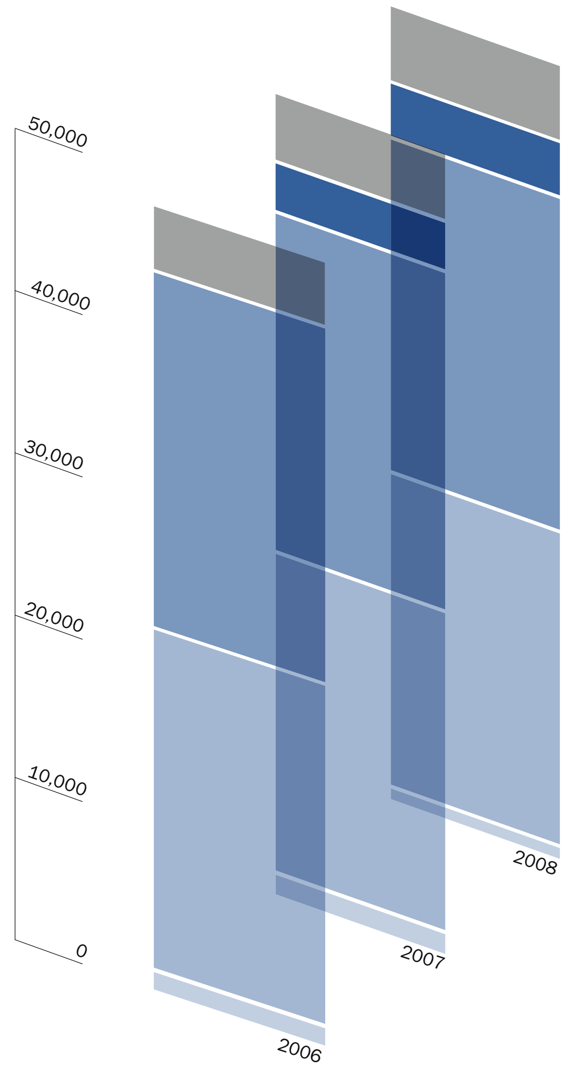
• The corporate programme The Youth, aimed at the establishment of conditions for the successful hiring of young employees, emphasising their professional and personal development and commitment to corporate values and workforce traditions.

Policy results:

• Over the last few years, the Company's staff turnover, an index for the stability of the workforce, has not exceeded 9%.

• The average employee age is less than 40, with young employees representing about 30% of employees.

• In 2008, two thirds of hires were from the Company's personnel reserve which is indicative of the high staffing level.



TMK Employees

	2006	2007	2008
Overseas companies	2,826	3,104	4,101
Volga federal district	–	2,568	2,973
Southern federal district	22,905	22,503	21,857
Urals federal district	22,394	19,722	19,220
Moscow	556	586	343
Total:	48,681	48,483	48,494

Personnel management under the economic crisis required the Company to pay special attention in the 4th quarter of 2008 to the efficiency of decisions taken regarding the improvement of the Company's organisational structure, personnel optimisation and associated expenses. Personnel and remuneration optimisation during this period was implemented on principles which guarantee the legal and social security of employees, through dialogue with trade unions, thus mitigating the social and economic consequences of these anti-crisis measures.

Staff training

The following key training programmes were conducted in 2008:

• Training connected with the implementation of investment projects;

• Professional development training;

• Training of the management reserve;

• Training within the quality management system;

• Training of staff in accordance with the requirements of industry, state, and international standards.

The employee training and development system is mainly based around in-house training centers and in cooperation with external organisations.

During the ISO 9001:2000 certification process, 95.3% of the Company's employees underwent training on quality management programmes.

In 2008, the total number of specialists at the Company's Russian plants having undergone training programmes grew 70% compared to the previous year while training costs increased 9%. Significant savings were achieved with the growth of in-house training which provided about 40% of educational programmes.

In accordance with the anti-crisis measures taken, special attention was paid to train employees for secondary and related professions in order to maintain high levels of product quality and productivity.

Staff wages and incentives

The remuneration system in place at TMK companies is based on the following principles:

• ensuring a competitive wage level in the cities and regions of presence;

• compliance with the requirements of national labour legislations;

• compliance with the requirements of the Branch Tariff Agreement for the mining and metallurgical industries of the Russian Federation between the Association of Manufacturers of the mining and metallurgical industries of Russia (AMROS) and the Central Council of the mining and metallurgical trade union of Russia;

• fulfilment of the terms and conditions of collective agreements;

• indexation of wages in connection with local inflation;

• ensuring an improvement in productivity growth rates over wage growth rates.

In order to improve the personnel motivation system in 2008, the Regulation On Encouragement of TMK Group Staff for the Successful Implementation of Investment Projects was developed and bonuses were paid to employees according to the results of project implementations.

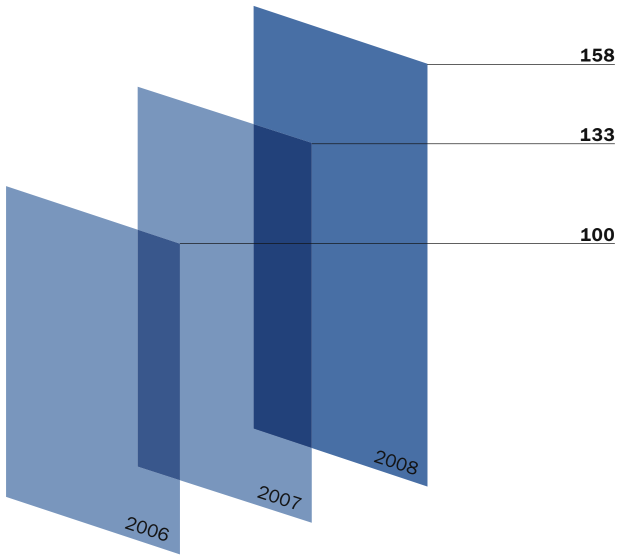
The Company uses a uniform methodology for staff motivation based on the combination of material and non-material incentives. In 2008, 240 TMK employees received state, industry and corporate awards.

Social security and employee health

TMK aims to maintain its reputation of a good employer, including via the development of social programmes and the following social benefits and guarantees to its employees:

• the subsidising of stays in health camps and retreats for employees and their children,

• meal subsidies,



Wage dynamics at TMK plants as compared to 2006, %

Clinic at Volzhsky Pipe Plant

• access to sports facilities, recreation areas, catering facilities, and a network of medical offices and services,

• housing improvement programmes, including the active development and improvement of mortgage lending mechanisms guaranteed by TMK companies.

In 2008, over 14,000 TMK employees and their family members vacationed and rested in some of Russia's best health resorts as well as in the plants' preventive care clinics and recreation centers. In order to ensure comprehensive medical services, the Volzhsky and TAGMET clinics were modernised and a branch of the Sinarsky medical unit was opened in the workers' housing area in Kamensk-Uralsky.

TMK is highly appreciative of the professional contribution of its employees to the Company's development and, as a socially responsible employer, takes care of veterans and pensioners by means of welfare assistance, the granting of vouchers for stays in health resorts and for other medical services.

The effective system of social security in place at TMK companies is built on a constructive interaction with trade unions and public organisations.

Occupational and industrial safety

TMK's occupational and industrial safety policy is based on compliance with the requirements of legislation and international standards Occupational Safety and Health Management Systems. At TMK plants, initiatives on occupational and industrial safety are developed annually, agreed with unions, and included in collective agreements.

The OHSAS 18001 Occupational Health and Safety Systems standard was introduced at Seversky, Sinarsky and TAGMET. Volzhsky is certified to the Russian state standard GOST 12.0.006-2002, harmonised with the OHSAS 18001 standard. At other TMK production companies, the certification procedure is to be completed by the end of 2009.

In 2008, a supervisory audit confirmed that Seversky, Sinarsky and TAGMET, complied with the requirements of the latest revision of the OHSAS 18001:2007 standard.

In 2008, TMK improved working conditions at 1,841 work stations as decisions were made to improve accident prevention and emergency response practices, including by means of staff training. In 2008, over 13,000 employees received training and certification.

In 2008, the total amount of funds allocated by the Company to implement and improve occupational and industrial safety increased 21% compared to 2007 and amounted to USD 27.5 million.

As a result of the measures undertaken, the number of accidents decreased by 25.8% as compared to 2007; while at most Russian plants, occupational diseases were reduced or eliminated.

In Russia, TMK plants interact actively with state supervisory bodies. Scheduled inspections and examinations of hazardous industrial sites are held and actions are taken to improve the occupational safety and health system. In accordance with Federal Law No. 116-FZ "On Industrial Safety of Hazardous Production Facilities" all hazardous production facilities at Russian plants are insured and inspected.

TMK plants were rewarded in the field of occupational safety and health with awards from regional governments:

• Sinarsky received an honorary diploma from the government of the Sverdlovsk region for its first place in the 2007 competition on production and occupational health among organisations located in the region. (Resolution of the Government of Sverdlovsk region No. 422-PP dated 07.05.2008)

• TAGMET was awarded 2008 Best Labour Organisation among 29 enterprises of the city of Taganrog as part of the World Day of Occupational Safety and Health. On October 15th 2008, the plant was awarded the Certificate of Trust to the Employer by the State Labour Inspectorate of the Rostov region.

Environmental protection

TMK's environmental policy

TMK recognises its social duty to protect the environment in the regions of its presence and implements a balanced, transparent environmental policy. Environmental protection is an integral part of the Company's activity and one of the priorities of its strategic development.

Supervising commission at Power Unit at Sinarsky Pipe Plant

Treatment facilities at Sinarsky Pipe Plant

The environmental policy is based on the following principles:

• environmental and social responsibility;

• effective and productive environmental activities;

• openness and readiness to cooperate with interested parties.

The goal of the environmental policy is to conduct stable, responsible, competitive business, while ensuring environmental protection under conditions of dynamically expanding production.

The following environmental tasks are addressed:

• compliance with the requirements of regulatory legal documents and international standards in the field of environment protection;

• continuous improvement of the environment management system;

• support and implementation of international initiatives, principles and agreements in practice;

• investments in the prevention and reduction of the adverse effects of production on the environment;

• reduction of wastes discharged in the environment;

• recycling of production wastes previously accumulated, including those containing metals, and land reclamation;

• reduction of atmospheric emissions, including solid particles and greenhouse gases;

• reduction of adverse effects on water bodies;

• rational use of natural resources and energy saving;

• control over compliance with the requirements of legislation and the performance of internal environmental audits;

• monitoring and evaluation of the effectiveness of environmental activities;

• development of reporting in the field of sustainable development;

• promoting a higher level of environmental knowledge and awareness throughout the Company.

The subsequent reduction of development pressure on the environment is made taking into account modern technologies and economic realities in the following areas:

• production equipment upgrading with the best available technologies demonstrating high environmental and economic performance;

• improvement of the environmental characteristics of existing production; the improvement of basic production technologies, the development and introduction of engineering and process solutions and the use of environmentally-safe materials;

• construction and reconstruction of environmental facilities.

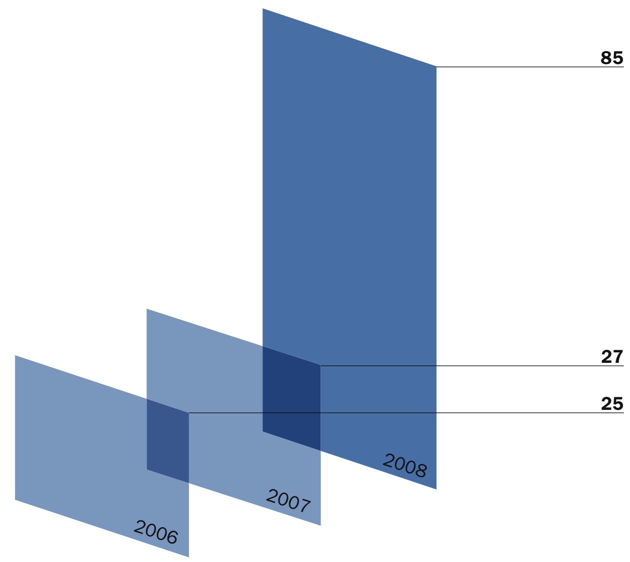
The environmental policy is approved by the Board of Directors of OAO TMK.

Environmental management system

The Company complies with ISO 14001-2004 Environmental Management Systems. Requirements and Guidance for Use, which is observed in TMK plants. In 2008, certification bodies performed audits at Volzhsky, Sinarsky, Seversky, TAGMET, TMK-Artrom and TMK-Resita. The certification of the environmental management system of Orsky Machine Building Plant is planned for 2009.

In accordance with the requirements of ISO 14001-2004, as well as applicable internal procedures, achievement of the target and the planned environmental performance is reviewed in the plants. Analysis of the Environmental Management System is conducted by management.

In 2008 management analysed the existing environmental management systems, determined best practice and initiated its introduction in all plants of the Company.



Investment in environmental related activity, USD million

Gas cleaning system of electric arc furnace at Seversky Tube Works

Environmental investments

In its investment activity TMK seeks to combine both economic and environmental interests. The decommissioning of obsolete equipment and subsequent transfer to the best available technologies, providing high performance and environmental efficiency, is prioritised when financing a project.

In 2008, 38 environmental investment projects were implemented for a total amount of over USD 85 million, representing three times more than in 2007.

In 2008, significant investments in environmental protection were connected with large investments in production development.
The following have been successfully implemented:

Reconstruction of steelmaking operations at Seversky (environmental component: gas treatment equipment, circulating water supply cycles). Environmental effect – harmful atmospheric emissions cut in half, increase of circulating water supply performance by up to 97%.

Construction of a seamless PQF rolling mill at TAGMET (environmental component: circulating water supply cycles). Environmental effect – increase of circulating water supply cycles by up to 96%.

Construction of thermal finishing installations at TAGMET, Sinarsky, Volzhsky (environmental component: circulating water supply cycles). Environmental effect – reduction of water intake, increase of circulating water supply cycles.

Construction of a water treatment facility at Sinarsky (biological treatment of sewage waters). Environmental effect – reduction of water intake for production needs and sewage discharge cut by 330 thousand m^3 per year, emitted contaminants reduced by more than 400 tons per year.

TMK's investments in environmental protection measures in 2008 amounted to USD 21.3 million. Capital repair of primary fixed assets in the area of environmental protection were USD 1.7 million.

Total expenses for environmental activities in 2008 doubled in comparison with 2007 and exceeded USD 108 million.

Air conservation

TMK takes a systematic approach to reducing emissions of contaminants into the atmosphere, including solid particles and greenhouse gases.

At the Company's Russian plants, atmospheric emissions of contaminants for the period did not exceed the set standards. Compared to the previous year, emissions declined 9.5% and amounted to 11.3 thousand tonnes. Per-unit atmospheric emissions dropped 2% to 2.49 kg per tonne of production.

Per-unit atmospheric emissions at TMK's Russian plants have been steadily decreasing due to:

• the implementation of action plans to reduce atmospheric emissions;

• the reconstruction and upgrade of steelmaking operations;

• a reduction in production volumes;

• the shutdown and outsourcing of some services and functions.

In 2008, TMK-Artrom and TMK-Resita atmospheric emissions met the requirements established by the legislation of the EU.

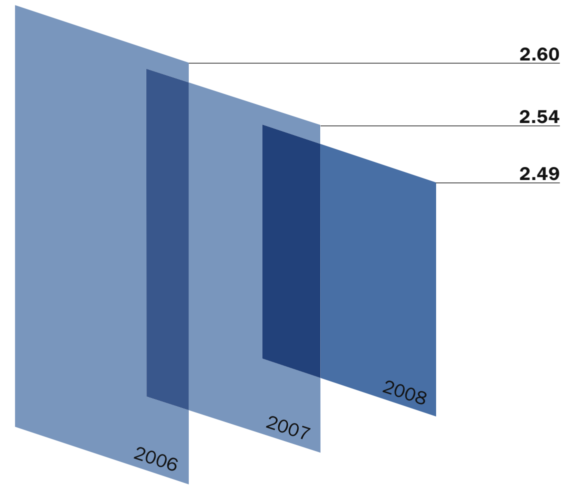
In 2008 emissions of greenhouse gases at Russian plants declined by 85 thousand tonnes compares to the previous year. Within the framework of obligations adopted by the European Union under the Kyoto Protocol, quotas have been allocated to the Romanian plants for emissions of greenhouse gases. Emissions were less than the levels allocated for 2008.

Water consumption and water conservation

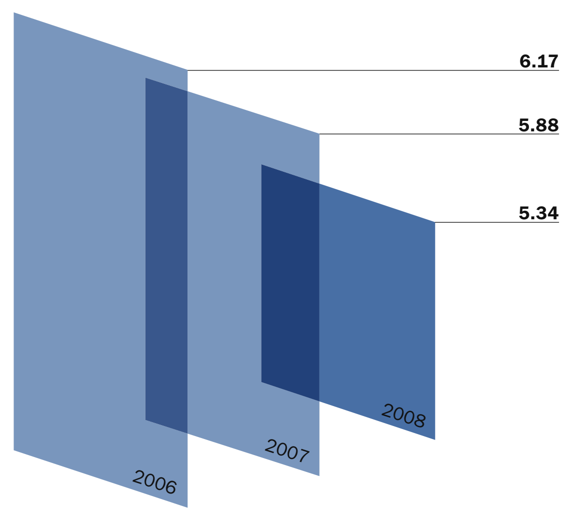
In 2008, TMK's key water consumption figures improved in comparison with the previous year:

• total water consumption dropped by 3%;

• the quantity of water taken from natural sources was 43.16 million m^3, 1.5% less than in the previous year;



Per-unit atmospheric emissions (Russian plants), kg/tonne of product output



Amount of waste-water emissions, m^3 per tonne of product output

• sewage water discharge was reduced by 7.6% to 31,15 million m^3 per year;

• the specific volume of effluent discharge into surface water bodies dropped by 9%;

• 3.6% less contaminants were discharged into water bodies.

Water recycling systems are in place at TMK's plants to ensure that natural resources are used rationally. In 2008, 92.6% of water used in production processes was recycled.

Wastes and land conservation

The Company's waste management system focuses on the implementation of practical solutions for the reduction of waste, the processing of previously accumulated production wastes and the minimisation of their environmental impact.

For TMK as a whole, 1.2 million tonnes of industrial wastes were generated, 2.5% less than in 2007. Waste volumes, without taking into account scrap, dropped by 1.2%.

In 2008, the limits set for the generation and disposal of wastes at the Company's facilities were not exceeded and the rates of accumulated and current waste recycling kept. In 2008, the total amount of recycled waste reached 1.1 million tonnes.

Compared to 2007:

• the amount of wastes transferred to third-party organisations for use and disposal grew by 8.5%;

• recycling grew by 6.5%.

Volzhsky successfully solved its waste management issues. In 2008, the plant transferred over 50 % of total generated wastes to specialised organisations for subsequent use or disposal. The share of wastes transferred by the plant represented 53% of the total wastes transferred to third-party organisations by TMK during 2008.

In 2008, Seversky used and recycled 75% of total reused and recovered wastes at TMK. In 2008, the plant recycled over 190 thousand tonnes of accumulated metallic wastes.

Compliance with environmental legislation

In 2008, Russian plants paid USD 1.6 million in environmental impact fees. There is no compensatory mechanism in the form of payments for environmental pollution under European legislation. Payments are only foreseen in the form of fines if the established limits are exceeded. No fines were charged to the Romanian plants of TMK in 2008.

In 2008, state supervisory authorities conducted eight control and supervisory audits of the Company's Russian plants (Volzhsky, Seversky, Sinarsky and TAGMET) on compliance with the requirements of Russian legislation in the field of environmental protection. According to the results of the audits 20 recommendations were issued (2.5 times less than in 2007). At present, 12 recommendations have been completed within allowed timeframe while the period for the remaining recommendations has not yet expired. A total of USD 5,400 was fined for minor incidents.

At TMK-Artrom and TMK-Resita, Romanian supervisory authorities performed 17 audits throughout the year and reported no violations.

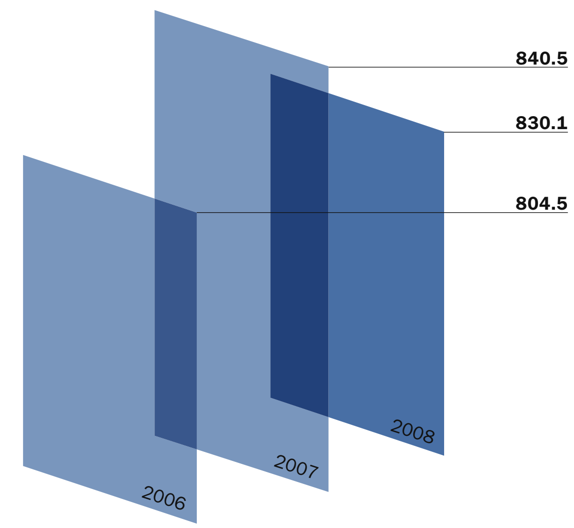
There were no environmental accidents or incidents at the Company plants in 2008.

In accordance with the requirements of supervisory authorities, USD 160.9 thousand were spent on training TMK management and personnel within the framework of the programmes Environmental Safety and Handling of Wastes.

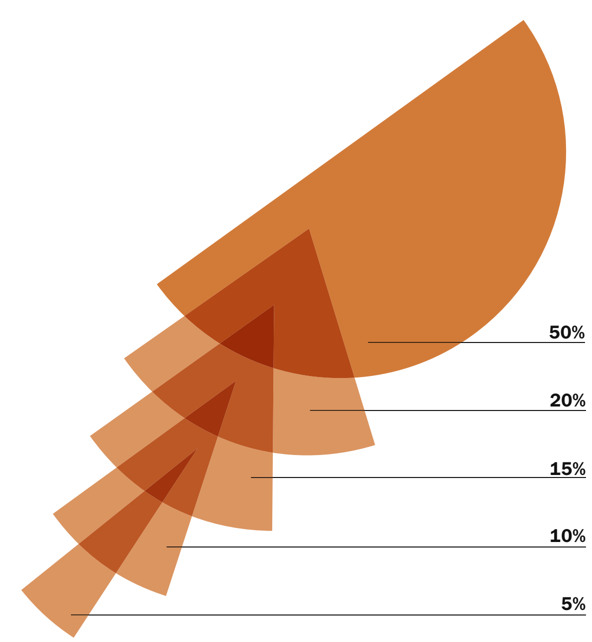
Cooperation with Non-Governmental Organisations

TMK works with non-governmental organisations on improving Russian environmental protection legislation through the formation of a consolidated position for leading Russian manufacturers and notification of the Company's plants of upcoming changes in Russian legislation.

Active work was performed in 2008 in the Environmental Management Committees of the Russian Union of Industrialists and Entrepreneurs and the Chamber of Commerce and Industry of the Russian Federation.



Volume of Waste created (excluding scrap), thousand tonnes



Charity activities

50% Support for children, youth, veterans
20% Support to physical fitness and sport
15% Support to pre-schools
10% Support to arts and humanities
5% Aiding religious organisations

Company specialists were engaged in the Technical Assistance for the Commonwealth of Independent States (TACIS) project on the harmonisation of European and Russian environmental legislation and participated in a number of round tables under the theme Business and Environment, organised by the International Non-Profit Organisation IBLF to promote exchanges in the field of environmental activities and, discuss environmental responsibility and management, allowing TMK to remain informed of the latest trends in environmental legislation.

Acknowledgement of environmental responsibility

In 2008, the Company was given the Best Environmental Project of 2008 award by the Ministry of Natural Resources of the Russian Federation, in the category Environmental Efficiency of the Economy for its modernisation of Seversky steelmaking operations. The award is state recognition of the environmental responsibility of the Company.

TAGMET was recognised as the 2008 Leader of Environmental Activities in Russia for its active participation in the development and implementation of a balanced and environmentally oriented model of economic development, and for the establishment of environmentally competitive and efficient production. The plant was also recognised in the 100 Best Organisations of Russia: Ecology and Environmental Management award.

Charity

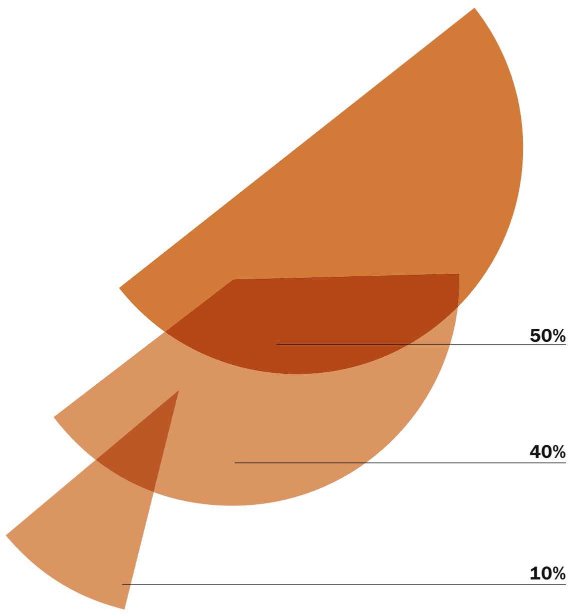
In the course of operations TMK implements the principles of responsible business practice and includes the resolution of social development issues in its priorities. TMK interacts with different non-profit organisations (NPOs) by supporting projects aimed at the development of the social activity of individuals and promoting the voluntary participation in their operations. The implementation of charitable practices through specialised organisations allows the Company to ensure the most efficient use of allocated funds and to develop a clear and transparent control system. In 2008, over 200 non-profit and public organisations became charity recipients. Charity aid, rendered to NPOs, was provided in the following proportions.

TMK co-founded the Prince Michael of Kent Charitable Fund, which was established to finance public utilities projects in Russia.

The Company carries out its charitable work through the Sinara Charitable Foundation and aims to establish an efficient charity mechanism using the following activities:

- **Nominal projects** – the permanent support of non-profit or public organisations (orphanages, contests, festivals, religious organisations);

- **Targeted social assistance** – one-off aid to retirement homes and hostels for disabled persons, hospitals, orphanages and boarding schools for disabled children;



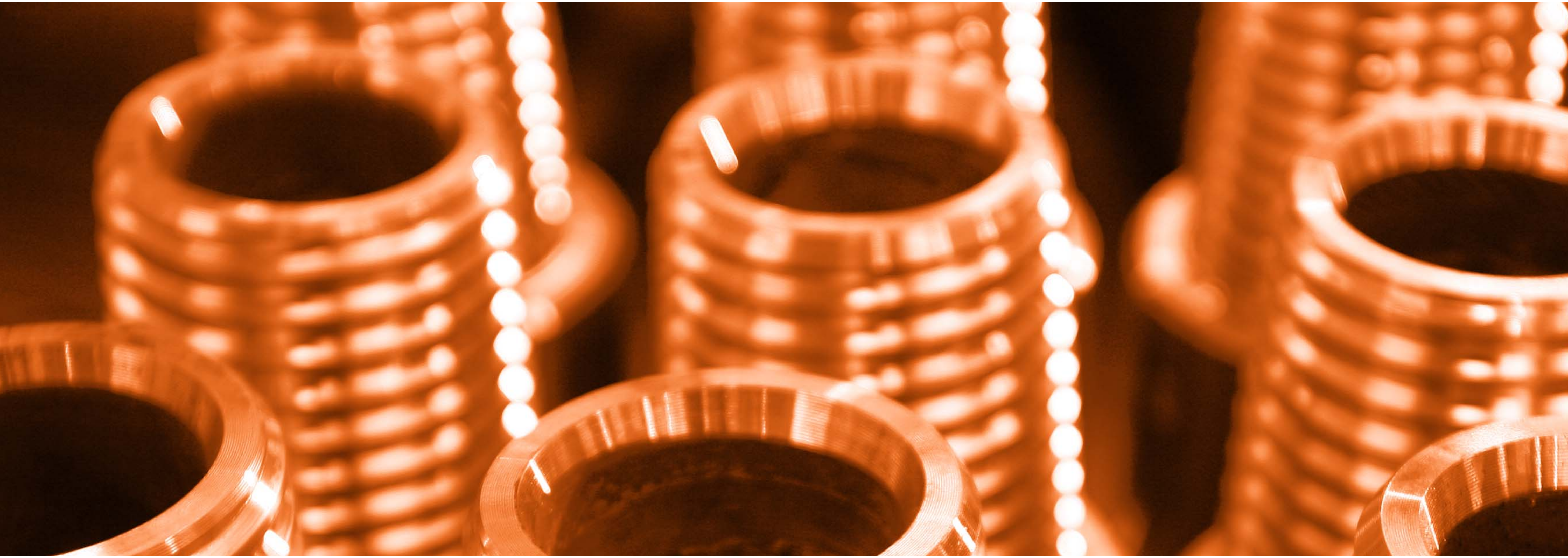
Charitable spending

50% Targeted support
40% Nominal projects
10% Grants contest

- **Grant contest** – financing projects aimed at the resolution of pressing social issues.

- **Corporate citizenship** – the voluntary involvement of TMK employees in corporate charity activities. Upon the initiative of the Company's employees, annual charitable actions are held to the benefit of children who are in a difficult situation.

Consolidated Financial Statements



Independent Auditors' Report

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

To Shareholders and Board of Directors of OAO TMK

We have audited the accompanying consolidated financial statements of OAO TMK and its subsidiaries ("the Group"), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 29, 2009

Consolidated Financial Statements

Consolidated Income Statement

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

	NOTES	2008	2007
Revenue:	1	5,690,002	4,178,644
Sales of goods		*5,603,411*	*4,144,680*
Rendering of services		*86,591*	*33,964*
Cost of sales	2	(4,252,452)	(2,890,616)
Gross profit		1,437,550	1,288,028
Selling and distribution expenses	3	(295,210)	(238,176)
Advertising and promotion expenses	4	(10,122)	(5,286)
General and administrative expenses	5	(316,748)	(218,275)
Research and development expenses	6	(15,164)	(10,139)
Other operating expenses	7	(52,043)	(56,225)
Other operating income	8	7,120	4,968
Impairment of goodwill	19	(3,512)	–
Impairment of property, plant and equipment	18	(59,846)	–
Impairment of financial assets	16	(23,675)	–
Foreign exchange loss, net		(99,817)	20,460
Finance costs	9	(272,175)	(102,397)
Finance income	9	8,720	12,608
Share of profit in associate	8	3,006	971
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	10	–	2,214
Profit before tax		308,084	698,751
Income tax expense	11	(109,612)	(192,442)
Net profit		**198,472**	**506,309**
Attributable to:			
Equity holders of the parent entity		**199,408**	**487,152**
Minority interests		**(936)**	**19,157**
		198,472	**506,309**
Earnings per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)	12	**0.23**	**0.56**

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

Consolidated Balance Sheet

as at December 31, 2008 (All amounts in thousands of US dollars)

	NOTES	2008		2007	
ASSETS					
Current assets					
Cash and cash equivalents	13, 26	143,393		89,045	
Financial investments		3,885		116	
Trade and other receivables	14	751,691		523,525	
Accounts receivable from related parties	26	9,409		17,632	
Inventories	17	1,175,936		782,373	
Prepayments and input VAT	15	185,068		223,731	
Prepaid income taxes		26,290	**2,295,672**	14,658	**1,651,080**
Non-current assets					
Investments in an associate		2,726		1,481	
Available-for-sale investments	16	6,520		29,417	
Intangible assets	19	665,545		20,715	
Accounts receivable - related parties	26	68		221	
Property, plant and equipment	18	3,323,836		2,712,343	
Goodwill	19	568,424		101,858	
Deferred tax asset	11	138,707		18,404	
Other non-current assets	16	69,609	**4,775,435**	140,763	**3,025,202**
TOTAL ASSETS			**7,071,107**		**4,676,282**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	20	738,533		295,177	
Advances from customers		67,831		89,578	
Accounts payable to related parties	26	4,859		14,924	
Accrued liabilities	21	665,452		147,184	
Provisions	22	11,510		4,674	
Interest-bearing loans and borrowings	23	2,216,459		1,033,322	
Dividends payable		361		129,116	
Income tax payable		39,823	**3,744,828**	4,059	**1,718,034**
Non-current liabilities					
Interest-bearing loans and borrowings	23	994,225		505,977	
Deferred tax liability	11	370,561		279,034	
Provisions	22	18,668		15,973	
Employee benefit liability	24	17,187		21,862	
Other liabilities		15,216	**1,415,857**	28,793	**851,639**
Total liabilities			**5,160,685**		**2,569,673**
Equity	28				
Parent shareholders' equity					
Issued capital		305,407		305,407	
Treasury shares		(37,827)		(10,752)	
Additional paid-in capital		97,915		97,338	
Reserve capital		15,387		15,387	
Retained earnings		1,343,255		1,239,993	
Foreign currency translation reserve		89,274		357,510	
Net unrealised losses			1,813,411	(2,187)	2,002,696
Minority interests			97,011		103,913
Total equity			**1,910,422**		**2,106,609**
TOTAL EQUITY AND LIABILITIES			**7,071,107**		**4,676,282**

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

Consolidated Statement of Changes in Equity

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

	Attributable to equity holders of the parent									
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Net unrealised losses	Total	Minority interests	TOTAL
At January 1, 2008	**305,407**	**(10,752)**	**97,338**	**15,387**	**1,239,993**	**357,510**	**(2,187)**	**2,002,696**	**103,913**	**2,106,609**
Effect of exchange rate changes	–	–	–	–	–	60,104	–	**60,104**	**(20,496)**	**39,608**
Foreign currency loss on hedged net investment in foreign operation net of tax (Note 28 xi)	–	–	–	–	–	(328,340)	–	**(328,340)**	**–**	**(328,340)**
Net unrealised losses on available-for-sale investments	–	–	–	–	–	–	(9,901)	**(9,901)**	**(782)**	**(10,683)**
Impairment of available for sale investments (Note 16)	–	–	–	–	–	–	12,088	**12,088**	**955**	**13,043**
Total income and expense for the year recognised directly in equity	–	–	–	–	–	(268,236)	2,187	**(266,049)**	**(20,323)**	**(286,372)**
Net profit	–	–	–	–	199,408	–	–	**199,408**	**(936)**	**198,472**
Total income and expense for the year	–	–	–	–	199,408	(268,236)	2,187	**(66,641)**	**(21,259)**	**(87,900)**
Purchase of treasury shares for the Share Options Programme (Note 28 ix)	–	(27,110)	–	–	–	–	–	**(27,110)**	**–**	**(27,110)**
Sale of treasury shares (Note 28 ix)	–	35	–	–	–	–	–	**35**	**–**	**35**
Share-based payments (Note 28 viii)	–	–	5,989	–	–	–	–	**5,989**	**–**	**5,989**
Purchase of warrants (Note 28 x)	–	–	(5,590)	–	–	–	–	**(5,590)**	**–**	**(5,590)**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 28 vi)	–	–	–	–	–	–	–	**–**	**(4,752)**	**(4,752)**
Purchase of minority interests (Note 28 v)	–	–	178	–	(191)	–	–	**(13)**	**(2,534)**	**(2,547)**
Derecognition of liability under expired minority put-options (Note 28 vii)	–	–	–	–	(1,366)	–	–	**(1,366)**	**21,643**	**20,277**
Dividends (Note 28 iii)	–	–	–	–	(94,589)	–	–	**(94,589)**	**–**	**(94,589)**
At December 31, 2008	**305,407**	**(37,827)**	**97,915**	**15,387**	**1,343,255**	**89,274**	**–**	**1,813,411**	**97,011**	**1,910,422**
At January 1, 2007	**305,407**	**–**	**98,539**	**15,387**	**1,028,664**	**225,110**	**–**	**1,673,107**	**80,102**	**1,753,209**
Effect of exchange rate changes	–	–	–	–	–	132,400	–	**132,400**	**6,634**	**139,034**
Net unrealised losses on available-for-sale investments	–	–	–	–	–	–	(2,187)	**(2,187)**	**(173)**	**(2,360)**
Equity elimination from the recognition of the financial liability in respect of the put option (Note 28 vii)	–	–	–	–	(536)	–	–	**(536)**	**–**	**(536)**
Total income and expense for the year recognised directly in equity	–	–	–	–	(536)	132,400	(2,187)	**129,677**	**6,461**	**136,138**
Net profit	–	–	–	–	487,152	–	–	**487,152**	**19,157**	**506,309**
Total income and expense for the year	–	–	–	–	486,616	132,400	(2,187)	**616,829**	**25,618**	**642,447**
Purchase of the Company's shares for the purpose of realization of the Share Options Programme (Note 28 ix)	–	(28,426)	–	–	–	–	–	**(28,426)**	**–**	**(28,426)**
Share-based payments	–	–	6,733	–	–	–	–	**6,733**	**–**	**6,733**
Exercise of share options (Note 28 ix)	–	17,674	(1,631)	–	–	–	–	**16,043**	**–**	**16,043**
De-recognition of minority interests in a subsidiary (Note 28 vii)	–	–	–	–	–	–	–	**–**	**(389)**	**(389)**
Capital contribution by minority owners to a subsidiary	–	–	–	–	–	–	–	**–**	**690**	**690**
Acquisition of subsidiary (Note 10)	–	–	–	–	–	–	–	**–**	**1,554**	**1,554**
Acquisition of minority interests (Note 28 v)	–	–	531	–	(1,675)	–	–	**(1,144)**	**(3,545)**	**(4,689)**
Dividends by subsidiaries of the Group to the minority owners in subsidiaries (Note 28 vi)	–	–	–	–	–	–	–	**–**	**(117)**	**(117)**
Dividends (Note 28 iii)	–	–	–	–	(273,612)	–	–	**(273,612)**	**–**	**(273,612)**
Other distributions to owners (Notes 10, 28 iv)	–	–	(6,834)	–	–	–	–	**(6,834)**	**–**	**(6,834)**
At December 31, 2007	**305,407**	**(10,752)**	**97,338**	**15,387**	**1,239,993**	**357,510**	**(2,187)**	**2,002,696**	**103,913**	**2,106,609**

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

Consolidated Cash Flow Statement

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

	NOTES	Year ended December 31,	
		2008	**2007**
Operating activities			
Profit before tax		308,084	698,751
Adjustment to reconcile profit before tax to net cash flows			
Non-cash adjustments:			
Depreciation of property, plant and equipment		188,941	137,687
Amortisation of intangible assets		58,831	2,572
Loss on disposal of property, plant and equipment		1,555	7,417
Impairment of goodwill	20	3,512	–
Impairment of fixed assets	18	59,846	–
Impairment of financial assets	16	23,675	–
Foreign exchange gain		99,817	(20,460)
Finance costs		272,175	102,397
Finance income		(8,720)	(12,608)
Share-based payments	28 viii	5,989	6,733
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	10	–	(2,214)
Share of profit in associate	8	(3,006)	(971)
Allowance for net realizable value of inventory		24,669	1,156
Allowance for doubtful debts		6,873	(796)
Movement in other provisions		4,995	(50)
Operating cash flow before working capital changes		**1,047,236**	**919,614**
Working capital adjustments:			
Increase in inventories		(178,665)	(138,435)
Increase in trade and other receivables		(156,557)	(195,968)
Decrease/(increase) in prepayments		6,381	(21,933)
Increase/(decrease) in trade and other payables		401,560	(14,071)
Increase in accrued liabilities		(144,927)	4,573
Decrease in advances from customers		(8,945)	(19,793)
Cash generated from operations		966,083	533,987
Income taxes paid		(226,573)	(212,503)
Net cash flows from operating activities		**739,510**	**321,484**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(839,994)	(661,730)
Proceeds from sale of property, plant and equipment		2,436	5,497
Purchase of available-for-sale investments		–	(30,163)
Acquisition of subsidiaries, net of cash acquired	10	(1,184,839)	(72,410)
Acquisition of minority interest		(5,149)	(2,683)
Issuance of loans		(1,083)	(29,595)
Proceeds from repayment of loans issued		151	209,795
Interest received		2,968	11,672
Dividends received from associate		1,232	996
Net cash flows used in investing activities		**(2,024,278)**	**(568,621)**

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

Consolidated Cash Flow Statement (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

	NOTES	Year ended December 31, 2008	2007
Financing activities			
Purchase of treasury shares		(27,110)	(28,291)
Proceeds from exercise of options		–	15,913
Purchase of warrants	28 x	(5,590)	–
Proceeds from borrowings		4,541,071	974,965
Repayment of borrowings		(2,760,583)	(533,981)
Interest paid		(182,576)	(105,563)
Payment of finance lease liabilities		(227)	(491)
Capital contribution by minority owner to a subsidiary		–	2,224
Dividends paid to equity holders of the parent company		(223,568)	(144,950)
Dividends paid to minority shareholders		(4,533)	(1,421)
Net cash flows from financing activities		**1,336,884**	**178,405**
Net (decrease) in cash and cash equivalents		52,116	(68,732)
Net foreign exchange difference		2,232	13,767
Cash and cash equivalents at January 1		89,045	144,010
Cash and cash equivalents at December 31		**143,393**	**89,045**

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

Notes to the Consolidated Financial Statements

for the year ended December 31, 2008

Corporate Information

These consolidated financial statements of OAO TMK and its subsidiaries (the “Group”) for the year ended December 31, 2008 were authorised for issue in accordance with a resolution of the General Director on April 29, 2009.

OAO TMK (the “Company”), the parent company of the Group, is registered in the Russian Federation. The list of subsidiaries is disclosed in Note 25.

As at December 31, 2008, the Company’s controlling shareholder was TMK Steel Limited. 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 19/25 Alexander Nevsky Street, bldg. 1, Moscow, the Russian Federation. The principal office of the Company is 40/2a Pokrovka Street, Moscow, the Russian Federation.

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.

In 2007, there were transactions with entities under common control with the Group as described below.

On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in OOO “Predpriyatiye “Truboplast” (“Truboplast”) from an entity under common control with the Group for 23,986. The entity under common control with the Group acquired the controlling interest in Truboplast on July 19, 2007. The Group applied the pooling of interest method for accounting for this acquisition and presented its consolidated financial statements as if the transfer of the controlling interest in Truboplast had occurred from the date it was acquired by an entity under common control with the Group.

Deficit in Working Capital

These consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. As of December 31, 2008, the Group’s current liabilities were 3,744,828 and exceeded current assets by 1,449,156.

The amount of working capital deficit mainly relates to a short–term financing used by the Company in connection with the acquisition of the businesses in the United States (Note 10).

The current economic conditions create uncertainty particularly over the level of demand for the Group products, the exchange rate between euro, dollar and Russian rouble and thus the consequence for the financial position of the Group and the availability of bank finance in the foreseeable future.

In the next 12 months, the Group expects to finance its operating and investing activities primarily by cash generated from operations, and refinancing of its current borrowings by new loans or extension of credit terms of existing bank loans.

Management has undertaken the following steps to maintain an adequate level of solvency in the next 12 months:

- reduce costs (selling and general and administrative expenses);
- optimize working capital (reduce balances of accounts receivable and inventory, extend grace periods for trade payables);
- negotiate more favorable contract terms with main suppliers (in addition to extended grace period for trade payables, decrease purchase prices, increase of discounts and bonuses);
- reduce investment programs;
- negotiate extension of credit terms and refinancing of existing bank loans by new short-term and long-term loans.

Subsequent to December 31, 2008, the Group has refinanced 1,387,499 of its short-term borrowings and obligations with facilities due not earlier than 2010 (Note 30).

The Group is in negotiations with its bank lenders in respect to the refinancing or extension of the remaining facilities maturing in 2009 and expects to be successful in these efforts, however, no formal commitments have been achieved as of the date of these financial statements.

Management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Group continues to adopt the going concern basis in preparing the consolidated financial statements.

Basis of Preparation of the Financial Statements

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Basis of Accounting

Group companies maintain their accounting records in their local currency 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. The consolidated financial statements are based on the statutory accounting records, with adjustments and reclassifications for the purpose of fair presentation in compliance with IFRS. 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, (6) business combinations and (7) translation to the presentation currency.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, property, plant and equipment are accounted for at deemed cost at the date of transition to IFRS.

Functional and Presentation Currency

The presentation currency for the purpose of these consolidated financial statements of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the Group’s financial statements.

The functional currency of the Company and its subsidiaries located in the Russian Federation, Kazakhstan, Switzerland and Cyprus is the Russian rouble. The functional currencies of other foreign operations of the Group are the euro, the United States dollar and the Romanian lei, which are the currencies of countries in which the Group's entities are incorporated.

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the balance sheet date. All resulting differences are taken to profit and loss with the exception of differences on foreign currency borrowings accounted for as a hedge of a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Significant Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the asset's recoverable amount. This requires an estimation of the value in use of the cash-generating units to which the item is allocated. The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the fair value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the recoverable value and ultimately the amount of any property, plant and equipment impairment. In 2008, the Group recognized impairment losses of 59,846 in respect of property, plant and equipment of SC TMK-ARTROM SA, SC TMK-RESITA SA and OAO Orsky Machine Building Plant (Note 18) (2007: nil).

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. If expectations differ from previous estimates, the changes accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". There were not any changes in accounting estimates of remaining useful lives of items of property, plant and equipment in 2008.

Fair Value of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions (Note 10).

Impairment of Goodwill and Intangible Assets with Indefinite Useful Lives

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill and intangible assets with indefinite useful lives are allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2008 was 568,424 (2007: 101,858). In 2008 the Group recognized impairment losses of 3,512 in respect of goodwill (Note 19) (2007: nil).

Post-Employment Benefits

The Group uses the actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary). In the event that further changes in the key assumptions are required, the future amounts of the post-employment benefit costs may be affected materially (Note 24).

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgment is used to estimate doubtful accounts. In estimating doubtful accounts, such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As at December 31, 2008 and 2007, allowances for doubtful accounts have been made in the amount of 13,132 and 9,632, respectively (Notes 14, 16, 29).

The Group makes allowances for obsolete and slow-moving raw materials and spare parts. In addition, certain finished goods, work in process and raw materials of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period. As at December 31, 2008 and 2007, allowances for write-down at net realisable value were 28,587 and 9,450, respectively (Note 17).

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

Significant Estimates and Assumptions (continued)

Litigation

The Group exercises considerable judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may differ from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of external consultants, such as actuaries or legal counsel. Revisions to the estimates may significantly affect future operating results of the Group.

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management.

As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. The periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances, reviews may cover longer periods. As at December 31, 2008, management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained (Note 11).

Deferred Tax Assets

Management judgment is required for the calculation of current and deferred income taxes. Deferred tax assets are recognised to the extent that their utilisation is probable. The utilisation of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in the respective tax type and jurisdiction. Various factors are used to assess the probability of the future utilisation of deferred tax assets, including past operating results, the operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation indicates that the carrying amount of deferred tax assets must be reduced, this reduction is recognised in profit or loss.

Share-Based Payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value requires determining the most appropriate valuation model for grant of equity instruments which is dependent on the terms and conditions of the grant. This also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models are disclosed in Note 28 viii.

Significant Judgments

In the process of applying the Group's accounting policies, management has made the following judgment, apart from those judgments involving estimates, which has a significant effect on the amounts recognised in the consolidated financial statements:

Consolidation of a Special Purpose Entity

The Group determined that the substance of the relationship between the Group and TMK Capital S.A., a special purpose entity, indicates that the Group controls TMK Capital S.A. In September 2006 and in July 2008, TMK Capital S.A. issued notes due September 2009 and July 2011 respectively for the sole purpose of funding a loan to the Company (Note 23).

Changes in Accounting Policies

Application of new and amended IFRS and IFRIC

The Group has applied the following new and amended IFRS and IFRIC in the consolidated financial statements for the annual period beginning on January 1, 2008:
• IAS 39 "Financial Instruments: Recognition and Measurement" (amended);
• IFRS 7 "Financial Instruments: Disclosures" (amended);
• IFRIC 11 "IFRS 2 – Group and Treasure Share Transactions";
• IFRIC 12 "Service Concession Arrangements";
• IFRIC 14 "The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction";
• IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (early adoption).

The principal effect of these changes in policies is discussed below.

Amendment to IAS 39 and IFRS 7 "Reclassification of Financial Assets – Effective date and Transition", issued in October, 2008 (effective for financial years beginning on or after July 1, 2008)

Amendments permit an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in particularly circumstances. As the Group had no reasons for reclassification of financial assets, the amendments had no impact on the financial position or performance of the Group.

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions", issued in November, 2006 (effective for financial years beginning on or after January 1, 2008)

This interpretation considers share-based payments transactions in which an entity receives services as consideration for its own equity instruments as equity settled transactions. As such transactions did not take place the interpretation had no impact on the financial position or performance of the Group.

IFRIC 12 "Service Concession Arrangements", issued in November, 2006 (effective for financial years beginning on or after January 1, 2008)

This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements. The Group didn't take part in any service

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

concession arrangements therefore the interpretation had no impact on the financial position or performance of the Group.

IFRIC 14 "The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", issued in July, 2007 (effective for financial years beginning on or after January 1, 2008)

This interpretation provides guidance on how companies should determine the limit on the amount of a surplus in an employee benefit plan that they can recognise as an asset. The interpretation also gives guidance on the amounts that companies can recover from the plan, as either refunds or reductions in contribution. The interpretation had no impact on the financial position or performance of the Group.

Early adoption of IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", issued in July, 2008 (effective for financial years beginning on or after October 1, 2008)

The Group has applied early adoption of IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" in the current consolidated financial statements. The interpretation provides guidance in respect of hedges of foreign currency gains and losses on a net investment in a foreign operation. In particular to asses the effectiveness of hedging instrument the change in value of hedging instrument should be calculated in terms of the functional currency of the parent entity that is hedging the risk (for the purposes of consolidated financial statements). The Group uses a loan as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries.

New accounting pronouncements

The following new or amended (revised) IFRS and IFRIC have been issued but are not yet effective and not applied by the Group. Its possible impact on the Group's consolidated financial statements in the period of application is discussed below.

IAS 1 "Presentation of Financial Statements" (revised), issued in September, 2007

The revision requires, among other things, a statement of comprehensive income that begins with the amount of net profit for the year adjusted with all items of income and expenses directly recognised in equity. The revised standard will come into effect for the annual period beginning on or after January 1, 2009. The Group doesn't imply early adoption of the revised standard.

IAS 23 "Borrowing costs" (revised), issued in March, 2007

IAS 23 is effective for financial years beginning on or after January 1, 2009. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that take a substantial period of time to get ready for use or sale. The Group is required to capitalise such borrowing costs as part of the costs of the asset. The revised standard will be applied for the periods beginning on or after January 1, 2009. The Group doesn't imply early adoption of the revised standard.

IAS 27 "Consolidated and Separate Financial Statements" (revised), issued in January, 2008

The revision requires, among other things, that acquisitions or disposals of non-controlling interests in a subsidiary that do not result in the loss of control, shall be accounted for as equity transactions. The disposal of any interests that parent retains in a former subsidiary may result in a loss of control. In this case, at the date when control is lost the remaining investment retained is increased/decreased to fair value with gains or losses arising from the difference between the fair value and the carrying amount of the held investment recognised in the profit or loss account. The revised standard will come into effect for the annual periods beginning on or after July 1, 2009. The Group doesn't imply early adoption of the revised standard.

IAS 32 "Financial instruments: Presentation" (amended), issued in February, 2008

The amendments require some puttable financial instruments and some financial instruments that impose on the equity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. Amendments are affective for annual periods beginning on or after January 1, 2009. The Group doesn't imply early adoption of the amended standard.

IAS 39 "Financial Instruments: Recognition and Measurement" (amended), issued in July, 2008

Amended standard clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. Amendments are effective for annual periods beginning on or after July 1, 2009. The Group doesn't imply early adoption of the amended standard.

IFRS 1 "First-time Adoption of International Financial Reporting Standards" (revised), issued in November, 2008

The standard replaces the previous version of IFRS 1. The new version of IFRS 1 retains the substance of previous version, but within a changed structure. In addition, the new version contains requirements on how to measure a cost of an investment in a subsidiary, jointly controlled entity or associate in separate financial statements by first time IFRS adoption. The standard is effective for entities applying IFRSs for the first time for annual periods beginning on or after January 1, 2009. The Group doesn't imply early adoption of the revised standard.

IFRS 2 "Share-based Payments" (amended), issued in January, 2008

The amendment specifies the accounting treatment of all cancellations of grant of equity instruments to the employees. It also imposes that vesting conditions are only service and performance conditions required in return for the equity instruments issued. The amendment shall be applied for the annual periods beginning on or after January 1, 2009. The Group doesn't imply early adoption of the amended standard.

IFRS 3 "Business Combinations" (revised), issued in January, 2008

The revision requires, among other things, that the acquisition-related costs to be accounted for separately from the business combination and then recognised as expenses rather than included in goodwill. The revised IFRS 3 also allows the choice of the full goodwill method that means to treat the full value of the goodwill of the business combination including the share attributable to minority interests. In case of step acquisitions, the revision also relates to the recognition in the profit and loss account of the difference between the fair value at the acquisition date of the net assets previously held and their carrying amounts. The revised standard will come into effect for the annual periods beginning on or after July 1, 2009. The Group doesn't imply early adoption of the revised standard.

IFRS 7 "Financial Instruments: Disclosures" (amended), issued in March, 2009

The amendments introduce a three-level fair value disclosure hierarchy that distinguishes fair value measurements by the significance of the inputs used. In addition, the amendments enhance disclosure requirements on the nature and extent of liquidity risk arising from financial instruments to which an entity is exposed. The amendments will come into effect for the annual periods beginning on or after January 1, 2009. The Group doesn't imply early adoption of the amended standard. These amendments will have no impact on the financial position or performance of the Group but will result in more detailed disclosures regarding measurement of the fair value of financial instruments.

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

Changes in Accounting Policies (continued)

New accounting pronouncements (continued)

IFRS 8 “Operating Segments”, issued in November, 2007

This standard requires disclosure of information about the Group’s operating segments and replaced the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group had not yet finally determined that the operating segments were the same as the business segments previously identified under IAS 14 “Segment reporting”. IFRS 8 “Operating segments’ is effective for financial years beginning on or after January 1, 2009. The Group doesn’t imply early adoption of IFRS 8 “Operating segments”.

Improvements to IFRSs, issued in May, 2008

In May 2008 the International Accounting Standards Board issued “Improvements to International Financial Reporting Standards”. The document sets out amendments to different International Financial Reporting Standards. Part I of this document contains amendments that result in accounting changes for presentation, recognition or management purposes. Part II contains amendments that are terminology or editorial changes only. There are separate transitional provisions for each standard. But in general those amendments shall be applied prospectively for annual periods beginning on January 1, 2009 or later. The Group doesn’t imply early adoption of the amended standard and anticipates that these changes will have no material effect on the consolidated financial statements.

IFRIC 13 “Customer Loyalty Programmes”, issued in June, 2007

This interpretation gives guidance on how companies, which grant loyalty award credits to their customers when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the credits. In particular, IFRIC 13 requires companies to allocate some of the consideration received from the sales transaction to award credits and their recognition at fair value. The interpretation shall be applied for annual periods beginning on or after July 1, 2008. The Group doesn’t imply early adoption of the interpretation.

IFRIC 15 “Agreements for the Construction of Real Estate”, issued in July, 2008

The interpretation standardizes accounting practice for the recognition of revenue among real estate developers for sales of units, such as apartments of houses before construction is complete. The interpretation shall be applied for annual periods beginning on or after January 1, 2009. The Group doesn’t imply early adoption of the interpretation.

IFRIC 17 “Distributions of Non-cash Assets to Owners”, issued in November, 2008

The interpretation standardizes accounting practice in the accounting treatment of distribution of non-cash assets to owners. The interpretation provides guidance on accounting for distributions of non-cash assets to owners. It provides guidance on when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability and the consequences of doing so. The interpretation should be applied prospectively. The interpretation shall be applied for annual periods beginning on or after July 1, 2009. The Group doesn’t imply early adoption of the interpretation.

IFRIC 18 “Transfer of Assets to Customer”, issued in January, 2009

The interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services or to do both.

The interpretation clarifies the circumstances, in which the definition of an asset is met, the recognition of the asset and its measurement on initial recognition, the identification of the separately identifiable services, the recognition of revenue and the accounting for transfer of cash from customers. The interpretation shall be applied for annual periods beginning on or after July 1, 2009. The Group doesn’t imply early adoption of the interpretation.

The Group is currently reviewing these new IFRS and interpretations to determine the likely impact on the Group’s consolidated financial statements.

Significant Accounting Policies

A) Principles of Consolidation

Subsidiaries

A subsidiary is an entity in which the Group has an interest of more than one-half of the voting rights or otherwise has power to exercise control over its operations.

Subsidiaries are consolidated from the date when control over their activities is transferred to the Company and are no longer consolidated from the date that control ceases.

All intragroup balances, transactions and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred. Where necessary, accounting policies in subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

For the identifiable assets, liabilities and contingent liabilities initially accounted for at provisional values, the carrying amount of identifiable asset, liability or contingent liability that is recognised or adjusted as a result of completing the initial accounting is calculated as if its fair value or adjusted fair value at the acquisition date had been recognised from that date. Goodwill or any gain recognised when the acquired interest in net fair values of the identifiable assets, liabilities and contingent liabilities exceeds the cost of their acquisition is adjusted from the acquisition date by an amount equal to adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognised or adjusted.

Comparative information presented for the periods before the completion of initial accounting for the acquisition is presented as if the initial accounting had been completed from the acquisition date.

Minority Interest

Minority interest is that portion of the profit or loss and net assets of subsidiaries attributable to equity interests not owned, directly or indirectly through subsidiaries, by the parent. Minority interests at the balance sheet date represent the minority shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interest is presented within equity, separately from the parent's shareholders' equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary. Any additional losses are allocated to the Group unless there is a binding obligation of the minority to fund the losses.

Increases in Ownership Interests in Subsidiaries

The differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative.

Entering into put options held by minority shareholders in respect of shares of the Group's subsidiaries are accounted for as increases in ownership interests in subsidiaries. Financial liabilities in respect of put options are recorded at fair value at the time of entering into the options, and are subsequently re-measured to fair value with the change in fair value recognised in the income statement.

Acquisition of Subsidiaries from Entities under Common Control

Purchases of subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the "Predecessor"). Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity. These financial statements, including corresponding figures, are presented as if the Company had acquired the subsidiary on the date it was initially acquired by the Predecessor.

B) Cash and Cash Equivalents

Cash is comprised of cash in hand and cash at banks.

Cash equivalents are comprised of short-term, liquid investments (with original maturity date of less than 90 days) that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are carried at fair value.

C) Investments and Other Financial Assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale investments, as appropriate. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

Significant Accounting Policies (continued)

C) Investments and Other Financial Assets (continued)

The Group determines the classification of its investments on initial recognition and, where allowed and appropriate, reevaluates this designation at each financial year end. All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets classified as held for trading are included in the category “financial assets at fair value through profit or loss”. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement. During the period, the Group did not hold any investments in this category.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.

Loans and receivables are non-derivative financial assets with fixed or determinable payments not quoted in an active market. After initial measurement, such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for- sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm’s length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis or other valuation models.

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial assets or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indicators that the debtors or a group of debtors is experiencing significant financial difficulties, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been occurred, the amount of the loss is measured as a difference between the asset’s carrying amount and the present value of estimated future cash flows. The carrying amount of the assets is reduced directly without the use of an allowance account and the amount of loss is recognised in the income statement.

Hedges of Net Investment in Foreign Operations

The Group hedges its net investment in operations located in Unites States against foreign currency risks using US dollar denominated liabilities. Hedges of a net investment in a foreign operation are accounted for in a following way. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income statement. On the disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the income statement. The Group uses a bridge loan facility and put option as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries (Note 28 xi).

D) Trade Receivables

Trade receivables, which generally have a short term, are carried at original invoice amount less an allowance for doubtful debts. An allowance for doubtful debts is established in case of objective evidence that the Group will not be able to collect amounts due according to the original terms of contract. The Group periodically analyses the aging of trade receivables and makes adjustments to the amount of the allowance. The amount of the allowance is the difference between the carrying and recoverable amount. The amount of the doubtful debts expense is recognised in the income statement.

E) Borrowings

Borrowings are initially recognised at fair value less directly attributable transaction costs. In subsequent periods, borrowings are measured at amortised cost using the effective interest rate method. Any difference between the initial fair value less transaction costs and the redemption amount is recognised within interest expense over the period of the borrowings. Borrowing costs are expensed as incurred.

The finance cost of the loans, including the issue costs and any discount on issue, is dealt with as a profit and loss charge over the term of the debt at a constant rate on the carrying amount. The carrying amount of the loan is decreased by the unamortised balance of the debt issue costs.

F) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale. The cost of inventories is determined on the weighted average basis.

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

Significant Accounting Policies (continued)
F) Inventories (continued)

The costs of inventories are comprised of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present condition and location. The value of work in progress and finished goods includes costs of raw materials, direct labor, direct production costs and indirect productions overheads including depreciation. Financing costs are not included in stock valuation.

The Group periodically analyses inventories to determine whether they are damaged, obsolete or slow-moving or if their net realisable value has declined, and makes an allowance for such inventories.

In preparing consolidated financial statements, unrealised profits resulting from intragroup transactions are eliminated in full.

G) Property, Plant and Equipment

Property, plant and equipment, except for the items acquired prior to January 1, 2003, are stated at historical cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when the cost is incurred if the recognition criteria are met.

The items of property, plant and equipment acquired prior to January 1, 2003, the date of transition to IFRS, were accounted for at deemed cost being their fair value at January 1, 2003.

Depreciation is calculated on a straight-line basis. The average depreciation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

Land	Not depreciated
Buildings	8–100 years
Machinery and equipment	5–30 years
Transport and motor vehicles	4–15 years
Furniture and fixtures	2–10 years

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the income statement as incurred.

When material repairs are performed, the Group recognises the cost of repair as a separate component within the relevant item of property, plant and equipment if the recognition criteria are met.

The Group has the title to certain non-production and social assets, primarily buildings and social infrastructure facilities. The items of social infrastructure did not meet the definition of an asset according to IFRS. Construction and maintenance costs of social infrastructure facilities are expensed as incurred.

The Group has made certain reclassifications in the consolidated balance sheet as of December 31, 2007 to conform with current year presentation.

H) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense in the income statement.

The depreciation policy for depreciable-leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

I) Goodwill

Goodwill is recognised as a non-current asset from the acquisition date. Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill is not amortised but is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that carrying amount may be impaired. As at the acquisition date, any goodwill is allocated to each of the cash-generating units (groups of cash-generating units), expected to benefit from the synergies of the combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit (groups of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (groups of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

If the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate exceeds the cost of the business combination, the identifiable assets, liabilities and contingent liabilities are re-assessed and re-measured. Any excess remaining after reassessment is immediately recognised as profit.

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

Significant Accounting Policies (continued)

J) Other Intangible Assets

Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates

The amortisation periods, which represent the estimated useful economic lives of the respective assets, are as follows:

Customer relationships	8–10 years
Proprietary technology	8 years
Backlog	1.5 year
Other	2–18 years

The amortisation expense of intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash generating unit level.

Research and Development

Costs incurred on development (relating to the design and testing of new or improved products) are recognised as intangible assets only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit. The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indication of impairment arises during the reporting year.

K) Impairment of Non-Financial Assets (Other than Goodwill)

An assessment is made at each balance sheet date to determine whether there is objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the recoverable amount assessed and, when impaired, the asset is written down immediately to its recoverable amount, which is the higher of the net selling price and value in use.

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment loss is recognised for the difference between the estimated recoverable amount and the carrying value. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period.

An impairment loss is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Intangible assets not yet available for use are tested for impairment annually.

L) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Significant Accounting Policies (continued)

M) Employee Benefits

Social and Pension Contributions

In the normal course of business, the Group contributes to state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. These contributions are made in compliance with statutory requirements of those countries where the Group's subsidiaries are located. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Post-Employment Benefits

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits stipulated in the collective bargaining agreements.

The liability recognised in the balance sheet in respect of post-employment benefits is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits would paid, and that have terms to maturity approximating to the terms of the related obligations.

Actuarial gains and losses are recognised in the income statement in the period in which they occurred. The past service cost is recognised as an expense on a straight-line basis over the average period until the benefits become vested.

N) Value Added Tax

The Russian tax legislation partially permits settlement of value added tax ("VAT") on a net basis.

VAT is payable upon invoicing and delivery of goods, performing work or rendering services, as well as upon collection of prepayments from customers. VAT on purchases, even if they have not been settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

O) Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the near future.

P) Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity.

Treasury Shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of treasury shares.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed in the financial statements when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Q) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenues from sales of inventory are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenues arise from rendering of services recognised in the same period when the services are provided.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, the revenue is measured at the fair value of the goods or services provided.

Index to the Notes to the Consolidated Financial Statements

1) Segment Information

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

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

The Group's primary segment reporting format is the dominant source for disclosure of its operating activities in its financial statements. A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments. The Group discloses its sales revenue, gross profit, assets, liabilities and depreciation costs based on the main groups of products segregated into segments: seamless pipes, welded pipes, other operations, unallocated. Unallocated segment assets and liabilities include those assets and liabilities which can not be analysed by segments, such as cash, financial investments, goodwill, borrowings and deferred tax assets and liabilities. They also include assets of maintenance workshops servicing production processes of both seamless and welded pipes.

Primary reporting format – business segments

Year ended December 31, 2008	Welded pipes	Seamless pipes	Other operations	Unallocated	TOTAL
Revenue	1,876,136	3,546,044	267,822	–	**5,690,002**
Segment result	328,081	1,088,691	20,778	–	**1,437,550**
Segment assets	1,511,974	3,412,551	250,978	1,895,604	**7,071,107**
Segment liabilities	277,578	475,923	29,973	4,377,211	**5,160,685**
Additions to property, plant and equipment	182,040	675,385	11,100	113,358	**981,883**
Property, plant and equipment acquired in business combinations	191,744	216,221	36,710	54	**444,729**
Depreciation and amortisation	25,393	132,316	8,910	81,153	**247,772**
Impairment of property, plant, equipment recognised in income statement (note 18)	–	57,859	1,987	–	**59,846**
Impairment of goodwill recognised in income statement (note 19):	–	–	3,512	–	**3,512**

Year ended December 31, 2007	Welded pipes	Seamless pipes	Other operations	Unallocated	**TOTAL**
Revenue	1,118,540	2,849,399	210,705	–	**4,178,644**
Segment result	187,982	1,093,984	6,062	–	**1,288,028**
Segment assets	647,986	2,705,803	193,739	1,128,754	**4,676,282**
Segment liabilities	41,080	302,718	15,804	2,210,071	**2,569,673**
Additions to property, plant and equipment and investment property	35,008	513,147	2,287	83,191	**633,633**
Property, plant and equipment acquired in business combinations	–	–	41,021	20,302	**61,323**
Depreciation and amortisation	9,764	106,228	3,320	20,947	**140,259**

Secondary reporting format – geographical segments

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

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

1) Segment Information (continued)

Secondary reporting format – geographical segments (continued)

Year ended December 31, 2008	Russia	Europe	Cent.Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
Revenue	3,387,720	506,904	183,801	181,384	18,519	1,340,249	71,425	**5,690,002**
Segment assets	4,709,914	441,809	31,863	425	–	1,887,096	–	**7,071,107**
Additions to property, plant and equipment	915,419	24,653	283	24	–	41,504	–	**981,883**
Property, plant and equipment acquired in business combinations	–	–	–	–	–	424,458	20,271	**444,729**

Year ended December 31, 2007	Russia	Europe	Cent.Asia & Caspian Region	Middle East & Gulf Region	Africa	Americas	Asia & Far East	TOTAL
Revenue	2,993,743	451,212	142,295	296,876	17,034	87,631	189,853	**4,178,644**
Segment assets	4,070,761	579,137	3,914	442	–	22,028	–	**4,676,282**
Additions to property, plant and equipment	569,744	63,758	45	42	–	44	–	**633,633**
Property, plant and equipment acquired in business combinations	61,323	–	–	–	–	–	–	**61,323**

2) Cost of Sales

	2008	2007
Raw materials and consumables	2,946,681	2,138,356
Contracted manufacture	176,495	6,892
Energy and utilities	284,429	235,383
Depreciation and amortisation	178,192	129,933
Repairs and maintenance	93,199	53,322
Freight	22,852	8,082
Rent	2,775	733
Insurance	1,104	410
Staff costs including social security	511,234	362,251
Professional fees and services	21,549	14,662
Travel	1,723	1,859
Communications	1,938	604
Taxes	26,607	18,905
Other	3,947	316
Less capitalised costs	(13,360)	(37,638)
Total production cost	4,259,365	2,934,070
Change in own finished goods and work in progress	(73,354)	(75,533)
Cost of externally purchased goods	33,768	31,976
Obsolete stock and write-offs	32,673	103
Cost of sales	**4,252,452**	**2,890,616**

3) Selling and Distribution Expenses

	2008	2007
Freight	164,338	138,154
Rent	7,169	5,639
Insurance	1,372	866
Depreciation and amortisation	1,668	1,499
Staff costs including social security	60,043	44,247
Professional fees and services	20,031	19,129
Travel	4,855	3,590
Communications	1,645	1,635
Utilities and maintenance	2,776	945
Taxes	2,557	3,176
Consumables	19,916	18,162
Bad debt expense / (reversal of expense)	7,212	(1,125)
Other	1,628	2,259
Total selling and distribution expenses	**295,210**	**238,176**

4) Advertising and Promotion Expenses

	2008	2007
Media	1,134	2,272
Exhibits and catalogues	3,116	2,259
Outdoor advertising	4,995	–
Other	877	755
Total advertising and promotion expenses	**10,122**	**5,286**

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

5) General and Administrative Expenses

	2008	2007
Staff costs including social security	138,868	131,705
Professional fees and services	54,071	35,240
Depreciation and amortisation	66,790	8,407
Travel	11,833	10,715
Transportation	6,839	4,186
Rent	6,908	5,019
Communications	1,805	1,206
Insurance	1,228	758
Utilities and maintenance	10,271	8,124
Taxes	5,382	3,403
Consumables	8,262	8,066
Other	4,491	1,446
Total general and administrative expenses	**316,748**	**218,275**

6) Research and Development Expenses

	2008	2007
Staff costs including social security	9,192	6,707
Professional fees and services	3,421	1,769
Depreciation and amortisation	725	431
Travel	255	150
Transportation	171	187
Communications	63	39
Utilities and maintenance	536	402
Consumables	546	415
Other	255	39
Total research and development expenses	**15,164**	**10,139**

7) Other Operating Expenses

	2008	2007
Loss on disposal of property, plant and equipment	1,555	7,417
Social and social infrastructure maintenance expenses	20,991	17,742
Charitable donations	13,325	19,176
Other	16,172	11,890
Total other operating expenses	**52,043**	**56,225**

Other operating expenses include expenses and additional provisions related to tax issues, tax fines and other fines in the amount of 7,983 (6,824 in 2007).

8) Share of Profit in Associate and Other Operating Income

Share of Profit in Associate

Share of profit in associate represents profit from the investment to North-Europe Pipe Project (3,006 and 971 for the years ended December 31, 2008 and December 31, 2007, respectively) and consists of 20% share of profit of the associate.

Other Operating Income

	2008	2007
Gain from reversal of litigation provision	910	2,093
Income from current liabilities derecognition	168	1,303
Gain from penalties and fines	1,742	734
Other	4,300	838
Total other operating income	**7,120**	**4,968**

9) Finance Costs and Finance Income

Finance Costs	2008	2007
Amortisation of ancillary costs incurred in connection with the arrangement of borrowings	29,500	6,271
Interest expense	242,675	92,698
Change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical plant	–	3,428
Total finance costs	**272,175**	**102,397**

Finance Income	2008	2007
Interest income – bank accounts and deposits	2,739	12,485
Change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical plant	5,981	–
Other finance income	–	123
Total finance income	**8,720**	**12,608**

Loss / gain on financial assets and liabilities represents change in fair value of liabilities under put options held by minority shareholders in Taganrog Metallurgical Plant. Starting from August 1, 2008 liability for put-call option expired and the Group recognised minority interest (Note 28 vii).

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

10) Acquisition of Subsidiaries

“Russian Research Institute of the Tube and Pipe Industries”

On March 5, 2007, the Group purchased 76.34% ownership interest of Joint-Stock Company “Russian Research Institute of the Tube and Pipe Industries” (“RosNITI”) for cash consideration of 3,067. RosNITI is a scientific research institution engaged in the scientific and technological development of the Russian pipe industry.

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

	5 March 2007
Property, plant and equipment	8,417
Inventories	10
Accounts and notes receivable, net	137
Cash	29
Total assets	**8,593**
Non-current liabilities	78
Deferred income tax liabilities	1,727
Current liabilities	224
Total liabilities	2,029
Net assets	**6,564**
Fair value of net assets attributable to 76.34% overship interest	5,010
Total consideration	3,067
Excess of aquirer’s interest in the net fair value of acquiree’s identifiable assets, liabilities and contingent liabilities over the cos of acquisition recognized in the income statement	1,943

RosNITI’s net profit for the period from March 5, 2007 to December 31, 2007 amounted to 313.

Net cash acquired with subsidiary	29
Cash paid	(3,067)
Net cash outflow	(3,038)

In June-December 2007, the Company purchased additional 21.02% of OAO “RosNITI” shares and the Group ownership in RosNITI achieved 97.36% as at December 31, 2007 (Note 28 v).

OOO “Predpriyatiye “Truboplast”

On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in OOO “Predpriyatiye “Truboplast” (“Truboplast”) from an entity under common control with the Group for cash consideration of 23,986. The entity under common control with the Group acquired the controlling interest in Truboplast on July 19, 2007. As the pooling of interests method has been applied to this transfer under common control, the cost of this business combination was 17,374 which is the amount paid by the entity under common control with the Group to acquire the controlling ownership interest in Truboplast on July 19, 2007. The amount of 6,834, being the excess of the amount paid by the Group to acquire 100% interest in Truboplast from the entity under common control with the Group over the cost of the business combination, has been treated as a distribution to owners (Note 28 iv).

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

	19 July 2007
Property, plant and equipment	11,610
Inventories	2,214
Accounts and notes receivable, net	2,548
Cash	36
Total assets	**16,408**
Deferred income tax liabilities	1,781
Current liabilities	3,839
Total liabilities	**5,620**
Net assets	**10,788**
Fair value of net assets attributable to 100% overship interest	10,788
Consideration paid by the entity under common control with the group	**17,374**
Goodwill arising on acquisition	**6,586**

Net profit of Truboplast from July 19, 2007 to December 31, 2007 amounted to 777.

Goodwill arising from the acquisition of Truboplast relates to synergy from integration of the acquired subsidiary into the Group, as a new division “Neftegazservice” was formed.

In 2007 and 2008, the cash flow on acquisition was as follows:

	2008	2007
Net cash acquired with the subsidiary		36
Cash paid	(10,446)	(14,021)
Net cash outflow	(10,446)	(13,985)

In 2008, the Group paid 10,446 to the entity under common control with the Group for the purchase of 100% ownership interest in Truboplast. As at December 31, 2008, the Group had no liability in respect of this purchase.

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

10) Acquisition of Subsidiaries (continued)

ZAO "Pipe Repair Department"

On December 20, 2007, the Group purchased 100% ownership interest in ZAO "Pipe Repair Department" for cash consideration of 73,327.

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of ZAO "Pipe Repair Department" at the date of acquisition:

	20 December 2007
Property, plant and equipment	32,277
Other non-current assets	94
Inventories	1,216
Accounts and notes receivable, net	2,560
Prepayments	422
Cash	20
Total assets	**36,589**
Non-current liabilities	827
Deferred income tax liabilities	2,895
Current liabilities	3,888
Total liabilities	**7,610**
Net assets	**28,979**
Fair value of net assets attributable to 100% overship interest	28,979
Total consideration	73,327
Goodwill arising on acquisition	**44,348**

Goodwill arising from the acquisition of Pipe Repair Department relates to synergy from integration of the acquired subsidiary into the Group, as a new division "Neftegazservice" was formed.

Pipe Repair Department's net profit/loss from December 20, 2007 to December 31, 2007 was not material.

In 2008 and 2007, the cash flow on acquisition was as follows:

	2008	2007
Net cash acquired with the subsidiary	–	20
Cash paid	(16,620)	(55,197)
Net cash outflow	(16,620)	(55,177)

As at December 31, 2008, the Group had a liability of 1,510 in respect of this purchase.

OOO "Central Pipe Yard"

On December 27, 2007, the Group purchased 100% ownership interest in OOO "Central Pipe Yard" for cash consideration of 8,693.

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of OOO "Central Pipe Yard" at the date of acquisition:

	27 December 2007
Property, plant and equipment	9,019
Inventories	183
Accounts and notes receivable, net	851
Cash	45
Total assets	**10,098**
Non-current liabilities	
Deferred income tax liabilities	119
Current liabilities	998
Total liabilities	**1,117**
Net assets	**8,981**
Fair value of net assets attributable to 100% overship interest	8,981
Total consideration	**8,693**
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognized in the income statement	**288**

Central Pipe Yard's net loss from December 27, 2007 to December 31, 2007 was not material.

In 2008 and 2007, the cash flow on acquisition was as follows:

	2008	2007
Net cash acquired with the subsidiary	–	45
Cash paid	(8,438)	(255)
Net cash outflow	(8,438)	(210)

As at December 31, 2008, the Group had no liability in respect of this purchase.

TOO Kaztrubprom

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

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

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

10) Acquisition of Subsidiaries (continued)

TOO Kaztrubprom (continued)

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

Goodwill arising from the acquisition of Kaztrubprom relates to synergy from integration of the acquired subsidiary into the Group.

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

Net cash acquired with the subsidiary	9
Cash paid	(8,437)
Net cash outflow	(8,428)

In 2008, the Group paid 8,437 for the purchase of TOO Kaztrubprom". As at December 31, 2008, the Group had no liability in respect of this purchase.

Kaztrubprom's net loss from June 9, 2008 to December 31, 2008 was 6,298.

NS Group Inc. and IPSCO Tubular Inc.

On March 14, 2008, the Group signed a back–to–back purchase agreement with Evraz Group S.A. ("Evraz") to acquire all of the outstanding shares in IPSCO Tubulars Inc. and 51% of outstanding shares in NS Group Inc., both registered and located in the United States, from Svenskt Stal AB ("SSAB"), a Swedish steel company.

As a part of the transaction, on June 11, 2008, the Group entered into a call/put option agreement with Evraz, under which the Group has the right to purchase from Evraz and Evraz has the right to sell to the Group 49% of the outstanding shares in NS Group, Inc. for US$510,625. Thus, in substance the Group acquired 100% ownership interest in NS Group Inc., because the Group gained an access to the economic benefits associated with that interest. The Group's call option became exercisable on June 12, 2008. The put option could be exercised by Evraz on or after October 22, 2009. The liability under the call/put option bore interest of 10% per annum.

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

On June 12, 2008 the Group acquired control over NS Group Inc. and IPSCO Tubulars Inc. As a result, cost of the acquisition of all of the shares in IPSCO Tubulars Inc. and NS Group Inc. for the Group amounted to 1,645,012, including cash consideration of 1,114,177 (net of adjustment for closing working capital of 133,704), a liability in respect of the put option of 510,625, transactions costs of 20,210.

The financial position and results of operations of IPSCO Tubulars Inc. and NS Group Inc. were included in the Group's consolidated financial statements beginning June 12, 2008. As of the date of issuance of these consolidated financial statements, the Group has finalised the working capital adjustment of the acquired entities and completed its purchase price allocation in accordance with IFRS 3 Business Combinations.

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

	Initial estimation of fair values	Final estimation of fair values
Property, plant and equipment	425,998	424,458
Intangible assets	697,600	705,165
Deferred Tax asset	1,557	38,779
Inventories	377,341	376,801
Accounts and notes receivable, net	138,259	139,705
Prepayments	892	892
Total assets	**1,641,647**	**1,685,800**
Non-current liabilities	8,328	19,922
Deferred income tax liabilities	224,919	219,736
Current liabilities	276,846	266,915
Overdraft	7,113	7,183
Total liabilities	**517,206**	**513,756**
Net assets	1,124,441	1,172,044
Fair value of net assets attributable to 100% ownership interest	1,124,441	1,172,044
Total consideration	1,643,939	1,645,012
Goodwill arising on acquisition	519,498	472,968

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

Overdrafts of the acquired subsidiaries	(7,183)
Cash paid	(1,133,725)
Net cash outflow	**(1,140,908)**

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

10) Acquisition of Subsidiaries (continued)

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

As at December 31, 2008, the Group had a liability of 510,625 in respect of the call/put option agreement and 662 in respect of transaction costs.

The net profit of IPSCO Tubular Inc. and NS Group Inc. for the period from June 12, 2008 to December 31, 2008 amounted to 166,601.

Disclosure of Other Information in Respect of Business Combinations

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

It is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

11) Income Tax

	2008	2007
Current income tax	209,879	200,485
Current income tax benefit on hedges of net investment in foreign operations recognized directly in equity (Note 28 xi)	53,577	–
Adjustments in respect of income tax of previous years	1,001	–
Deferred income tax benefit related to origination and reversal of temporary differences	(154,845)	(8,043)
Total income tax expense	**109,612**	**192,442**

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2008	2007
Income before taxation	308,084	698,751
Theoretical tax charge at statutory rate in Russia of 24%	73,940	167,700
Adjustment in respect of income tax of previous years	1,001	–
Effect of items which are not deductible or assessable for taxation purposes	30,487	27,249
Effect of different tax rates in countries other than Russia	35,627	(2,182)
Effect of tax rate changes	(31,853)	–
Effect of currency translation	410	207
Effect of excess of acquirer's interest in the net fair value of acquirer's identifiable assets, liabilities and contingent liabilities over the cost of acquisition (Note 10)	–	(532)
Total income tax expense	**109,612**	**192,442**

In November 2008, a reduction of income tax rate from 24% to 20% was announced by the Russian government, the new rate being effective from January 1, 2009. Respective deferred tax assets and liabilities were measured using the announced tax rate.

In December 2008, a reduction of income tax rate was announced by the Kazakhstan government from 30% to 20% for 2009, 17.5% for 2010 and 15% for 2011 and subsequent years. The new rate being effective from January 1, 2009. Respective deferred tax assets and liabilities were measured using the announced tax rate.

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

11) Income Tax (continued)

Deferred income tax assets and liabilities, their movements for the periods ended December 31, 2008 and December 31, 2007 were as follows:

	2008	Change recognised in income statement	Change due to business combination	Foreign currency translation reserve	2007	Change recognised in income statement	Change due to business combination	Foreign currency translation reserve	2006
Deferred income tax liability:									
Valuation and depreciation of property, plant and equipment	(231,232)	53,214	(63,470)	48,466	(269,442)	8,854	(7,273)	(18,025)	(252,998)
Valuation and amortisation of Intangible assets	(104,767)	(11,309)	(118,143)	24,685	–	–	–	–	–
Valuation of accounts receivable	(7,776)	(755)	–	1,522	(8,543)	462	–	(592)	(8,413)
Valuation of inventory	–	905	–	11	(916)	704	63	(86)	(1,597)
Undistributed earnings of subsidiaries	–	–	–	–	–	685	–	(41)	(644)
Other	(2,827)	(2,654)	–	525	(698)	(431)	28	70	(365)
	(346,602)	**39,401**	**(181,613)**	**75,209**	**(279,599)**	**10,274**	**(7,182)**	**(18,674)**	**(264,017)**
Deferred income tax asset:									
Tax losses available for offset	66,707	72,981	–	(10,689)	4,415	(219)	–	305	4,329
Accrued liabilities	7,397	1,776	4,880	(1,608)	2,349	266	–	151	1,932
Impairment of accounts receivable	5,407	1,695	1,185	(1,086)	3,613	(857)	–	269	4,201
Impairment of prepayments and other current assets	1,315	(500)	1,334	(312)	793	448	–	41	304
Valuation of inventory	20,893	31,792	(7,450)	(3,449)	–	–	–	–	–
Provisions	5,734	182	–	(1,128)	6,680	(2,299)	660	474	7,845
Finance lease obligations	1,042	1,232	–	(190)	–	(3)	–	–	3
Trade and other payable	6,253	6,286	–	(1,152)	1,119	433	–	64	622
	114,748	**115,444**	**(51)**	**(19,614)**	**18,969**	**(2,231)**	**660**	**1,304**	**19,236**
Net tax effect of temporary differences	–	154,845			–	8,043			–
Net deferred income tax liability	**(370,561)**	**47,513**	**(220,443)**	**81,403**	**(279,034)**	**5,735**	**(6,522)**	**(18,551)**	**(259,696)**
Net deferred income tax asset	**138,707**	**107,332**	**38,779**	**(25,808)**	**18,404**	**2,308**	**–**	**1,181**	**14,915**

In the context of the Group's current structure, tax losses and current tax assets of the different companies are not offset against current tax liability and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. Therefore, a deferred tax asset of one subsidiary of the Group is not offset against the deferred tax liability of another subsidiary. As at December 31, 2008, the deferred tax asset for 7,775 (2007: 5,413) has not been recorded, as it is not probable that sufficient taxable profit will be available to offset the deductible temporary differences to which the asset relates.

Deferred income tax assets not recognised represent the tax losses of the Group's subsidiaries incurred in transactions with securities. Such tax losses offsets only against future taxable profits generated in transactions with securities over a period of 6 years.

The Group recognised the deferred tax assets for the companies with net loss. The Group believes that this tax loss will be recovered as future taxable profits will exceed recognised tax asset on tax loss.

As at December 31, 2008, the Group has not recognised deferred tax liability in respect of 1,480,501 (2007: 2,062,644) temporary differences associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

From January 1, 2008, the change to the Tax Code in relation to dividends withholding tax became in force (the change # 76-FL is dated 16.05.2007). The major share of dividends due from Russian subsidiaries was tax free from January 1, 2008.

12) Earnings per Share

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of the parent entity by the weighted average number of ordinary shares in issue during the period.

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

12) Earnings per Share (continued)

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

	For the year ended December 31	
	2008	2007
Net profit attributable to the equity holders of the parent entity	199,408	487,152
Weighted average number of ordinary shares outstanding (excluding treasury shares)	870,182,985	872,089,719
Effect of dilution:		
Share options	–	167,062
Weighted average number of ordinary shares outstanding (excluding treasury shares) adjusted for the effect of dilution	870,182,985	872,256,781
Earnings per share attributable to equity holders of the parent entity (in US dollars):		
Earnings per share attributable to equity holders of the parent entity, basic and diluted in US dollars (5.80 RUR for 2008 and 14.29 RUR for 2007):	0.23	0.56

Share options under the TMK share options programme (Note 28 viii) were not included in the calculation of diluted earnings per share because they were antidilutive in 2008.

There have been no transactions involving ordinary shares or potential ordinary shares between December 31, 2008 and the date of completion of these financial statements that would have changed significantly the number of ordinary shares or potential ordinary shares as at December 31, 2008 if those transactions had occurred before that date.

13) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	2008	2007
Russian rouble	60,036	70,876
US dollar	75,727	6,288
Euro	6,286	9,990
Romanian lei	854	1,848
Other currencies	490	43
Total cash and cash equivalents	**143,393**	**89,045**

The above cash and cash equivalents consist of the following:

	2008	2007
Cash and cash equivalents	131,502	50,201
Deposits	11,891	38,844
Total cash and cash equivalents	**143,393**	**89,045**

A cash deposit in the amount of 854 has been pledged as security for borrowings at December 31, 2008 (December 31, 2007: 1,974).

14) Trade and Other Receivable

	2008	2007
Trade receivables	755,680	522,814
Officers and employees	2,312	2,267
Other accounts receivable	6,819	7,910
Gross accounts receivable	764,811	532,991
Allowance for doubtful debts	(13,120)	(9,466)
Net accounts receivable	**751,691**	**523,525**

Bank borrowings are secured by accounts receivable with the carrying value of 114 (December 31, 2007: 2,115) (Note 23).

15) Prepayments and Input VAT

	2008	2007
Prepayment for services, inventories	36,666	49,479
Prepayment for rent	405	675
Deferred charges	3,129	1,973
Prepayment for VAT, Input VAT	136,851	169,984
Prepayment for property tax	168	197
Prepayment for other tax	920	724
Prepayment for insurance	6,929	699
Total prepayments	**185,068**	**223,731**

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or via direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is recoverable within one year.

16) Available-for-Sale Investments and Other Non-Current Assets

Available-for-Sale Investments

The amount of Available-for-sale investments as of December 31, 2008 and 2007 was 191,646 thousand roubles (6,520 at the exchange rate as at December 31, 2008) and 772,093 thousand roubles (29,417 at the exchange rate as at December 31, 2007) respectively. Available-for-sale investments are represented by the quoted ordinary shares of VTB Bank, a Russian state-owned bank. The fair value of these shares is determined by reference to published price quotations in an active market. On June 30, 2008 due to the significant and prolonged decline in fair value of VTB shares, the impairment loss of 13,043 representing cumulative loss previously recognised directly in equity was

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

recorded in the income statement. In the second half of 2008, further decline in fair value of VTB shares amounting to 10,632 was recognised directly in the income statement.

Other Non-Current Assets

	2008	2007
Prepayments for acquisition of PPE	52,179	100,865
Loans to employees	5,112	5,022
Prepaid debt issue costs	7,190	5,533
Restricted cash deposits for fulfillement of guaranties	3,739	1,581
Other	1,401	27,928
Gross investments and other long-term receivables	**69,621**	**140,929**
Allowance for doubtful debts	(12)	(166)
Net investments and other long-term receivables	**69,609**	**140,763**

17) Inventories

	2008	2007
Raw materials	254,043	226,642
Work in process	298,538	237,063
Finished goods and finished goods in transit	486,138	157,786
Goods for resale	6,334	131
Supplies	159,470	170,201
Gross inventories	1,204,523	791,823
Allowance for write-down at net realisable value	(28,587)	(9,450)
Net inventories	**1,175,936**	**782,373**

Included in inventories as at December 31, 2008, are inventories carried at net realisable value in the amount of 84,415 (December 31, 2007: 41,542).

As at December 31, 2008, certain items of inventory with a carrying amount of 64,002 (December 31, 2007: 81,537) were pledged as security for borrowings (Note 23).

The following summarises the changes in the allowance for inventory:

	2008	2007
Balance at the beginning of the year	9,450	8,357
Utilised during the year	(243)	(680)
Additional increase in allowance	24,669	1,156
Currency translation adjustments	(5,289)	617
Balance at the end of the year	**28,587**	**9,450**

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

18) Property, Plant and Equipment

The movement in property, plant and equipment for the year ended December 31, 2008 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	**TOTAL**
Cost							
Balance at January 1, 2008	1,148,130	1,439,470	68,416	32,025	33	586,031	**3,274,105**
Additions	2,570	19,873	473	900	–	958,067	**981,883**
Assets put into operation	22,677	670,699	6,438	6,078	1,194	(707,086)	**–**
Disposals	(6,008)	(26,231)	(1,587)	(609)	–	(929)	**(35,364)**
Assets acquired in business combinations (Note 10)	85,922	289,287	60	2,640	1,826	64,994	**444,729**
Currency translation adjustments	(189,126)	(333,360)	(11,509)	(5,571)	(490)	(134,733)	**(674,789)**
Balance at december 31, 2008	**1,064,165**	**2,059,738**	**62,291**	**35,463**	**2,563**	**766,344**	**3,990,564**
Accumulated depreciation and impairment							
Balance at January 1, 2008	(114,043)	(413,876)	(19,560)	(14,283)	–	–	**(561,762)**
Depreciation charge	(33,076)	(144,317)	(5,427)	(5,688)	(436)	–	**(188,944)**
Impairment	(19,785)	(33,363)	(3,019)	(280)	–	(3,399)	**(59,846)**
Disposals	352	21,542	675	502	–	–	**23,071**
Currency translation adjustments	26,105	87,079	4,215	2,830	1	523	**120,753**
Balance at december 31, 2008	**(140,447)**	**(482,935)**	**(23,116)**	**(16,919)**	**(435)**	**(2,876)**	**(666,728)**
Net book value at december 31, 2008	**923,718**	**1,576,803**	**39,175**	**18,544**	**2,128**	**763,468**	**3,323,836**
Net book value at january 1, 2008	**1,034,087**	**1,025,594**	**48,856**	**17,742**	**33**	**586,031**	**2,712,343**

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

18) Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended December 31, 2007 was as follows:

	Land and buildings	Machinery and equipment	Transport and motor vehicles	Furniture and fixtures	Leasehold improvements	Construction in progress	TOTAL
Cost							
Balance at January 1, 2007	880,347	1,140,296	45,987	22,187	–	321,541	**2,410,358**
Additions	3,871	8,046	340	789	–	620,587	**633,633**
Assets put into operation	165,500	201,894	19,032	7,601	32	(394,059)	**–**
Disposals	(6,899)	(19,736)	(1,075)	(684)	–	(2,122)	**(30,516)**
Assets acquired in business combinations (Note 10)	37,023	17,937	82	121	–	6,160	**61,323**
Currency translation adjustments	68,288	91,033	4,050	2,011	1	33,924	**199,307**
Balance at december 31, 2007	**1,148,130**	**1,439,470**	**68,416**	**32,025**	**33**	**586,031**	**3,274,105**
Accumulated depreciation							
Balance at January 1, 2007	(84,665)	(291,331)	(14,085)	(9,526)	–	–	**(399,607)**
Depreciation charge	(24,753)	(103,881)	(4,766)	(4,287)	–	–	**(137,687)**
Disposals	775	9,013	635	457	–	–	**10,880**
Currency translation adjustments	(5,400)	(27,677)	(1,344)	(927)	–	–	**(35,348)**
Balance at december 31, 2007	**(114,043)**	**(413,876)**	**(19,560)**	**(14,283)**	**–**	**–**	**(561,762)**
Net book value at december 31, 2007	**1,034,087**	**1,025,594**	**48,856**	**17,742**	**33**	**586,031**	**2,712,343**
Net book value at january 1, 2007	**795,682**	**848,965**	**31,902**	**12,661**	**–**	**321,541**	**2,010,751**

Bank borrowings are secured by properties and equipment with the carrying value of 133,624 (December 31, 2007: 180,616), (Note 23).

At December 31, 2008, the Group conducted an impairment test of property, plant and equipment and determined that carrying volume of property, plant and equipment of its Romanian subsidiaries and Orsk Plant exceeds their recoverable amount. The recoverable amount represents the value in use determined based on discounted future cash flow. The group used pre-tax discount rates of 16.94% and 17.47% for determining the value in use for Romanian subsidiaries and Orsk Plant, respectively. The entire amount of impairment loss was recognised in the income statement. No impairment loss was recognised in 2007.

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19) Goodwill and Other Intangible Assets

	Patents and trademarks	Goodwill	Software	Customer relationships	Proprietary technology	Backlog	Other	TOTAL
Cost								
Balance at January 1, 2008	781	101,858	17,133	–	–	–	9,354	**129,126**
Additions	213	–	1,637	–	–	–	284	**2,134**
Disposals	(8)	–	–	–	–	–	(1,725)	**(1,733)**
Assets acquired business combination (Note 10)	208,700	488,225	–	472,300	14,100	8,500	1,565	**1,193,390**
Currency translation adjustments	(156)	(18,689)	(3,039)	–	–	–	(1,413)	**(23,297)**
Balance at december 31, 2008	**209,530**	**571,394**	**15,731**	**472,300**	**14,100**	**8,500**	**8,065**	**1,299,620**
Accumulated amortisation								
Balance at January 1, 2008	(160)	–	(4,322)	–	–	–	(2,071)	**(6,553)**
Amortisation charge	(54)	–	(2,507)	(48,851)	(974)	(4,332)	(2,111)	**(58,829)**
Impairment	–	(3,512)	–	–	–	–	–	**(3,512)**
Disposals	1	–	–	–	–	–	1,095	**1,096**
Currency translation adjustments	33	542	1,089	–	–	–	483	**2,147**
Balance at december 31, 2008	**(180)**	**(2,970)**	**(5,740)**	**(48,851)**	**(974)**	**(4,332)**	**(2,604)**	**(65,651)**
Net book value at december 31, 2008	**209,350**	**568,424**	**9,991**	**423,449**	**13,126**	**4,168**	**5,461**	**1,233,969**
Net book value at january 1, 2008	**621**	**101,858**	**12,811**	**–**	**–**	**–**	**7,283**	**122,573**

	Patents and trademarks	Goodwill	Software	Other	TOTAL
Cost					
Balance at January 1, 2007	403	46,944	14,303	4,794	**66,444**
Additions	351	–	1,710	4,571	**6,632**
Additions – internal development	–	–	–		**–**
Disposals	(15)	–	–	(510)	**(525)**
Assets acquired business combination (Note 10)	–	50,934	–	–	**50,934**
Currency translation adjustments	42	3,980	1,120	499	**5,641**
Balance at december 31, 2007	**781**	**101,858**	**17,133**	**9,354**	**129,126**
Accumulated amortisation					
Balance at January 1, 2007	(130)	–	(2,224)	(1,446)	**(3,800)**
Amortisation charge	(35)	–	(1,858)	(679)	**(2,572)**
Disposals	15	–	–	174	**189**
Currency translation adjustments	(10)	–	(240)	(120)	**(370)**
Balance at december 31, 2007	**(160)**	**–**	**(4,322)**	**(2,071)**	**(6,553)**
Net book value at december 31, 2007	**621**	**101,858**	**12,811**	**7,283**	**122,573**
Net book value at january 1, 2007	**273**	**46,944**	**12,079**	**3,348**	**62,644**

Customer relationships represent a key intangible asset that has a separate and distinct value. Over time, as the Company has increased its name recognition, it has also cultivated relationships with its customers. Remaining amortisation period for customer relationships is 8–10 years.

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group.

Patents and trademarks include intangible assets with indefinite useful lives with the carrying value of 208,700 (2007: nil).

The carrying amount of goodwill and intangible assets with indefinite useful lives were allocated among cash generating units as follows at December 31:

	2008	2007
Cash generating units in North America, including:	681,668	–
NS Group, Inc.	506,324	–
IPSCO Tubulars, Inc.	175,344	–
Oilfield service cash generating unit	40,058	51,500
Other cash generating units	55,398	50,358
Total goodwill and intangible assets with idenfinite useful lives	**777,124**	**101,858**

Goodwill and intangible assets with indefinite useful lives were tested for impairment at December 31, 2008. As a result of the test, the Group determined that the carrying value of cash generating units in North America approximates their recoverable amounts and the carrying value of Oilfield service cash generating unit exceeds its

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

recoverable amount. Consequently, the Group recognized impairment of Oilfield service cash generating unit's goodwill in the amount of 3,512. Events and circumstances that led to recognition of impairment are disclosed in Note 29.

For the purpose of impairment testing the recoverable amount of goodwill has been determined based on value in use. Value in use has been calculated using cash flow projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecting time value of money and risks associated with respective cash generating unit or group of cash generating units. The key assumptions used by management in calculation of value in use are presented in the table below. For the periods not covered by management plans, cash flow projections have been estimated by extrapolating the respective business plans taking into account business cycles resulting in zero growth rate.

	Period of forecast, years	Pre-tax discount rate, %	Commodity	Average of commodity per ton
Group of cash generating units in North America, including				
NS Group, Inc.	5	14.58	Welded pipes	1,225
			Seamless pipes	1,787
IPSCO Tubulars, Inc.	5	14.25	Welded pipes	1,193
Oilfield service cash generating unit	5	16.17		
Other cash generating units	5	16.22–18.87		

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

Discount Rates

Discount rates reflect the current market assessment of the risks specific to cash generating unit. The discount rates have been determined using the CAPM concept and analysis of industry peers. Reasonable change in discount rate for Oilfield service cash generating unit could lead to further impairment of goodwill. A 10% increase in the discount rate would result in an additional impairment of 8,753.

Volume of Production and Repair of Oilwell Pipes

The management assumed that the volume of repaired oilwell pipes would decline by 17% during 2009 and would grow in 2010, 2011, 2012 and 2013 by 5%, 7%, 5% and 12%, respectively, to reach a normal asset capacity thereafter. The management also assumed that Oilfield service cash generating unit starts to produce oilwell pipes from semi-finished pipes produced by other cash generating units of the Group. In 2009, oilfield cash generating unit plans to produce 22,310 oilwell pipes, which then will grow in 2010 by 10% and by 12% thereafter. Reasonable changes in quantities of produced and sold and repaired oilwell pipes could lead to the additional impairment.
If the quantities of the units of production sold and repaired were 10% lower than those assumed in the impairment test during 2009 and 2010, this would lead to an additional impairment of 26,840.

Cost Control Measures

The recoverable amounts of Oilfield service cash generating unit is based on the business plans approved by management. The reasonable deviation of cost from these plans could lead to an additional impairment.

If the actual costs were 10% higher than those assumed in the impairment test during 2009–2013, the goodwill would be fully impaired.

20) Trade and Other Payables

	2008	2007
Trade payables	578,749	192,344
Accounts payable for property, plant and equipment	144,585	98,627
Notes issued to third parties	869	929
Sales rebate payable	5,400	–
Other payables	8,930	3,277
Total accounts payable	**738,533**	**295,177**

21) Accrued Liabilities

	2008	2007
Payroll liabilities	38,512	27,374
Accrued and withheld taxes on payroll	16,412	13,965
Liabilities for VAT	19,298	11,883
Liabilities for property tax	4,791	2,561
Liabilities for other taxes	3,309	3,651
Deferred VAT	99	399
Current portion of employee-benefit liability	1,869	2,284
Accrual for long-service benefit	5,348	5,607
Liabilities under put options of minority shareholders in subsidiaries	552,989	39,481
Liability for bonuses	17,028	8,806
Accrued liability on acquisitions	1,510	26,693
Miscellaneous	4,287	4,480
Total accrued liabilities	**665,452**	**147,184**

22) Provisions

	2008	2007
Current		
Provision for unused annual leaves, current portion	8,813	3,130
Accrual for tax fines	1,270	1,456
Environmental provision	1,427	88
Total current provisions	**11,510**	**4,674**
Non-current		
Environmental provision	5,474	–
Provisions for unused annual leave	13,194	15,973
Total non-current provisions	**18,668**	**15,973**

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

23) Interest-Bearing Loans and Borrowings

Short-term and long-term borrowings were as follows as at December 31, 2008:

	2008	2007
Current:		
Bank loans	1,676,590	671,574
Interest payable	46,651	17,397
Current portion of non-current borrowings	92,463	141,805
Current portion of bearer coupon debt securities	402,078	203,698
Unamortised debt issue costs	(3,145)	(1,454)
	2,214,637	**1,033,020**
Finance lease liability – current	1,822	302
Total short-term borrowings	2,216,459	1,033,322
Non-current:		
Bank loans	287,811	249,217
Bearer coupon debt securities	1,172,259	607,741
Unamortised debt issue costs	(10,273)	(5,882)
Less: current portion of non-current borrowings	(92,463)	(141,805)
Less: current portion of bearer coupon debt securities	(402,078)	(203,698)
	955,256	**505,573**
Finance lease liability – non-current	38,969	404
Total long-term borrowings	**994,225**	**505,977**

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, profitability and guarantees issued to other parties.

In addition to collaterals disclosed in Notes 13, 14, 17, 18 the Group pledged its rights under sales contracts in Romania totaling to 15,169 as collateral under loan agreements as at December 31, 2008 (December 31, 2007: 220,144). Proceeds from sales pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

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

	Interest rates for period ended	2008	Interest rates for period ended	2007
Russian Rouble	Fixed 7.6% – 17.55%	1,206,957	Fixed 6% – 12%	929,949
	Fixed 8.5%	305,451	Fixed 8.5%	303,380
	Fixed 9.75% – 14.7%	733,701	Fixed 20.94%	151
US Dollar	Variable:	659,234	Variable:	143,778
	Libor (1m) + 1.6% – 2.5%			
	Libor (3m) + 1.7%		Libor (3m) + 1.5% – 1.7%	
	Federal Funds Rate + 1.6%		Federal Funds Rate + 1.6%	
	Fixed 5.11% – 9.4%	5,405	Fixed 5.7%	250
	Variable:	258,734	Variable:	159,905
Euro	Euribor (1m) + 1.6%		Euribor (1m) + 0.23% – 4.95%	
	Euribor (3m) + 2.75%		Euribor (3m) + 2.25 – 2.75%	
	Euribor (6m) + 0.23% – 2.4%		Euribor (6m) + 2.4% – 5%	
			Euribor (12m) + 0.23% – 4.95%	
Romanian Lei	Fixed 16%	411	Bubor (1m) + 0.75%	1,180
		3,169,893		**1,538,593**

Bank Loans

In the second half of 2008, the Group entered into short-term loans with Sberbank in the principal amount of 9,765 million roubles. As of December 31, 2008, the principle outstanding balance was 9,765 million roubles (332,364 at the exchange rate at December 31, 2008).

In October – November 2008, the Group entered into short-term loans with VTB in the principal amount of 7,000 million roubles. As of December 31, 2008, the principle outstanding balance was 7,000 million roubles (238,254 at the exchange rate at December 31, 2008).

Syndicated Bridge Loan Facility

On May 30, 2008, TMK entered into the IPSCO Bridge Facility Agreement for 1,200,000 to finance the acquisition of a 51% interest in NS Group Inc. and the 100% interest in IPSCO Tubulars Inc. (Note 10). ABN AMRO Bank N.V., Bank of Tokyo Mitsubishi UFJ, Ltd., Barclays Bank PLC, BNP Paribas (Suisse) S.A., ING Bank N.V., Natixis, Nomura International plc. and Sumitomo Mitsui Finance Dublin Limited are arrangers of the facility. The facility had a term of 12 months with a 3–month extension option thereafter, subject to agreement of all parties. The facility bore interest at a rate ranging between one–month LIBOR plus 1.5% and one–month LIBOR plus 2.85%, with the rate increasing during the lifetime of the facility. As described below, in July 2008 the Group partly refinanced this bridge facility using the proceeds from issuance of 600,000 10% Loan Participation Notes due in 2011. As of December 31, 2008, the principle outstanding balance was 600,000. The facility was fully repaid on January 28, 2009 using the proceeds from the loan provided by Gazprombank (Note 30).

Notes to the Consolidated Financial Statements (continued)

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23) Interest-Bearing Loans and Borrowings (continued)

Loan Participation Notes

On September 29, 2006, the Group issued 3,000 8.5% loan participation notes with a nominal value of 100,000 US dollars each, due September 2009. On July 25, 2008 the Group issued 6,000 10% loan participation notes with a nominal value of 100,000 US dollars each, due July 2011. The notes were issued by TMK Capital S.A. ("TMK Capital"), a Luxemburg special purpose vehicle, for the sole purpose of funding a loan to the Company. The notes have been admitted to trading on the London Stock Exchange. The terms of the notes provide for certain restrictions on the Company's ability to incur financial indebtedness, liens, to engage in assets sales, to engage in transactions with affiliates and to engage in mergers and similar transactions. The proceeds of the loan were used for partial repayment of the IPSCO Bridge Facility for the amount of 1.2 billion.

Bearer Coupon Debt Securities

On March 29, 2005, the Group issued 3,000,000 bonds with a nominal value of 1,000 Russian roubles (35.95 US dollars at the exchange rate as at the date of issuance) each, with eight coupons periods of 182 days each. The bonds matured on March 24, 2009. The annual interest rate was 7.6%. As at December 31, 2008, an aggregate of 3 billion Russian roubles (102,109 at the exchange rate as at December 31, 2008) remained outstanding under these bonds series. On March 24, 2009, the Group repaid its liability under these bonds using the proceeds from the loan provided by VTB (Note 30).

On February 21, 2006, the Group issued 5,000,000 bonds with a nominal value of 1,000 Russian roubles (35.53 US dollars at the exchange rate as at the date of issuance) each, with ten coupon periods of 182 days each. The maturity date is February 15, 2011. The interest rate for the first, second, third and fourth semi-annual coupons was 7.95% per annum. The interest rate for the fifth, sixth, seventh and eighth semi-annual coupons is 9.6% per annum. The annual interest rate for the ninth and tenth semi-annual coupon periods is to be established and announced by the Company on any date before the last 10 days of the ninth coupon period. As at December 31, 2008, an aggregate of 5.0 billion Russian roubles (170,184 at the exchange rate as at December 31, 2008) remained outstanding under these bonds series.

Liability to Raiffeisen Leasing

The liability to Raiffeisen Leasing relates to a lease contract between the Group and Raiffeisen Leasing. The contract was a part of a sale-leaseback transaction. Under the contract, the Group sold certain items of equipment to Raiffeisen Leasing and immediately leased them back. The substance of the transaction represented a borrowing by the Group from Raiffeisen Leasing and has been accounted for as such in the consolidated financial statements. As of December 31, 2008, the Group fully repaid liability under the lease contract.

Unamortised Debt Issue Costs

Unamortised debt issue costs represent agent commission and arrangement costs paid by the Group in relation to the arrangement of loans and issue of notes.

Unutilised Borrowing Facilities

As at December 31, 2008, the Group had unutilised borrowing facilities in the amount of 280,522 (December 31, 2007: 491,854).

Finance Lease Liabilities

Starting from 2001, the Group entered into lease agreements under which it has a bargain option to acquire the leased assets at the end of lease term ranging from 1 to 20 years. The estimated average remaining useful life of leased assets varies from 4 to 20 years.

The leases accounted for as finance leases in the consolidated financial statements. The carrying value of the leased assets was as follows as at December 31:

	2008	2007
Machinery and equipment	34,578	330
Transport and motor vehicles	863	883
	35,441	**1,213**

The leased assets are included in property, plant and equipment in the consolidated balance sheet (Note 18).

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows at December 31, 2008:

	Minimum payments	Present value of payments
2009	3,050	1,822
2010–2013	11,028	6,679
after 2013	40,205	32,290
Total minimum lease payments	**54,283**	**40,791**
Less amounts representing finance charges	(13,492)	
Present value of minimum lease payments	**40,791**	**40,791**

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows at December 31, 2007:

	Minimum payments	Present value of payments
2008	344	302
2009–2010	434	404
Total minimum lease payments	**778**	**706**
Less amounts representing finance charges	(72)	
Present value of minimum lease payments	**706**	**706**

In the years ended December 31, 2008 and December 31, 2007, the average interest rates under the finance lease liabilities were 3% and 4%, respectively.

24) Employee Benefit Liability

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. Defined benefits consist of lump-sum amounts payable at the retirement date and certain regular post-retirement payments. These benefits generally depend on years of

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

24) Employee Benefit Liability (continued)

service, level of compensation and amount of pension payment under the collective bargaining agreement. The Group pays the benefits when they fall due for payment.

The following table summaries the components of net benefit expense recognised in the consolidated income statement and amounts recognised in consolidated balance sheets by country:

	Russia		Romania		Total	
	2008	2007	2008	2007	2008	2007
Movement in the benefit liability:						
At January 1	(22,216)	(19,731)	(1,931)	(1,318)	(24,147)	(21,049)
Benefit expense	(365)	(1,204)	53	(615)	(312)	(1,819)
Benefit paid	1,568	1,179	119	92	1,687	1,271
Change in liability due to business combinations	–	(957)	–	–	–	(957)
Currency translation adjustment	3,470	(1,502)	246	(90)	3,716	(1,592)
At December 31	**(17,543)**	**(22,215)**	**(1,513)**	**(1,931)**	**(19,056)**	**(24,146)**
Short-term	**(1,869)**	**(2,284)**	**–**	**–**	**(1,869)**	**(2,284)**
Long-term	**(15,674)**	**(19,931)**	**(1,513)**	**(1,931)**	**(17,187)**	**(21,862)**
Net benefit expense (recognised in cost of sales, general and administrative expenses and selling and distribution expenses):						
Current service cost	1,127	932	250	285	1,377	1,217
Interest cost on benefit obligation	967	1,828	168	99	1,135	1,927
Net actuarial (gain) loss recognised in the period	(1,913)	(1,764)	(471)	231	(2,384)	(1,533)
Past service cost	184	208	–	–	184	208
Net benefit expense / (income)	**365**	**1,204**	**(53)**	**615**	**312**	**1,819**

The Group expects to contribute 1,892 to its defined post-employment benefit programme in 2009

	2008	2007
Present value of defined benefit obligation	21,317	27,467
Unrecognised past service cost	(2,261)	(3,321)
Benefit liability as at December 31	**19,056**	**24,146**

The Group had no plan assets and unrecognised actuarial gains or losses in the year ended December 31, 2008.

The following table is a summary of the present value of the benefit obligation and experience adjustments as at December 31:

	2008	2007
Defined benefit obligation as at December 31	**21,317**	**27,467**
Experience adjustments on plan liabilities	954	(1,639)

The principal actuarial assumptions used in determining pension obligations for the Group's plan are shown below:

	Russia		Romania	
	2008	2007	2008	2007
Discount rate	8.85%	7.75%	current 9.51%, decreasing to 3.53% in the long-term	current 6.7%, decreasing to 3.53% in the long-term
Average long-term rate of compensation increase	6.25%	6.25%	current 6.0%, decreasing to 2.0% in the long-term	current 14.0%, decreasing to 2.0% in the long-term

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

25) Principal Subsidiaries

Company	Location	Main activity	Actual ownership interest	Effective ownership interest	Actual ownership interest	Effective ownership interest
			December 31, 2008		December 31, 2007	
IPSCO Tubulas Inc.	USA	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	100.00%	0%	0%
NS Group Inc. *	USA	Manufacturing of seamless steel pipes, welded steel pipes and other products	51.00%	51.00%	0%	0%
OAO “Sinarsky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, sale of electric and heating power and other services	92.95%	92.95%	92.68%	92.68%
OAO “Seversky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of electric and heating power and other services	93.53%	93.53%	93.29%	93.29%
OAO “Volzhsky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	100.00%	100.00%	100.00%
OAO “Taganrog Metallurgical Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of steel ingots and other products	95.94%	95.94%	95.94%	100.00%
OAO “Orsky Machine Building Plant”	Russia	Manufacturing of drilling locks and other products	75.00%	75.00%	75.00%	75.00%
ZAO “Trade House TMK”	Russia	Sales & Distrubution, pipes	100.00%	99.92%	100.00%	99.92%
OOO “Skladskoy Kompleks TMK”	Russia	Sales & Distrubution, pipes	100.00%	100.00%	100.00%	100.00%
TOO “TMK-Kazakhstan”	Kazakhstan	Sales & Distribution, pipes	100.00%	100.00%	100.00%	100.00%
TOO Kaztrubprom	Kazakhstan	Manufacturing of seamless steel pipes and other products	100.00%	100.00%	0%	0%
OOO “TMK-Trans”	Russia	Logistics	100.00%	100.00%	100.00%	100.00%
OOO “Blagoustroystvo”	Russia	Services	100.00%	99.99%	100.00%	99.99%
OOO “Sinarsky Trubnik”	Russia	Services	100.00%	100.00%	100.00%	100.00%
OOO “SinaraTransAvto”	Russia	Services	100.00%	100.00%	100.00%	100.00%
OOO “Sinaraproekt”	Russia	Services	100.00%	100.00%	100.00%	100.00%
TMK Global AG	Switzerland	Sales & Distribution, pipes	100.00%	100.00%	100.00%	100.00%
TMK North America Inc.	USA	Sales & Distribution, pipes	100.00%	100.00%	100.00%	100.00%
TMK Italia s.r.l.	Italy	Sales & Distribution, pipes	100.00%	100.00%	100.00%	100.00%
TMK Middle East FZCO	UAE	Sales & Distribution, pipes	100.00%	100.00%	100.00%	100.00%
OOO Pokrovka 40	Russia	Assets holding	100.00%	100.00%	100.00%	100.00%
TMK Europe GmbH	Germany	Sales & Distribution of pipes, raw materials and equipment procurement	100.00%	100.00%	100.00%	100.00%
SC TMK-ARTROM SA	Romania	Manufacturing of seamless steel pipes	80.56%	80.56%	80.56%	80.56%
SC TMK-RESITA SA	Romania	Manufacturing of billets and other pipe-related goods	99.49%	99.49%	99.49%	99.49%
WRJ INWESTYCJE SP Z O.O.	Poland	Investment company	100.00%	100.00%	100.00%	100.00%
TMK Capital S.A. (till 15 January 2007)	Luxembourg	Financing (SPV)	0.00%	0.00%	0.00%	0.00%
Joint-Stock Company “Russian Research Institute of the Tube and Pipe Industries”	Russia	In-house R&D facility	97.36%	97.36%	97.36%	100%
OOO “Predpriyatiye “Truboplast”	Russia	Pipe coating	100.00%	100.00%	100.00%	100.00%
ZAO “Pipe Repair Department”	Russia	Services for oil and gas industries	100.00%	100.00%	100.00%	100.00%
OOO “TMK-Premium Services”	Russia	Sales & Distribution, premium pipes	100.00%	100.00%	100.00%	100.00%
OOO “Central Pipe Yard”	Russia	Services for oil and gas industries	100.00%	100.00%	100.00%	100.00%
OOO “ Accounting services center”	Russia	Accounting shared-services	100.00%	100.00%	100.00%	100.00%
Rockarrow Investments Limited	Cyprus	Stock option program servicing	100.00%	100.00%	100.00%	100.00%
ZAO “TMK-CPW” **	Russia	Manufacturing of seamless steel pipes, welded steel pipes and other products	54.00%	50.51%	51.00%	47.58%
OOO TMK –SMS Metallurgical Service	Russia	Maintenance and repair of equipment	51.00%	47.58%	51.00%	47.58%

* The Group recorded a liability under that put/call option in the consolidated financial statements
** The Group recorded a liability under that put option in the consolidated financial statements

Actual ownership interest in subsidiaries differs from the effective ownership interests due to the existence of minority interests in subsidiaries that hold ownership interest in other subsidiaries.

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

26) Related Parties Disclosures

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties. In 2007 and 2008 transactions with related parties were on arm length basis.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2008 and 2007 are detailed below.

In the year ended December 31, 2008, transactions with related parties constituted approximately 0.2 % of the total volume of the Group's sales of goods (2007: 0.5 %).

The following table provides outstanding balances with related parties at the year-end:

	2008	2007
Cash and cash equivalents	6,062	41,335
Accounts receivable – current	9,407	17,630
Prepayments – current	2	2
Accounts receivable – non-current	68	221
Accounts payable – current	(4,859)	(14,924)
Accounts payable – non-current	–	(5)
Interest payable	(131)	–

The following table provides the total amount of transactions with related parties for the years ended December 31:

	2008	2007
Sales revenue	13,628	22,293
Purchases of goods and services	8,283	3,750
Interest income from loans and borrowings	841	2,013
Interest expenses from loans and borrowings	155	61
Loss on sale of treasury shares to management	15	–

Sales revenues to related parties relate principally to sales of heat and power energy to Kamenskaya Kommunalnaya Kompaniya.

The Group paid dividends to the Parent company in the amount of 163,861 in 2008.

In addition to transactions with related parties disclosed in this note, other transactions with related parties are disclosed in Notes 10 and 28.

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 30 persons as at December 31, 2008 and 33 persons as at December 31, 2007. Total compensation to key management personnel included in general and administrative expenses in the income statement amounted to 22,875 for the year ended December 31, 2008 (2007: 29,636), including 4,452 of share-based payments (2007: 5,005).

Compensation to key management personnel consists of contractual salary, performance bonus depending on operating results, share-based payments.

The Group guaranteed debts of key management personnel outstanding as at December 31, 2008 in the amount of 3,826 with maturity in 2009–2014.

27) 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.

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

The volatile global economic climate is having significant negative effects on the Group's business in Russia and North America.

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.

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

27) Contingencies and Commitments (continued)
Taxation (continued)

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 2007 and 2008, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 827,852 thousand Russian roubles (28,177 at the exchange rate as at December 31, 2008). The Group accepted the claims for the amount of 58,640 thousand Russian roubles (1,996 at the exchange rate as at December 31, 2008), of which 28,424 thousand Russian roubles and 30,216 were accrued as of December 31, 2007 and 2008, respectively. Other claims totaling to 769,212 thousand Russian roubles (26,181 at the exchange rate as at December 31, 2008) have been contested by the Group in the courts.

At the date these financial statements have been authorised for issue, the courts made decisions in favor of the Group for the total amount of 373,573 thousand Russian roubles (12,715 at the exchange rate as at December 31, 2008). The remaining claims for 395,639 thousand Russian roubles (13,466 at the exchange rate as at December 31, 2008) are continued to be contested in the courts. Management believes that the Group's position is justified and it is not probable that the ultimate outcome of these matters will result in additional losses for the Group. Therefore, the amounts of tax claims being contested by the Group were not accrued in the consolidated financial statements for the year ended December 31, 2008.

Contractual Commitments and Guarantees

As at December 31, 2008, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 4,149,665 thousand Russian roubles (141,239 at the exchange rate as at December 31, 2008), 227,167 thousand euros (320,419 at the exchange rate as at December 31, 2008), 5,991 Romanian lei (2,143 at the exchange rate as at December 31, 2008) and 2,308 thousand US dollars for the total amount of 466,110 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 52,179 with respect to such commitments (2007: 285,852).

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 154,556 (2007: 285,852).

Insurance Policies

For Russian subsidiaries 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 Claims

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

Guarantees of Debts of Others

The Group has guaranteed debts of others outstanding at December 31, 2008 in the amount of 6,219 (2007: 4,889).

28) Equity

i) Share Capital

As at December 31, 2008, the authorised number of ordinary shares of the Company was 873,001,000 (2007: 873,001,000) with a nominal value per share of 10 Russian roubles. All these shares are issued and fully paid.

ii) Reserve Capital

According to Russian Law, the Company must create a reserve capital in the amount of 5% of the share capital per the Russian statutory accounts by annual appropriations that should be at least 5% of the annual net profit per the statutory financial statements. The reserve capital can be used only for covering losses and for the redemption of the Company's bonds and purchase of its own shares if there are no other sources of financing.

iii) Dividends

In July 2007, the Company declared dividends in respect of 2006 in the amount of 3,753,904 thousand Russian roubles (145,624 at the exchange rate at the announcement date) or 4.3 Russian roubles per share (0.17 US dollars per share). In December 2007, the Company declared interim dividends in respect of 2007 in the amount of 3,168,994 thousand Russian roubles (128,140 at the exchange rate at the announcement date) or 3.63 roubles per share (0.15 US dollars per share) from which 3,759 thousand Russian roubles (152 at the exchange rate at the transaction date) related to treasury shares in possession of the Group as at the date of dividends declaration.

	in thousands of Russian roubles		in thousands of US dollars*	
	2008	2007	2008	2007
Declared during the year dividends on ordinary shares:				
Final dividends for 2006, (4.3 RUR per share) or (0.17 US dollars per share)	–	3,753,904	–	145,624
Interim dividends for 2007,	–	3,168,994	–	128,140
including dividends related to treasury shares in possession of the Group (3.63 RUR per share) or (0.15 US dollars per share)	–	(3,759)	–	(152)
Final dividends for 2007,	899,191	–	38,224	–
including dividends related to treasury shares in possession of the Group (1.03 RUR per share) or (0.044 US dollars per share)	(1,819)	–	(77)	–
Interim dividends for 2008,	1,527,752	–	56,660	–
including dividends related to treasury shares in possession of the Group (1.75 RUR per share) or (0.065 US dollars per share)	(5,871)	–	(218)	–
	2,419,253	**6,919,139**	**94,589**	**273,612**

*using exchange rate at the announcement date

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In June 2008, the Company declared a final dividend in respect of 2007 in the amount of 899,191 thousand Russian roubles (38,224 at the exchange rate at the announcement date) or 1.03 Russian roubles per share (0.044 US dollars per share), from which 1,819 thousand Russian roubles (77 at the exchange rate at the transaction date) related to the treasury shares in possession of the Group as at the date of dividends declaration.

In November 2008, the Company declared an interim dividend in respect of 2008 in the amount of 1,527,752 thousand Russian roubles (56,660 at the exchange rate at the announcement date) or 1.75 Russian roubles per share (0.065 US dollars per share), from which 5,871 thousand Russian roubles (218 at the exchange rate at the transaction date) related to the treasury shares in possession of the Group as at the date of dividends declaration.

In accordance with Russian legislation, dividends may only be declared to the shareholders from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. The Company had 480,743 and 1,007,906 of undistributed and unreserved earnings recognised in Russian statutory financial statements as at December 31, 2008 and 2007, respectively. In addition, the Group's share in the undistributed and unreserved earnings of its subsidiaries was 1,905,095 and 2,403,231 as at December 31, 2008 and 2007, respectively.

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

On August 29, 2007, the Group signed an agreement on the purchase of 100% ownership interest in OOO "Predpriatie "Truboplast" for 23,986 from entities under common control with the Group. The difference of 6,834 between the acquisition value for entities under common control and the amount paid by Group was included in distributions to owners as a reduction in additional paid-in capital in the consolidated financial statements (Note 10).

v) Acquisition of Minority Interests in Subsidiaries

In the year ended December 31, 2008, the Company purchased additional 0.24% of OAO "Seversky Pipe Plant" shares, 0.27% of OAO "Sinarsky Pipe Plant" shares. The total cash consideration for the shares amounted to 2,547. The excess in the amount of 191 of the consideration given for the shares over the carrying values of net assets attributable to interest in OAO "Seversky Pipe Plant" was charged to accumulative profit. The excess in the amount of 178 of the carrying values of net assets attributable to interest in OAO "Sinarsky Pipe Plant over the consideration paid for such minority interest is recorded in additional paid-in capital.

In the year ended December 31, 2007, the Company purchased additional 0.32% of OAO "Seversky Pipe Plant" shares, 0.25% of OAO "Sinarsky Pipe Plant" shares and 21.02% of OAO "RosNITI". The total cash consideration for the shares amounted to 4,955. The excess in the amount of 1,675 of the consideration given for the shares over the carrying values of net assets attributable to interest in the subsidiary acquired was charged to accumulated profits. The excess in the amount of 531 of the carrying values of net assets attributable to interest in ROSNITI over the consideration paid for such minority interest is recorded in additional paid-in capital.

vi) 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 4,752 and 117 in the consolidated financial statements for the years ended December 31, 2008 and 2007, respectively.

vii) Minority Put Options

In 2006, new regulations were introduced in the Russian Federation in respect of joint stock companies in which a controlling shareholder owns not less than 95% of the share capital as at July 1, 2006. These amendments oblige a controlling shareholder to acquire the company's shares in the case when the minority shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can initiate a forced disposal of the shares held by minority shareholders. The put and call options under this legislation expired in August 1, 2008.

On July 1, 2006, the Group had a 95.74% ownership interest in OAO "Taganrog Metallurgical Plant". At this date, the Group derecognised minority interests of 14,443 and accrued a liability to minority shareholders for 27,106. The liability was measured based on the highest purchase price of these shares by the Group. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounted to 12,663 for year 2006.

In the year ended December 31, 2007, the Company purchased additional 0.2% of OAO "Taganrog Metallurgical Plant" shares for 1,298 and recorded a decrease in the liability under put options by that amount.

On August 1, 2008, after expiration of minority puts, the Group recognised minority interests in OAO "Taganrog Metallurgical Plant" for 21,443 and de-recognised liability for 20,077. The excess of the amount of the recognised minority interests over the carrying value of the liability amounted to 1,366 and was charged to retained earnings.

At July 2, 2007, the Group had a 95.11% ownership interest in OAO "RosNITI". At this date, the Group derecognised minority interests of 389 and accrued a liability to minority shareholders for 389.

As at August 1, 2008 the Group recognised minority interests in OAO "RosNITI" for 200 and de-recognised a liability to minority shareholders for 200.

In 2007, the Group established ZAO TMK-CPW, a new subsidiary with 51% ownership. Under the shareholders' agreement, the minority shareholder in TMK-CPW owning 49% shares in the subsidiary has a put option to sell its shares to the Group under certain circumstances beyond the Group's control. The Group recorded a liability under that put option in the consolidated financial statements. The excess of that liability over the fair value of assets contributed by the minority shareholder in the capital of TMK-CPW of 536 was charged to retained earnings in the consolidated financial statements of the Group for the year ended December 31, 2007.

In 2008 the share capital of the subsidiary was reduced to the actually paid amount of 714,601,000 Russian roubles. The decision was made by the Shareholder's meeting as at September 30, 2008. The ownership of the Group amounted to 54%. Under the shareholders' agreement, the minority shareholder in TMK-CPW owning 46% (2007: 49%) shares in the subsidiary had a put option to sell its shares to the Group under certain circumstances beyond the Group's control. The Group recorded a liability under that put option in the consolidated financial statements.

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

28) Equity (continued)

viii) Share-Based Payments

On March 2, 2007, the Group adopted a share options programme (the "Programme"). Under the Programme, the members of the Board of Directors, senior executives and certain employees (the "Participants") are granted options to acquire shares in the Company. The Programme provides for the grants of options to acquire up to 9,603,011 shares, representing 1.1% of the Company's shares outstanding as at December 31, 2006. All the options were granted to the Participants in March 2007.

The options are exercisable in three phases in June 2007, June 2008 and June 2009, representing 25%, 35% and 40%, respectively, of the total amount of shares subject to the Programme.

The exercise price for options under the first phase was fixed at 217.6 Russian roubles per share (7.41 US dollars per share at the exchange rate as at December 31, 2008). The exercise price for options under the second phase was fixed at 226.68 Russian roubles per share (7.72 US dollars per share at the exchange rate as at December 31, 2008). The exercise price for options under the third phase was fixed at 228.60 Russian roubles per share (7.78 US dollars per share at the exchange rate as at December 31, 2008).

The weighted average fair value of options granted during 2007 was 1.32 US dollars per share. The fair value of the options granted is estimated at the date of grant using the Black Scholes pricing model, taking into account the terms and conditions upon which options were granted. The fair value of options granted during the year ended December 31, 2007 was estimated on the date of grant using the following assumptions:

Dividend yield (%)	1.62–2.07
Expected volatility (%)	14.54
Risk-free interest rate (%)	4.62–4.93
Expected life (years)	0.58–2.59
Share price on the date of grant (US dollars)	7.78

The historical volatility has been used for valuation of the share options granted in 2007. The expected volatility reflected the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The following table illustrates the number and weighted average exercise prices (WAEP) of share options during the year:

	2008		2007	
	Number of shares	WAEP	Number of shares	WAEP
Outstanding as at January 1	7,202,258	9.40	–	–
Granted during the year	–	–	9,603,011	8.70
Excercised during the year	–	–	(1,873,457)	8.56
Expired during the year	(3,361,054)	8.93	(527,296)	8.72
Outstanding as at December 31	3,841,204	7.78	7,202,258	9.40
Excercisable as at December 31	–	–	–	–

The weighted average share price at the dates of exercise of these options was 10.07 US dollars in 2007.

The weighted average remaining contractual life for the share options outstanding as at December 31, 2008 was 0.75 year.

ix) Purchase of the Company's Shares for the Purpose of Realisation of the Share Options Programme

	2008		2007	
	Number of shares	Cost	Number of shares	Cost
Outstanding as at January 1	1,081,967	10,752	–	–
Purchased during the year	6,089,182	27,110	2,425,631	22,433
Sold during the year	(4,100)	(35)	(1,873,457)	(17,674)
Purchased back from the Programme participants	–	–	529,793	5,993
Outstanding as at December 31, 2008	7,167,049	37,827	1,081,967	10,752

In the year ended 31 December, 2008, the Group purchased 6,089,182 shares of the Company of the total amount of 27,110 (at the exchange rates at the transaction dates), including 3,050 shares purchased from an entity under common control with the Group for 35. The Group purchased back from the Programme participants 43,532 shares of the Company for the amount of 383. There were no sales of shares to the Programme participants in 2008.

In the year ended December 31, 2007, the Group purchased 2,425,631 shares of the Company for the total amount of 22,433 (at the exchange rate at the transaction date), including 571,631 shares purchased from the entity under common control with the Group for 5,151, for the purpose of realisation of the Programme. Cost of 1,873,457 shares sold to the Programme participants comprised 17,674. The excess of the purchase cost of treasury shares over the proceeds from their sale amounting to 1,631 was charged to additional paid-in capital. The Group purchased back from the Programme participants 529,793 shares of the Company for the amount of 5,993.

x) Warrants

On March 5, 2008, the Group purchased 1,200,000 warrants for the total amount of 5,590. Each warrant grants the Group a right to acquire the Company's shares at a strike price of 4.51 US dollars. The warrants become exercisable and expire on October 10, 2009.

xi) Hedge in Net Investment in Foreign Operations

The Group hedged its net investment in operations located in the United States against foreign currency risk as at December 31, 2008 using US dollar denominated liabilities under bridge loan facility of 600,000, loan participation notes of 600,000 issued on July 25, 2008 and put option of 510,625 (Note 10). The aim of the hedging was to eliminate foreign currency risk associated with the repayment of the liabilities resulting from changes in US dollar/ Russian rouble spot rates.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar/Russian rouble spot rates on the hedging instrument and on the hedged item. In the year ended December 31, 2008, the effective portion of net losses from spot rate changes of the above mentioned liabilities of 8,391,090 thousand roubles (328,340 at historical exchange rate), net of income tax benefit

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for the year ended December 31, 2008 (All amounts in thousands of US dollars)

of 1,369,226 thousand roubles (approximately 53,577 at historical exchange rate), was recognised directly in equity (foreign currency translation reserve).

29) Financial Risk Management Objectives and Policies

The Group's principal financial liabilities comprise bank loans, bonds issued, trade payables, liabilities under put options of minority shareholders in subsidiaries and finance leases. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The presented information shows susceptibility of the Group concerning each of these risks. The Board of Directors reviews and establishes policies for managing each of these risks which are summarised below.

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of its financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on the risk.

Interest Rate Risk

Changes in interest rates affect the market value of financial assets and liabilities of the Group and level of finance charges. Group's interest rate risk management policy is to minimise risk with the aim to achieve financial structure objectives defined and approved in the management's plans. Borrowing requirements of the Group's companies are pooled by the Group's central finance department in order to manage net positions and the funding of portfolio developments consistently with management's plans while maintaining a level of risk exposure within prescribed limits.

The Group borrows on both a fixed and variable rate basis. EURIBOR and LIBOR served as the basis for the calculation of interest rates on loans with variable rate. As these loans accounted for only 28% of the total loan portfolio at the end of 2008 (19% at the end of 2007), the Group considers such risks as not significant and is not using instruments to hedge such interest-rate risks at present. Nevertheless, the Group monitors interest rates and will use instruments to hedge such risk as necessary.

The Group does not have any financial assets with variable interest rate.

The following table demonstrates the sensitivity to reasonably possible changes in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Basis points	Effect on profit before tax
As at 31 December 2008		
Increase in LIBOR	55	(3481)
Decrease in LIBOR	(55)	3481
Increase EURIBOR	30	(776)
Decrease EURIBOR	(30)	776
As at 31 December 2007		
Increase in LIBOR	50	(655)
Decrease in LIBOR	(125)	1637
Increase EURIBOR	75	(1206)
Decrease EURIBOR	(150)	2412

Foreign Currency Risk

The Group is exposed to currency risk on sales and purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily denominated are euro and US dollars.

The Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk. In recent years the effect of the Russian rouble appreciation versus the US dollar has been more than offset by increased prices for the Group's tubular goods, both domestically and internationally. However, from the end of 2008 the Russian rouble was devaluated due to major circumstances.

As there can be no assurance that such a trend will continue in the future, the Group is considering the use of derivative instruments, including forward contracts and currency swaps, to manage its foreign exchange risks with respect to currency fluctuations of the US dollar versus the Russian rouble. The Group can provide no assurance, however, that such instruments will be available to the Group or that the use of such instruments will mitigate the Group's currency exposures.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows as at December 31:

	2008			2007		
	Resulting exchange differences reflected in:			**Resulting exchange differences reflected in:**		
	Income statement	**Equity**	**Total**	**Income statement**	**Equity**	**Total**
USD/RUR	(182,743)	(1,710,625)	(1,893,368)	(315,391)	–	(315,391)
EUR/RUR	(259,737)	–	(259,737)	(54,521)	–	(54,521)
EUR/USD	24,247	–	24,247	(40,988)	–	(40,988)
USD/RON	(133,809)	–	(133,809)	(106,859)	–	(106,859)
EUR/RON	(66,892)	–	(66,892)	(91,791)	–	(91,791)

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

29) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax and equity. In estimating reasonably possible changes for 2007 the Group assessed the volatility of foreign exchange rates during the three years preceding the balance sheet dates. In 2008, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during 2008.

	As at December 31, 2008					
	Volatility range		Effect on income statement		Effect on equity	
	Low	High	Low	High	Low	High
USD/RUR	9.02%	–9.02%	(16,483)	16,483	(154,298)	154,298
EUR/RUR	8.67%	–8.67%	(22,519)	22,519	–	–
EUR/USD	14.32%	–14.32%	3,472	(3,472)	–	–
USD/RON	19.50%	–19.50%	(26,093)	26,093	–	–
EUR/RON	11.35%	–11.35%	(7,592)	7,592	–	–

	As at December 31, 2007					
	Volatility range		Effect on income statement		Effect on equity	
	Low	High	Low	High	Low	High
USD/RUR	4.20%	–5.80%	(13,246)	18,293	–	–
EUR/RUR	3.25%	–5.45%	(1,772)	2,971	–	–
EUR/USD	7.35%	–7.35%	(3,013)	3,013	–	–
USD/RON	11.02%	–11.02%	(11,776)	11,776	–	–
EUR/RON	8.00%	–8.00%	(7,343)	7,343	–	–

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by targeting an optimal ratio between equity and total debt consistent with management plans and business objectives. This enables the Group to maintain an appropriate level of liquidity and financial capacity as to minimise borrowing expenses and to achieve an optimal profile of composition and duration of indebtedness. The Group has access to a wide range of funding at competitive rates through the capital markets and banks and coordinates relationships with banks centrally. At present, the Group believes it has access to sufficient funding and has also both committed and uncommitted borrowing facilities to meet currently foreseeable borrowing requirements.

Effective management of the liquidity risk has the objective of ensuring both availability of adequate funding to meet short-term requirements and due obligations, and a sufficient level of flexibility in order to fund the development plans of the Group's business, maintaining an adequate finance structure in terms of debt composition and maturity. This implies the adoption of a strategy for pursuing an adequate structure of borrowing facilities (particularly availability of committed borrowings facilities) and the maintenance of cash reserves.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments:

As at 31 December 2008	Less than 3 months	3 to 12 month	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	535,996	202,537	–	–	–	–	**738,533**
Accounts payable to related parties	1,427	3,432	–	–	–	–	**4,859**
Interest-bearing loans and borrowings:							
Principal	458,603	1,714,350	82,337	820,778	46,549	54,834	**3,177,451**
Interest	101,004	113,997	85,553	73,017	2,818	9,460	**385,849**
Dividends payable	248	113	–	–	–	–	**361**
Liabilities under put options of minority shareholders in subsidiaries	552,989	–	–	–	–	–	**552,989**
Other non-current liabilities	–	–	2,966	67	4	–	**3,037**
Income Tax payable	39,823	–	–	–	–	–	**39,823**
	1,690,090	**2,034,429**	**170,856**	**893,862**	**49,371**	**64,294**	**4,902,902**

As at 31 December 2007	Less than 3 months	3 to 12 month	1 to 2 years	2 to 3 years	3 to 4 years	> 4 years	Total
Trade and other payables	251,774	43,403	–	–	–	–	**295,177**
Accounts payable to related parties	14,924	–	–	–	–	–	**14,924**
Interest-bearing loans and borrowings:							**–**
Principal	477,939	539,138	447,675	39,532	9,303	14,945	**1,528,532**
Interest	39,925	46,039	55,853	24,822	12,239	7,111	**185,989**
Dividends payable	129,116	–	–	–	–	–	**129,116**
Liabilities under put options of minority shareholders in subsidiaries	39,481	–	–	–	–	–	**39,481**
Other non-current liabilities	–	1,535	2,829	2,829	2,829	46,671	**56,693**
Income Tax payable	4,059	–	–	–	–	–	**4,059**
	957,218	**630,115**	**506,357**	**67,183**	**24,371**	**68,727**	**2,253,971**

Credit Risk

Credit risk is the potential exposure of the Group to losses that would be recognised if counterparties failed to perform or failed to pay amounts due. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

The credit risk arising from the Group's normal commercial operations is controlled by each operating unit within Group-approved procedures for evaluating the reliability and solvency of each counterparty, including receivable collection. The monitoring activity of credit risk exposure is performed at the Group level according to set guidelines and measurement techniques to qualify and monitor counterparty risk.

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

29) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The Group sells goods to some of the biggest Russian and international companies on credit terms. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

As at December 31, 2008, accounts receivable from the three biggest debtors of the Group amounted to 153,092. As at December 31, 2007, accounts receivable from the three biggest debtors of the Group amounted to 249,440. Management determines concentration by reference to receivables from particular customers as percentage of total accounts receivable.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below:

	2008	2007
Cash and cash equivalents	143,393	89,045
Financial investments	3,885	116
Trade and other receivables	751,715	523,787
Accounts receivable from related parties	9,475	17,853
Other	8,851	6,603
	917,319	**637,404**

The ageing analysis of trade and other receivables, accounts receivable from related parties and other financial assets is presented in the table below:

	2008		2007	
	Gross amount	Impairment	Gross amount	Impairment
Current Trade and other receivables – not past due	575,467	(20)	466,398	–
	–	–	–	–
Current Trade and other receivables – past due	–	–	–	–
less then 30 days	66,300	(82)	31,671	–
between 30 and 90 days	98,010	(2,855)	15,150	–
over 90 days	25,034	(10,163)	19,772	(9,466)
Accounts receivable from related parties – not past due	9,475	–	17,853	–
Non-current Trade and other receivables – not past due	36	(12)	428	(166)
Other – not past due	8,851	–	6,603	–
	783,173	**(13,132)**	**557,875**	**(9,632)**

The movement in allowance for doubtful accounts was as follows:

	2008	2007
Balance at the beginning of the year	9,632	9,738
Utilized during the year	(1,565)	(1,029)
Additional (decrease) increase in allowance	7,212	(1,125)
Currency translation adjustment	(2,147)	2,048
Balance at the end of the year	**13,132**	**9,632**

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators.

Capital includes equity attributable to the equity holders of the parent entity.

The Group manages its capital structure and adjusts it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, such as cash and cash equivalents, short-term and long-term investments and short-term accounts receivable approximate their fair value.

The following table shows financial instruments with carrying amounts differ from fair values:

	31 December 2008		31 December 2007	
	Net carrying amount	Fair Value	Net carrying amount	Fair Value
Financial Liabilities				
Fixed rate bank loans	1,039,956	1,012,526	614,388	614,388
Variable rate bank loans	924,445	853,353	306,403	306,403
Bonds due 2009	102,109	102,109	104,043	104,053
Bonds due 2011	170,181	144,229	203,698	203,962
8.5 per cent loan participation notes due 2009	300,000	235,500	300,000	305,616
10 per cent loan participation notes due 2011	600,000	324,000	–	–

The fair value of the bonds and notes was determined based on market quotations. The fair value of fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at prevailing interest rates of 17.5%, 15% and 14% per annum for loans denominated in Russian rouble, US dollar and Euro, respectively, as at December 31, 2008.

30) Events after the Balance Sheet Date

From December 31, 2008 to the date these financial statements have been authorised for issue, the Group has refinanced 1,387,499 of its short-term borrowings and obligations with facilities due not earlier than 2010:

- in January 2009, the Group entered into agreement with Gazprombank for 2.5 year term borrowing facilities of 1,107,542 to refinance the remaining part of the IPSCO Bridge Facility and acquire 49% of NS Group Inc. from Evraz in accordance with a call/put option concluded between TMK and Evraz in June 2008;

Notes to the Consolidated Financial Statements (continued)

for the year ended December 31, 2008 (All amounts in thousands of US dollars)

30) Events after the Balance Sheet Date (continued)

- in March 2009, TMK entered into one year loan agreement with VTB for 90,185. Using these proceeds, on March 24, 2009, the bearer coupon debt securities for the amount of 3,000,000 thousand Russian Roubles (102,109 at the exchange rate as of December 31, 2008) were redeemed;

- in January-March 2009 the Group refinanced other short-term loans for the total amount of 177,848.

On January 22, 2009, the Group and Evraz amended the option agreement to reduce the option price from 510,625 to 507,542. In addition, interest clause was removed from the option agreement. On January 30, 2009, TMK exercised its option for a 49% ownership interest in NS Group.

In the beginning of 2009, the Russian Rouble was devalued to major currencies. At the date these financial statements have been authorised for issue, the official exchange rate of the Russian Rouble to US Dollar as set by the Central Bank of Russia comprised 33.5533, which constitutes a 14.2% reduction in the value of the Russian Rouble to the US Dollar since 31 December 2008.

Major Transactions and Interested Party Transactions Undertaken by OAO TMK in 2008

Large Transactions

(Approved by the Board of Directors of OAO TMK)

	Parties to the Transactions	Subject of the Transaction and Essential Conditions
1	Arrangers – ABN AMRO Bank N.V., the Bank of Tokyo – Mitsubishi UFJ, Ltd., Barclays Capital, BNPP (Suisse) S.A.ING Bank N.V., Natixis, Nomura International plc, Sumitomo Mitsui Finance Dublin Limited; Original creditors – ABN AMRO Bank N.V.BTMU (Europe) Limited, Barclays Bank PLC, ING Bank N.V., Natixis, Natixis Bank (CJSC), Sumitomo Mitsui Finance Dublin Limited, BNP Paribas CJSC, Nomura International PLC, UBS (Luxembourg) S.A., Reachcom Public Limited; Borrower – OAO TMK	The raising of a bridge loan against the guarantee of OAO TMK subsidiaries. Amount of the transaction: USD 1,298,957,583. Credit period: 1 year to 30.05.2009 with the opportunity to extend for 3 months.
2	Evraz Group, S.A. and OAO TMK	Contract to repurchase 100% of the ordinary shares of IPSCO Tubulars, Inc. and 51% of the ordinary shares of NS Group, Inc. Amount of the transaction: USD 1.2 billion.
3	Creditor – TMK Capital S.A. Borrower – OAO TMK	The raising of a loan financed by funds from the issue and floatation of Eurobonds by TMK Capital S.A Amount of the transaction: USD 786.1 million.

Interested Party Transactions

(The first transaction is approved by the General Meeting of Shareholders of OAO TMK, the others by the Board of Directors of OAO TMK)

No.	Parties to the Transactions	Subject of the Transaction and Essential Conditions	Interested Parties
1	Guarantor – OAO TMK; Creditor – Bank Societe Generale; Borrower – OAO STZ.	The Guarantor shall undertake to the Creditor to be liable for the Borrower's execution of his obligations to the Creditor	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of OAO TMK: D.A. Pumpyanskiy, A.Y. Kaplunov, members of the Executive Board of OAO TMK: K.A. Semerikov, T.I. Petrosyan, A.S. Degay
2	Borrower – OAO TMK; Lender – OAO VTZ.	The Lender shall transfer money into ownership of the Borrower, and the Borrower undertakes to repay the loan	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of OAO TMK: D.A. Pumpyanskiy, A.Y. Kaplunov, members of the Executive Board of OAO TMK: K.A. Semerikov, T.I. Petrosyan, E.E. Blagova, A.G. Lyalkov
3	Borrower – OAO TMK; Lender – OAO TAGMET.	The Lender shall transfer money into ownership of the Borrower, and the Borrower undertakes to repay the loan	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of OAO TMK: D.A. Pumpyanskiy, A.Y. Kaplunov, members of the Executive Board of OAO TMK: K.A. Semerikov, T.I. Petrosyan, N.I. Fartushny
4	Borrower – OAO TMK; Lender – OAO SinTZ.	The Lender shall transfer money into ownership of the Borrower, and the Borrower undertakes to repay the loan	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of OAO TMK: D.A. Pumpyanskiy, A.Y. Kaplunov, members of the Executive Board of OAO TMK: K.A. Semerikov, T.I. Petrosyan, A.I. Brizhan
5	Borrower – OAO TMK; Lender – OAO STZ.	The Lender shall transfer money into ownership of the Borrower, and the Borrower undertakes to repay the loan	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of OAO TMK: D.A. Pumpyanskiy, A.Y. Kaplunov, members of the Executive Board of OAO TMK: K.A. Semerikov, T.I. Petrosyan, A.S. Degay

No.	Parties to the Transactions	Subject of the Transaction and Essential Conditions	Interested Parties
6	Lessor – Pokrovka 40 LLC; Lessee – OAO TMK.	The Lessor shall transfer and the Lessee shall accept, for temporary possession and use, non-residential premises owned by the Lessor	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited
7	Sublessee – ZAO Sinara Group; Lessee – OAO TMK.	The Lessee shall transfer, and the Sublessee shall accept, for temporary possession and use, non-residential premises	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited; members of the Board of Directors of OAO TMK: D. A. Pumpyanskiy, A. Y. Kaplunov, E. Cobb, S. T. Papin; I. B. Khmelevsky, A. G. Shiryaev
8	Lessor – ZAO Sinara Group; Lessee – OAO TMK.	The Lessor shall transfer and the Lessee shall accept, for temporary possession and use, non-residential premises owned by the Lessor	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of OAO TMK: D. A. Pumpyanskiy, A. Y. Kaplunov, E. Cobb; S. T. Papin; I. B. Khmelevsky, A. G. Shiryaev
9	Borrower – OAO TMK; Lender – OAO VTZ.	The Lender shall transfer money into ownership of the Borrower, and the Borrower undertakes to repay the loan	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of OAO TMK: D. A. Pumpyanskiy, A. Y. Kaplunov, members of the Executive Board of OAO TMK: K. A. Semerikov, T. I. Petrosyan, E. E. Blagova, A. G. Lyalkov
10	Guarantor – OAO TMK; Beneficiary – SMS Meer; Principal – OAO VTZ.	OAO TMK issued a guarantee in favor of SMS Meer in order to ensure the performance of obligations by OAO VTZ	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited, members of the Board of Directors of OAO TMK: D. A. Pumpyanskiy, A. Y. Kaplunov, members of the Executive Board of OAO TMK: K. A. Semerikov, T. I. Petrosyan, E. E. Blagova, A. G. Lyalkov
11	Borrower – OAO TMK; Lender – ZAO TMK – Hydril	The Lender shall transfer money into ownership of the Borrower, and the Borrower undertakes to repay the loan	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited
12	Borrower – IPSCO Tubulars; Lender – OAO TMK.	The Lender shall transfer money into ownership of the Borrower, and the Borrower undertakes to repay the loan	Members of the Board of Directors of OAO TMK: P. D. Galitzine, E. Cobb
13	Borrower – NS Group; Lender – OAO TMK.	The Lender shall transfer money into ownership of the Borrower, and the Borrower undertakes to repay the loan	Shareholders: TMK Steel Limited, Bravecorp Limited, Tirelli Holdings Limited; members of the Board of Directors of OAO TMK P. D. Galitzine, E. Cobb

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Glossary and Contacts

Glossary

Adjusted EBITDA	EBITDA adjusted for exchange rate fluctuations and losses from the impairment of non-current assets
API	American Petroleum Institute – US non-governmental organisation that performs research in the oil sector. It covers all aspects of the industry, including extraction, production, sea and pipeline transportation, sales, marketing, servicing and support.
ASTM	American Society for Testing and Materials – a non-profit organisation that develops standards and production, supply and regulation documents. The standards of ASTM are used worldwide and cover a wide range of industrial sectors, including metals, construction, power, medicine, etc.
Casing	Steel pipes used to brace the walls of a well
CPY, OOO CPY	OOO Central Pipe Yard
Drill pipes	Pipes used to drill oil and gas wells; these pipes make up the drill string with tool joints. Drill pipes are used for lowering and raising the drill bit, transmitting rotational force, creating axial load on the tool and sending drilling mud or compressed air into the well.
DIN	Deutsches Institut fur Normung (German Institute of Standardisation)
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortisation
FQM	Fine Quality Mill (seamless continuous rolling mill)
GOST	Russian regional intergovernmental standard (used in CIS countries)
ISO	International Organisation for Standardisation
ISO 9000 standards	Main provisions, requirements and recommendations on improving Quality Control Systems, confirming a company's ability to produce products (services) of a guaranteed level of quality
ISO 14000 standards	Main requirements on the Environmental Management System, making a balanced approach to environmental management possible. ISO 14000 standards are fully compatible with ISO 9000 quality standards, as well as with any type of activity and sector of the economy
KPI	Key Performance Indicator
Line pipe	Used to construct the main short-distance oil and gas pipelines and to transport crude oil, oil products and natural gas from wells to storage tanks, loading and distribution centers.
MICEX	Closed Joint-Stock Company «Moscow Interbank Currency Exchange»
OAO TMK	Open Joint-Stock Company TMK
OCTG	Common name for threaded seamless pipes including, casing, tubing and drill pipe (Oil Country Tubular Goods).
OHSAS 18001 standards	Requirements on the Company's system of occupational safety and health, as a component of overall management. The main objective of the system is to manage professional risks to safety and health. Standard OHSAS 18001 is applicable to companies that perform any type of activity, regardless of industry or sector of the economy
Orsky, Orsky Machine Building Plant	OAO Orsky Machine Building Plant
Pipe rolling mill	A set of machines and mechanisms for the plastic deformation of metal using rolls through hot, warm and cold rolling, and the production of seamless pipes
PQF	Premium Quality Finishing (seamless continuous rolling mill)
Rolling mill	A set of machines and mechanisms for the plastic deformation of metal using rolls through hot, warm and cold rolling, and the production of seamless pipes
RosNITI, OAO RosNITI	OAO Russian Research Institute for the Pipe Industry
RTS	Russian Trading System Stock Exchange
Scrap metal	Metal goods and alloys that have become unserviceable or have lost their operating value, used as raw material in steelmaking operations
Seamless pipes	Pipes manufactured through the insertion of a solid billet in a press or a piercing mill (with subsequent hot or cold working).This type of pipe has no weld seam.
Seversky, STZ, OAO STZ	OAO Seversky Tube Works
Sinarsky, SinTZ, OAO SinTZ	OAO Sinarsky Pipe Plant
Strip	A steel strip used as a blank for the production of welded pipes
TAGMET, OAO TAGMET	OAO Taganrog Metallurgical Works
TMK-Artrom	SC T.M.K.-ARTROM S.A.
TMK companies	A legal entity that is part of the Company: OAO TMK, ZAO TMK Trade House, the plants, other subsidiaries and associates
TMK Global	TMK Global AG.
TMK IPSCO	IPSCO Tubulars Inc. and NS Group Inc.
TMK plants	OAO VTZ, OAO SinTZ, OAO STZ, OAO TAGMET, OAO OMZ, TMK-Artrom, TMK-Resita, TMK IPSCO
TMK-Resita	SC TMK-Resita S.A.
Tubing	Pipes that are inside the casing to bring oil and gas to the surface.
Truboplast	OOO Enterprise Truboplast
Volzhsky, OAO VTZ, Volzhsky pipe plant	OAO Volzhsky Pipe Plant
Welded pipe	Pipe that is made from metal coil, strip or sheet, rolled and welded, manufactured on a tube welding mill by welding of the edges of tube billets formed from strips, sheets or bands

Contacts

Information About The Company

Full name: OAO TMK
Short name: TMK
Legal address: Russian Federation, 125047, Moscow, Alexander Nevsky street, estate 19/25, bld.1
Telephone: +7 (495) 775 7600
Fax: +7 (495) 775 7601
E-mail: tmk@tmk-group.com

Information For Investors

Contact person: Alexei Ratnikov (Strategic Investment Analysis and Investor Relations Department)
Telephone: +7 (495) 775 7600, ext. 20-78
E-mail: ir@tmk-group.com

Website

Russian version: http://www.tmk-group.ru
English version: http://www.tmk-group.com/

Depositary Bank

Name: The Bank of New York Mellon
Address: 101 Barclay Street, 22 Floor, 10286 New York
Contact person: Ludmila Leliavskaia (ADR Relationship Management)
Telephone: +1 (212) 815 4493
E-mail: ludmila.leliavskaia@bnymellon.com

Registrar

Name: OAO Registrator R.O.S.T
Address: Russian Federation, Moscow, Stromynka street, 18, bld. 13
Licence: 10-000-1-00264 dated 12.12.2002 (unlimited)
Telephone: (495) 771-73-35
E-mail: rost@rrost.ru

Auditor

Name: Ernst & Young
Address: Russian Federation, 115035, Moscow, Sadovnicheskaya embankment, 77, bld. 1
Telephone: +7 (495) 705-9700
E-mail: Moscow@ru.ey.com
Licence: No. E002138, approved by the Order of Finance Ministry of the Russian Federation No. 223 dated September 30th 2002, issued for a period of 5 years, extended by the Order of Finance Ministry of the Russian Federation No. 573 dated September 17th 2007 up to September 30th 2012.

Financial Measures Calculation

TMK uses Adjusted EBITDA, which is NOT a measure to be reported under IFRS, to analyse its operating performance. Adjusted EBITDA represents net profit before depreciation and amortisation, finance costs and finance income, exchange rate fluctuations, losses from the impairment of non-current assets and income tax expenses. Adjusted EBITDA is not a measurement of TMK's operating performance under IFRS, and should not be considered as an alternative to gross profit, net profit or any other performance measures derived under IFRS or as an alternative to cash flow from operating activities or liquidity. In particular, Adjusted EBITDA should not be considered as discretionary cash that can be invested in the Company's growth.

Adjusted EBITDA has limitations as analytical tool. Potential investors should not consider it separately from other analytical measures or as a measure that substitutes TMK's operating results as presented in accordance with IFRS. Some of these limitations on the use of Adjusted EBITDA include:

• Adjusted EBITDA does not reflect the impact of financing or financial costs on TMK's operating performance, although it may be material and could further increase together with the increase in the Company's obligations.

• Adjusted EBITDA does not reflect the impact of income taxes on TMK's operating performance.

• Adjusted EBITDA does not reflect the impact of exchange rate fluctuations on TMK's operating performance.

• Adjusted EBITDA does not reflect the impact of impairment of non-current assets.

• Adjusted EBITDA does not reflect the impact of depreciation and amortisation on TMK's operating performance. TMK's assets which are being depreciated and/or amortised will have to be replaced in the future. Such depreciation and amortisation expenses may approximate the costs of the replacement of these assets in the future. By excluding these expenses from Adjusted EBITDA, it does not reflect TMK's future cash requirements for replacements of these assets.

Other companies in the pipe industry may calculate EBITDA differently or may use this measure for other purposes, which limits its comparability.

TMK compensates for these limitations by relying mainly on its IFRS operating results and uses Adjusted EBITDA only supplementally. See the Company's consolidated income statement and cash flow statement included in this Annual Report.

Reconciliation of Adjusted EBITDA to net profit is as follows:

	Twelve months ended 31 December	
	2008	2007
Net profit	198.5	506.3
Income tax expense	109.6	192.5
Depreciation and amortisation	247.8	140.3
Finance costs	272.2	102.4
Finance income	(8.7)	(12.6)
Effect of exchange rate changes fluctuations	99.8	(20.5)
Goodwill impairment loss	3.5	–
Fixed assets impairment loss	59.8	–
Financial assets impairment loss	23.7	–
Adjusted EBITDA	**1,006.2**	**908.4**

TMK uses Net Debt, which is not a measure to be reported under IFRS, to analyse its operating performance. Net Debt represents short- and long-term loans and borrowings plus finance lease liabilities less cash and cash equivalents, and bank deposits classified as short-term investments. Even though Net Debt is not a measure to be presented in accordance with IFRS, it is widely used to assess liquidity and the adequacy of the Company's financial structure. TMK believes Net Debt is a fair indicator of the Company's ability to meet its financial obligations (represented by gross debt) from available cash. Net Debt allows TMK to demonstrate investors the trend in its financial position over specified periods. However, the use of Net Debt assumes that the amount of total debt can be reduced by cash. In fact, it is unlikely that all available cash will be used to reduce total debt at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Debt and its ratio to equity (financial leverage) are used to assess the Company's financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost. These measures also make it possible to assess if the Company's financial structure is adequate to achieve its financial and business objectives. TMK's management monitors the net debt, financial leverage and other similar measures used by other Russian and foreign companies in order to compare TMK's liquidity and financial structure with other companies. TMK's management also monitors changes in TMK's net debt and financial leverage in order to optimize the use of own versus borrowed funds.

Net debt has been calculated as follows:

		At 31 December	
		2008	2007
Net debt calculation		(million USD)	
Including:	Short-term loans and borrowings and current portion of long-term loans and borrowings	2,216.5	1,033.3
	Long-term loans and borrowings, net of current portion	994.2	506.0
	Total loans and borrowings	**3,210.7**	**1,539.3**
Less:	Cash and cash equivalents	(143.4)	(89.0)
	Deposits and short-term promissory notes received [1]	(3.9)	(103.7)
	Total cash and cash equivalents, deposits and promissory notes received	**(147.3)**	**(192.7)**
Net debt		**3,063.4**	**1,346.6**

[1] Includes promissory notes, receivable as at 31 December 2007 in the amount of USD 103.6 million, included in the line item "Trade and other receivables" of TMK's consolidated financial statements for the year ended 31 December 2007.