ТМК

русский english

2009

annual report


ANNUAL REPORT
2009

Contents

TMK PROFILE AND KEY INDICATORS

TMK is a leading producer and supplier of steel pipes and services for the oil and gas industry and other high demanding applications. Over the last few years, while implementing one of the industry's most extensive organic investment programs, TMK acquired and consolidated value-added pipe production facilities and steelmaking operations in North America, Europe and the CIS, giving it a truly global footprint.

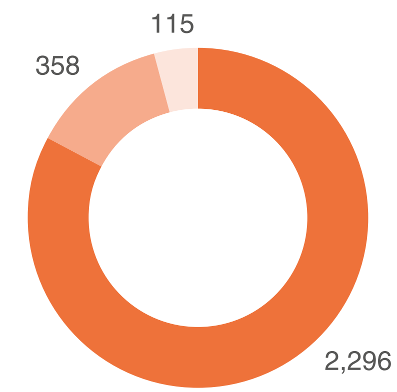
TMK has set forth its strategy to become one of the world's top suppliers of premium pipes and related services; by increasing capacity, enhancing product mix with higher added value production, expanding global operations, and through advancements in research and development.

TMK has the world's largest pipe production capacity, half of which is dedicated to the production of high-margin OCTG products.

The Company focuses on supplying the oil and gas industry, which represented around 70% of sales by volume in 2009. TMK products are used globally by such energy giants as Chesapeake, Exxon Mobil, Gazprom, Lukoil, ONGC, Rosneft, Surgutneftegas, Shell, TNK-BP, and Total.

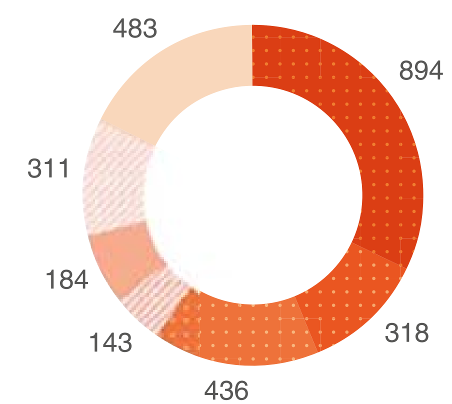
While being the pipe supplier of choice for oil and gas production and transportation in Russia, TMK has firmly established itself as a leader in the North American shale gas market and is taking further steps to expand in the global offshore drilling market and enhance its range of tubular services.

TMK shares are traded on the London Stock Exchange, the OTCQX in New York and the RTS and MICEX exchanges in Moscow.



Sales structure in 2009, thousand tonnes

- Russia
- American division
- European division



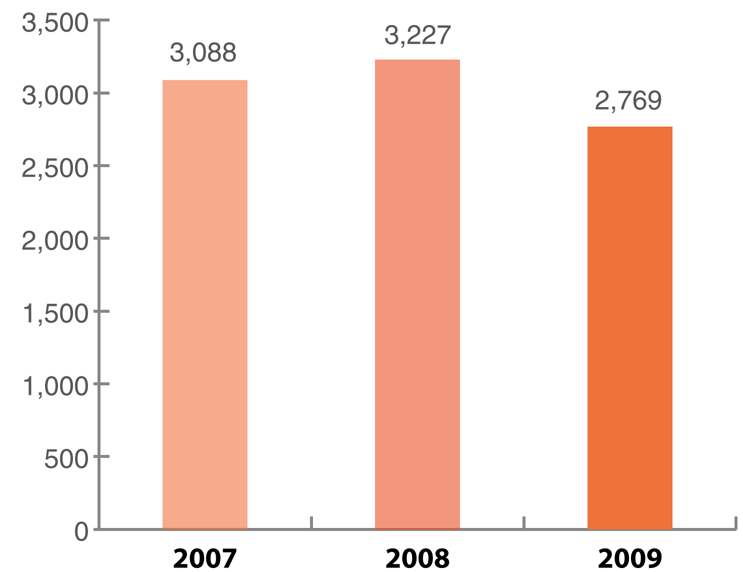
Sales structure by type of pipes in 2009, thousand tonnes

- Seamless OCTG
- Seamless line
- Seamless industrial

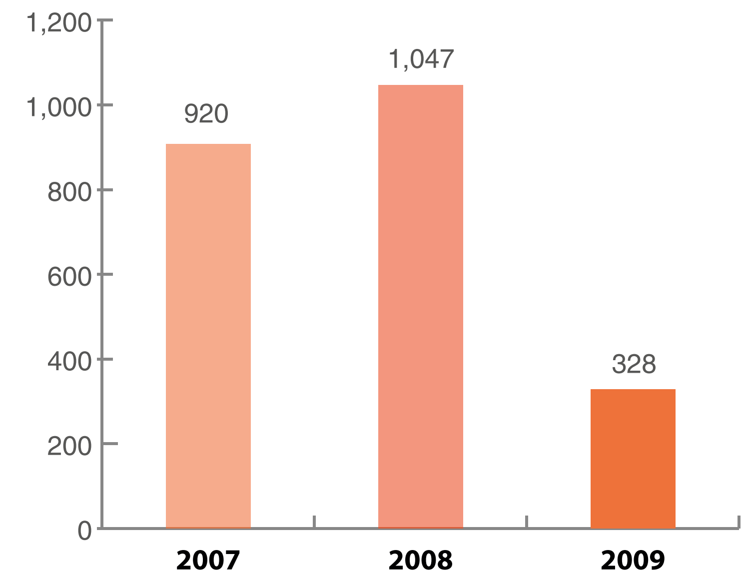
- Welded OCTG
- Welded line
- Welded LD
- Welded industrial

CONTENTS
rus
eng

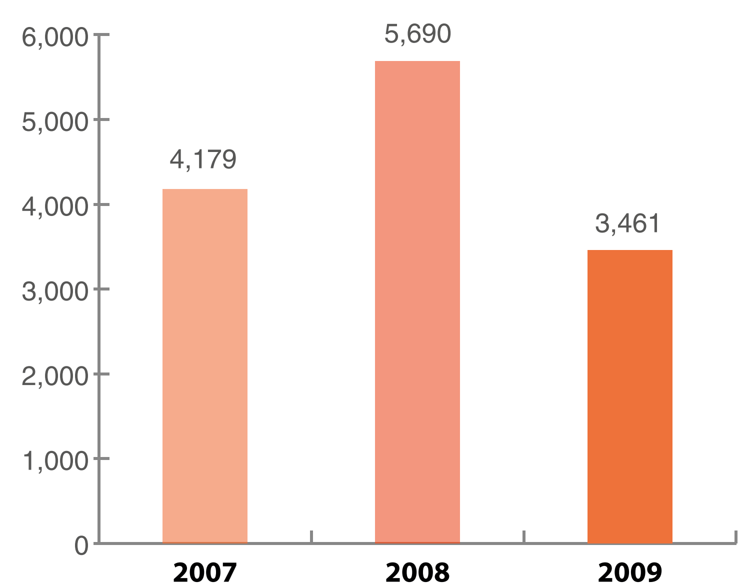
Sales volume, thousand tonnes



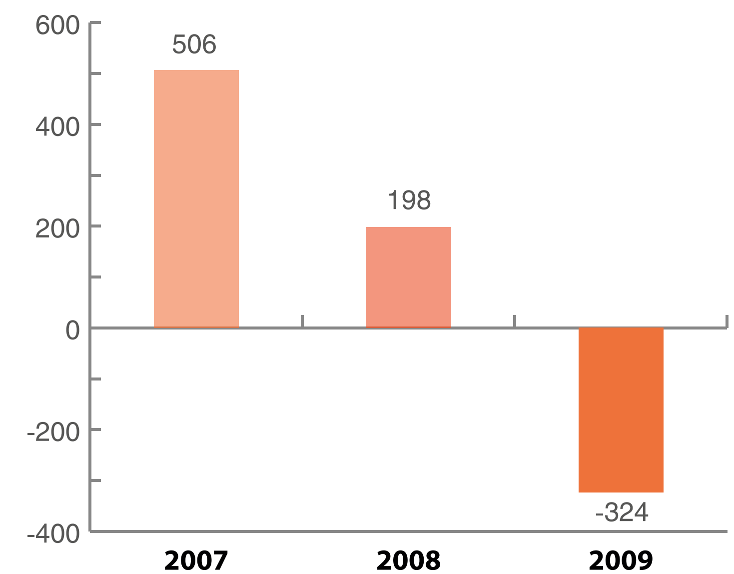
Adjusted EBITDA*, USD million



Revenue, USD million



Net profit/loss, USD million



* Adjusted EBITDA calculation is presented on p.35 of the annual report

CONTENTS
rus
eng

CHAIRMAN'S LETTER

Dmitriy A.
Pumpyanskiy
Chairman of the Board
of Directors

Dear Shareholders,

In 2009, TMK and the global pipe industry operated under a severely depressed market environment brought on by the economic crisis which affected practically the entire oil and gas sector, TMK's principal end-market. The combination, however, of large-scale investment projects, extensive production modernization, business globalization and product range expansion – which we have been dedicating our efforts to for the last few years – has allowed TMK to retain its leading market position and further refine its development strategy. Furthermore, the Company's market capitalization has significantly recovered from the lows of late 2008.

By implementing our Strategic Investment Program, we have taken several key steps to ensure TMK's dominant market position for the decades to come. At the same time, the newly commissioned facilities have already provided the Company with an unparalleled competitive edge. TMK now has the world's largest pipe production capacity, enabling it to supply pipe products for a wide range of applications and a unique product portfolio, which is a fundamental competitive advantage in the pipe industry.

Last year, the Company undertook several initiatives to develop its high-end technologies. In particular, TMK set up TMK-INOX, a dedicated division coordinating the production and sales of stainless steel pipes. TMK has also increased its focus on the development, production and marketing of premium connections as these products exhibit strong and stable demand both in Russia and on global markets. We further plan to take an active part in the development of hydrocarbons in shale deposits, offshore environments and Arctic regions.

TMK aims to use the best global practices to manage its business processes. We have implemented an integrated corporate quality management system certified by Lloyd's Register. Today, TMK uses the common language of international standards, regulations and guidelines with both its suppliers and customers on a global basis.

The Company's corporate governance system meets the highest international standards with regards to information disclosure and financial transparency. Our efforts in this area have been repeatedly acknowledged by the Company's high ranking in Standard & Poor's annual transparency rating of Russian companies.

The Board of Directors and executive management worked together effectively during the development of the Company's anti-crisis program. Additionally, the Board played a key role in the approval of TMK's cost reduction program which proved efficient throughout the crisis. Independent Directors continue to play an important role in Board activity as they make up half of its membership while the three Board Committees are each chaired by an independent director.

As a socially responsible company, we did our best to maintain the wellbeing of TMK employees during the crisis and to avoid major workforce reductions while retaining our main social commitments.

We cultivate and maintain an active dialogue with the relevant authorities in all the countries and regions where we are present as we strive to create a stable and favorable environment for our employees and their families.

Throughout the market downturn, TMK has continued its resolute development, maintaining, and even strengthening, its leading position in a more competitive environment. With our continuously improving knowledge and experience we are ready to meet the market recovery while continuing to efficiently operate as we enter new end-markets and further implement our strategic plans. The prime goal of our activity remains to increase TMK's shareholder value.

CEO'S LETTER

Alexander G. Shiryaev
CEO and Chairman of the Management Board

The beginning of 2009 was very challenging for the global pipe industry. The economic crisis led to a slowdown in demand for pipe products across all market segments regardless of geography. Demand in some developed markets was more than halved, a situation only partly offset by the increases seen in some developing markets such as China and India. Globally, total steel pipe sales declined by 13% as compared to 2008. Pipe demand in the United States, the world's largest pipe market, was cut in half and the European market saw demand fall more than one and a half times. The Russian market was not left unscathed by the crisis. In the first half of the year, steel pipe sales decreased by 35% mainly from lower demand in the machine building, construction, chemical, and energy sectors.

The crisis also affected TMK in many ways as the Company had to cope with lower demand, diminished cash flow and profit, and a retreating market capitalization. However, the second half of the year brought some considerable improvements as TMK quarterly shipment volumes increased by 15% and 22% in the third and fourth quarters, respectively, and shipments of OCTG, the Company's key business segment, jumped 42% in the fourth quarter. A series of Gazprom and Transneft pipeline projects fuelled large-diameter demand in 2009. Large-diameter shipment volumes started increasing in the second quarter and reached 150 thousand tonnes in the last quarter of the year, which contributed to a full year increase of 20% over 2008 volumes.

The Russian oil and gas sector remained TMK's most stable end-market. The Company's customer dedication, flexibility and close cooperation with oil and gas companies enabled it to maintain its leading market positions in all core segments throughout the crisis.

The US, a strategically important market for TMK, proved more volatile and reliant on imports and was entrenched in a severe slump during the first half of 2009. However, it started to recover from August and TMK IPSCO quarterly shipment volumes increased to 129 thousand tonnes in the fourth quarter, a 35% increase over the previous three-month period. Thanks to the success of ULTRA products, TMK IPSCO secured a 30% share of the US onshore gas shale premium connections market.

The implementation of the anti-crisis program yielded positive results and allowed us to significantly reduce expenses. This Program permitted us to significantly decrease expenses and achieve process optimization.

Despite these more difficult times, we successfully ramped-up the production of the facilities brought online in 2008, continued with the modernization of production assets and developed new types of pipes. We expanded the range and further improved the mix of the products we manufacture and created the foundations necessary to broaden the Company's global reach.

TAGMET finished the ramping-up of the new Premium Quality Finishing (PQF) seamless continuous rolling mill designed for the production of oil and gas pipes used in aggressive and complex operating environments. With technical testing completed and production underway, TMK anticipates a significant growth in PQF production in 2010 as demand for high-performance pipe increases.

The longitudinal welded large-diameter mill at Volzhsky also completed ramping-up in 2009. During the year, TMK began supplying a number of pipeline projects, including the Sakhalin–Khabarovsk–Vladivostok, Baltic Pipeline System, and Eastern Siberia-Pacific Ocean-2 in addition to certifying to the DNV Submarine Pipeline standard. The mill displays a strong order backlog and is fully booked into 2011.

Following the start-up of its electric arc furnace, Seversky Pipe Plant commissioned a new high-efficiency shearing press and vacuum steel degassing unit to complete the modernization of its steelmaking operations.

TMK IPSCO constructed and commissioned a seamless tubing and casing heat treatment facility at the Baytown, Texas, finishing center and the TMK Resita steel mill in Romania completed the update of its electric arc furnace.

The Company remained very active in the premium products segment. These are high-performance products used in challenging operating environments and geological structures, including offshore applications. Representing the bulk of this segment are premium connections, including ULTRA products, which are considered to be the best in the world for shale plays.

The Company took the necessary steps to improve and lengthen its debt maturity profile. To optimize the structure of the loan portfolio, a series of long-term loans were taken out with Russian banks and we successfully completed a convertible bonds placement in February 2010. As a result, the share of long-term facilities in the Company's debt portfolio increased to 80% as compared to 31% as of December 31, 2008.

TMK is a socially responsible company, and as such the main social, environmental, and charity programs remained untouched during the crisis and in some cases, we even expanded their scope further. Only a few social benefits for TMK employees were slightly modified.

With its updated steelmaking operations and state-of-the-art pipe rolling capacity, TMK is now able to compete with global leaders by offering customers an entirely new range of products. The Company's main goals for this year are to increase production and sales to capture the growth in demand while penetrating new end-markets and justifying the confidence of investors, partners, employees, and all those interested in TMK's continued success.

KEY EVENTS

2009	
January	Seversky completed the upgrading of its steelmaking facility by replacing the open hearth furnace steelmaking process with high-tech electric arc furnace technology.
February	TMK exercised its call option to acquire the remaining 49% of NS Group, Inc. shares from Evraz Group S.A. in accordance with the option agreement. In order to refinance the remainder of the USD 1.2 billion syndicated bridge facility and fulfill the option, TMK attracted a set of loans from Gazprombank in an aggregate amount of USD 1.1075 billion.
	TMK's Corporate Quality Management System was upgraded and certified to ISO 9001-2008 by Lloyd's Register Quality Assurance.
March	TMK began supplying longitudinal welded large-diameter pipes to Gazprom for the Bovanenkovo-Ukhta pipeline.
	TMK carried out the repayment of its Series 02 Rouble bond issue of RUB 3 billion.
April	TMK IPSCO commissioned a fully automated heat treatment facility with a projected annual capacity of 100 thousand tonnes at its Baytown mill.
May	TMK started supplying longitudinal welded large-diameter pipes to the Eastern Siberia Pacific Ocean pipeline spur to China.
June	Thomas Pickering, former US ambassador to Russia, was elected to the TMK Board of Directors during the AGM. As a result, half of the ten board members are independent directors.
July	TMK shares were included in the MICEX A1 quotation list, allowing the Company to expand its investor base and increase share liquidity.
August	TMK redeemed 69% of its 2011 Eurobonds issue in the amount of USD 413.3 and received consent to amend certain covenants. TMK used a USD 450 mln VTB facility to fund the transaction.
September	TMK redeemed its debut Eurobonds issue for USD 312.75 mln, including coupon payment. TMK fully redeemed the 2009 USD 300 million Eurobonds through a loan provided by VTB.
	TMK IPSCO commissioned an ULTRA threading line at its Houston facility and ULTRA equipment in Tulsa as part of its ULTRA production expansion program.
October	TMK began supplying longitudinal welded large-diameter pipes to Gazprom for the Sakhalin – Khabarovsk – Vladivostok gas pipeline.
November	TMK started supplying longitudinal welded large-diameter pipes to Gazprom for the Pochinki – Gryazovets gas pipeline.
December	TMK began supplying longitudinal welded large-diameter pipes to Transneft for the second line of the Baltic Pipeline System-2 and the Eastern Siberia-Pacific Ocean-2 oil pipelines.

2010	
January	TMK certified its longitudinal welded large-diameter pipe production according to the DNV OS-F101 Submarine Pipeline Systems standard.
	Russian president Dmitry Medvedev visited TAGMET and its Premium Quality Finishing (PQF) seamless continuous rolling mill.
February	TMK issued USD 412.5 million convertible bonds.
	TMK IPSCO announced its plans to commission a new ULTRA Premium Connections threading facility in Ohio to meet the growing demand from gas shale developments.
March	TMK ADRs started trading on the OTCQX in New York under the TMKXY ticker.
	TMK was awarded a supply contract by Lukoil for TMK FMT premium threaded tubing for the Yuri Korchagin offshore field development in the Caspian Sea.
May	TMK IPSCO commissioned a new ULTRA premium threading facility in Brookfield, Ohio.

ABOUT THE COMPANY

CONTENTS
rus
eng

5.1. Structure

TMK's organizational structure representing its activities as of December 31, 2009, including ownership interest, is presented below.

OAO TMK

Volzhsky Pipe Plant 100%

Sinarsky Pipe Plant 94.16%

TAGMET 96.06%

Severky Tube Works 94.22%

TMK-CPW 51%

TMK-Kaztrubprom 100%

RosNITI 97.36%

TMK Trade House 100%

TMK Warehouse Complex 100%

TMK Middle East 100%

TMK Global 100%

TMK-Kazakhstan 100%

TMK-Premium Service 100%

TMK Oilfield Services

Orsky Machine Building Plant 100%*	Pipe Maintenance Department 100%	Central Pipe Yard 100%	Truboplast 100%

TMK IPSCO
American Division

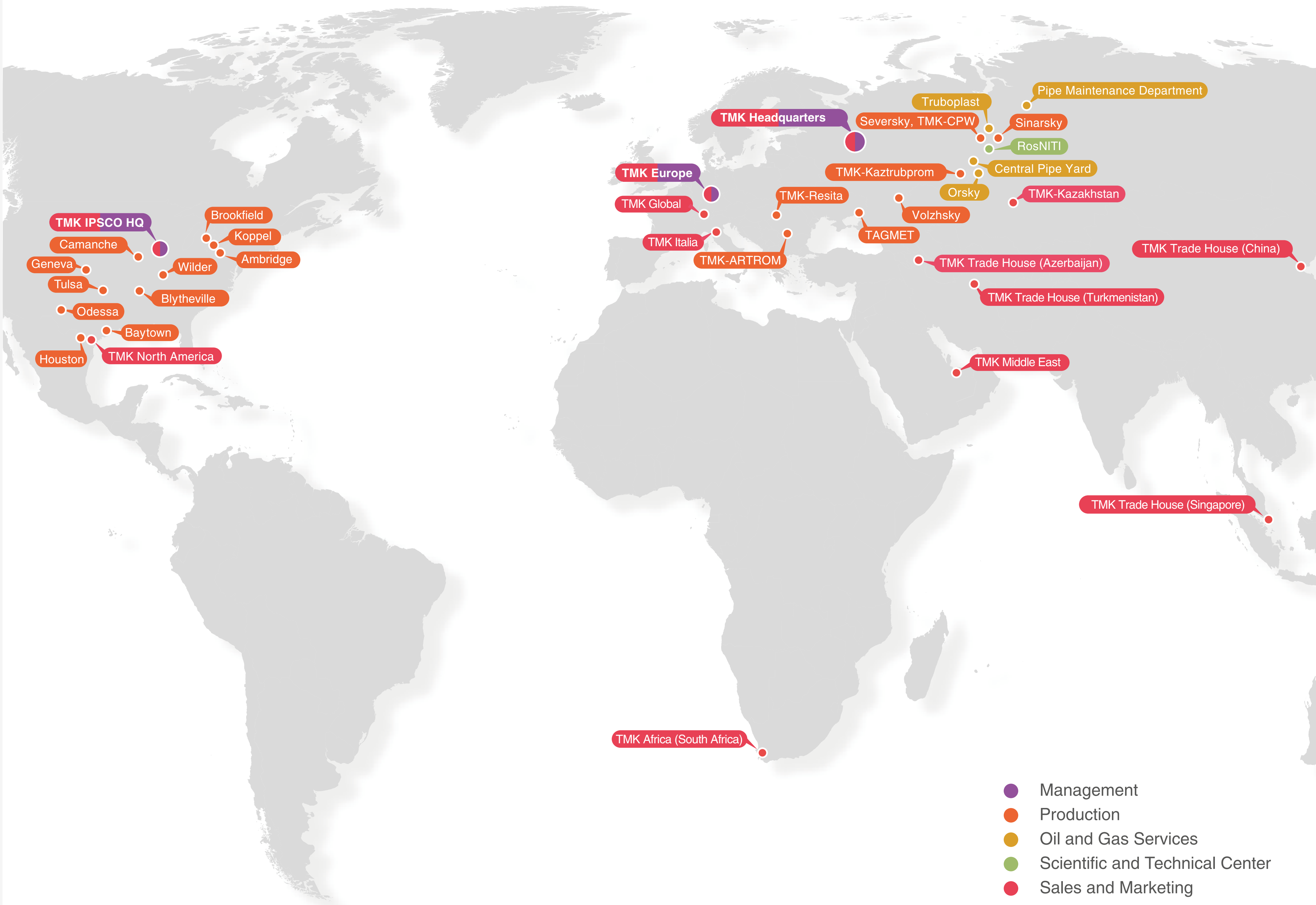
IPSCO Tubulars 100%	NS Group 100%	TMK North America 100%

TMK Europe
European Division

TMK-ARTROM 92.66%	TMK-Resita 100%	TMK Italia 100%

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

*** TMK owned 100% of voting shares, representing 75% of actual ownership interest**


TMK IPSCO HQ
Camanche
Geneva
Tulsa
Odessa
Houston
Brookfield
Koppel
Ambridge
Wilder
Blytheville
Baytown
TMK North America
TMK Europe
TMK Global
TMK Italia
TMK-ARTROM
TMK-Resita
TMK Headquarters
Seversky, TMK-CPW
Truboplast
Pipe Maintenance Department
Sinarsky
RosNITI
Central Pipe Yard
TMK-Kaztrubprom
Orsky
TMK-Kazakhstan
Volzhsky
TAGMET
TMK Trade House (Azerbaijan)
TMK Trade House (Turkmenistan)
TMK Trade House (China)
TMK Middle East
TMK Trade House (Singapore)
TMK Africa (South Africa)
Management
Production
Oil and Gas Services
Scientific and Technical Center
Sales and Marketing

Changes in the structure in 2009

On January 30, 2009, TMK exercised its call option to acquire the remaining 49% in NS Group, Inc. In December 2009, 51% of shares in NS Group Inc. were contributed into the share capital of IPSCO Tubulars Inc., TMK's subsidiary, to optimize the ownership structure of the American division. Thus, all TMK production facilities in the US are wholly owned by IPSCO Tubulars Inc.

In 2009, TMK established its European Division. It includes TMK-ARTROM and TMK-Resita, Romanian mills, and the TMK Europe and TMK Italia, trading subsidiaries, which operate and sell TMK's products on European markets.

In December, 2009 TMK–INOX was established to further develop the production and sales of stainless steel pipes produced at TMK facilities.

During 2009, TMK acquired an additional 1.21% of Sinarsky shares, 0.69% of Seversky shares, 0.12% of TAGMET shares and 0.51% of TMK-Resita shares. As of December 31, 2009, TMK's effective equity share in Sinarsky, Seversky, TAGMET and TMK-Resita stood at 94.16%, 94.22%, 96.06% and 100.00%, respectively.

5.2. Market Position

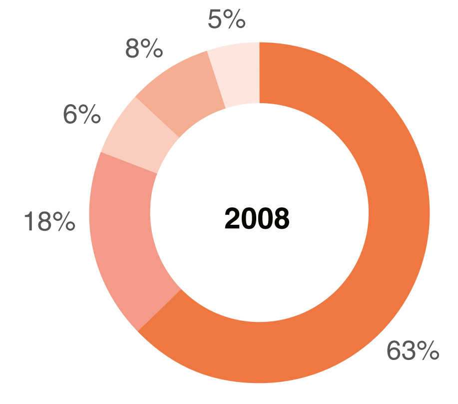
TMK sold 2,769 thousand tonnes of pipe products in 2009, the most of any pipe company in the world. In the key seamless OCTG segment, its share of the market in Russia and globally amounted to 69% and 13%, respectively.

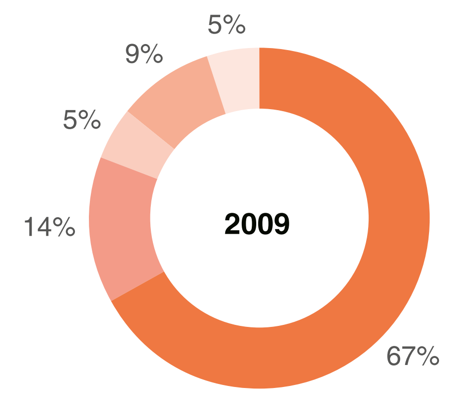
In 2009, the economic crisis was the main force behind a decrease in demand that lead to a 13% contraction in global pipe consumption. TMK estimates that the global demand for seamless and welded pipe products decreased by 18% and 11%, respectively, when compared to the previous year.

The decrease of steel pipe demand in 2009 in some developed countries was over 50% as compared to 2008. This decrease was offset by an increase in demand in some emerging Asian markets such as China, mainly as a result of government initiatives and the subsequent demand growth from related industries.

The biggest drop in demand for pipe products, including high-margin OCTG and line pipe, the most lucrative segments, occured in the first half

TMK pipe shipments by region





of 2009. However, demand started to gradually return from the second half of 2009, especially in the oil and gas industry and energy sector.

By the time the global economic crisis had erupted, the Company had completed the majority of its scheduled investment projects. The Company spent 2009 ramping-up production and preparing its high-technology asset base for the demand recovery and market expansion.

Throughout 2009, TMK continued to qualify its products with major oil and gas companies, successfully qualifying with end-users in the United States, United Arab Emirates, Kuwait, Ecuador, Qatar, and Romania.

The Company's global presence is ensured by its extensive network of trade subsidiaries and representative offices. By the end of 2009 TMK had a network of 88 authorized distributors spread out across the globe. In addition to this extensive network, supply agreements cover shipments to the Company's' largest customers. Major Russian

oil and gas companies such as Gazprom (including Gazprom Neft), Rosneft, Surgutneftegas, TNK-BP and LUKOIL are among TMK's 10 biggest clients. In 2009, sales to these customers accounted for 37% of the Company's total sales, while sales to the 10 biggest customers represented 42%.

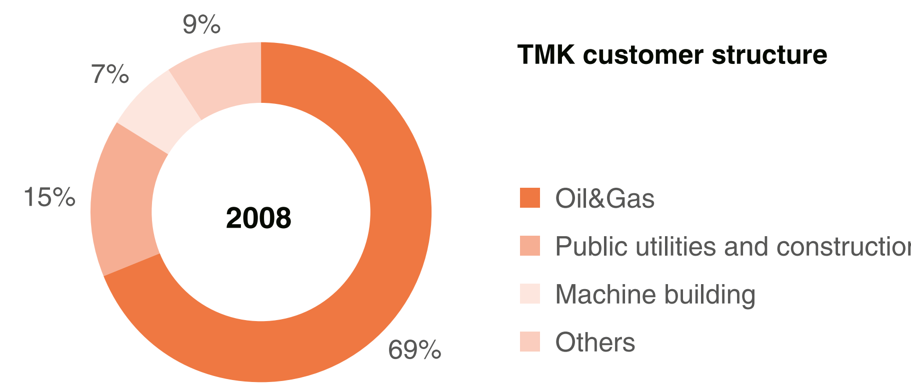
TMK has a broad and stable client base where oil and gas companies prevail. Sales of oil and gas pipe products represented approximately 70% of total TMK sales in 2009. A significant amount of pipes are also sold to the construction and utilities sectors; however, these decreased slightly compared to previous year and amounted to 13% of total sales. Sales to the machine building sector decreased as demand remained weak throughout most of 2009.

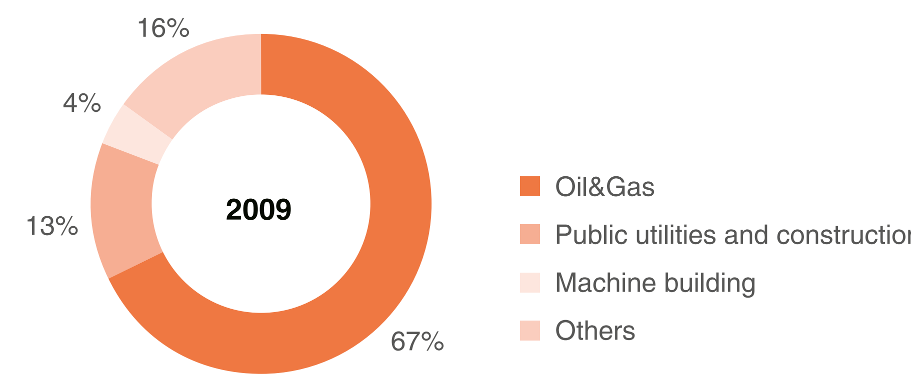
Russia

Given the location of its production assets, Russia is the Company's most important market and represented 67% of total sales in 2009. Despite a significant decrease in demand on the Russian pipe market, TMK managed to increase its market share to 30% as compared to 27% in late 2008. The strengthening of TMK's position in Russia across its main product segments was primarily due to the commissioning and ramping-up of new production capacities.

The successful launch of longitudinal welded large-diameter (LD) pipe production at Volzhsky allowed TMK to increase large-diameter pipe sales and considerably strengthen its market share. As a result of this new product segment, the Company's share in the Russian large-diameter market grew from 14% in 2008 to 19% in 2009. The production of longitudinal welded LD pipes enabled TMK to participate in a series of large-scale oil and gas pipeline projects. While the Company didn't supply any pipes to Transneft in 2008, it shipped 35 thousand tonnes in 2009. Together with the start of shipments for oil pipelines, shipments to Gazprom grew by 10%, and shipments to Russian vertically-integrated oil companies increased 2.4 times. TMK's main supply agreements were for the Bovanenkovo-Ukhta, Sakhalin–Khabarovsk–Vladivostok and the onshore part of Nord Stream as well as the Baltic Pipeline System-2 and Skovorodino-Datzin oil pipelines. Due to the implementation of pipeline projects, TMK's sales in this segment in Russia increased by 38%, while the Russian LDP market increase by 4% in 2009, according to the Company's estimates.

The Russian OCTG market decreased by 16% as oil and gas companies cut back on capital expenditures due to the economic downturn. Despite such a decrease, TMK's Russian seamless OCTG market share increased from 60% to 69%. The growth in the Company's market share was mainly due to the ramping-up of new seamless





pipe production capacity at TAGMET, the commissioning of heat treatment facilities and improvements in the quality of steels produced at TAGMET and Volzhsky.

In addition to the positive developments in the LDP and OCTG segments, TMK's share of the Russian oil and gas line pipe market increased from 46% to 47%. This increase was due to the addition and upgrade of production capacities at TAGMET and TMK-CPW.

Weak demand from the machine-building, utilities and construction sectors resulted in a significant contraction in the industrial pipe market. Nevertheless, the Company managed to improve its position in the industrial segment as a result of its flexible sales policy and wide range of pipe products.

In 2009, TMK's share of the Russian industrial pipe market increased

CONTENTS
rus
eng

from 19% to 23%. The Company's seamless industrial sales decreased only by 9% while the demand in this segment decreased by 36%.

US

The US oil and gas pipe market, the world's largest, is by nature very cyclical. Following the stellar market conditions of the third quarter of 2008, which coincided with the consolidation of IPSCO Tubulars and NS Group assets into TMK, the oil and gas steel pipe industry found itself gripped by one of the greatest and most severe market downturns. According to Preston Pipe & Tube Report, demand for pipe products in 2009 fell by 52% as compared to 2008, with the biggest decrease coming from the oil and gas sector. Demand in the US OCTG and line pipe markets decreased by 62% and 54%, respectively, as compared to 2008. Such significant market declines resulted in TMK total shipments to the US market decreasing by 35% as compared to 2008.

With the acquisition of subsidiaries in North America, the Company built a balanced sales network focused on the US pipe market. As a result, the Company estimates that TMK's share of the US steel pipe market grew from 3% to 4% in 2009 and of the OCTG market from 6% to 10%.

In 2008, rapidly increasing natural gas prices led to a boom in drilling activity which translated into increased demand for pipe products. By the third quarter of 2008, this increase in demand had left all market players, from mills to distributors and end-users, scrambling for pipe. Deliveries from domestic mills became extended and pipe prices had doubled by late September 2008, resulting in a drastic increase in shipments of low cost imports of oil and gas grade pipes into the US. From the fourth quarter, although commodity prices started contracting and despite the relative downturn in pipe demand, shipments of imported pipe material into the United States continued aggressively and resulted in a huge inventory overhang. The subsequent downturn in drilling activity and reduction in OCTG consumption rates paved the way for the production declines and falling pipe prices of the first half of 2009. US oil and gas companies and distributors utilised their own stocks and continued de-stocking throughout most of 2009.

Because 60% to 80% of the US drilling activity is gas related, US natural gas prices are one of the main catalysts for the pipe market, and ultimately TMK IPSCO financial performance. As gas prices declined throughout the first half of the year, operators shutdown uneconomical drilling programs preferring to keep activity going in natural gas shale plays. As the US rig count decreased substantially in the first half of the year, reaching a low of 876 rigs in early June according to Baker Hughes data, the levels of gas in storage nevertheless continued to increase as a result of lower gas consumption by the industrial, commercial and residential sectors.

Early in the fourth quarter, with heating season approaching, both rig count and gas prices started climbing back from their lows. Although encouraging, their levels were still well below historical norms. Improvements in rig count and gas prices in the fourth quarter permitted TMK IPSCO to significantly increase monthly production volumes over first half lows. However, prices for pipe products remained depressed by the amount of pipe in the system, particularly bogged down by low priced imports from China.

The North American energy tubular industry has experienced significant consolidation, but remains a very competitive environment. In 2009, domestic energy tubular goods accounted for only 36% of shipments while imports, 30% of which came from China, accounted for the remainder of OCTG shipments. Starting April 2009, in its efforts to address and curtail the flow of low cost imported pipe material into the United States, TMK IPSCO and other US domestic steel pipe producers initiated a series of trade cases against the unfair imports of pipe material, including for OCTG, drill pipe, seamless standard and line pipe. On the OCTG front, final countervailing duties ranging from 10.36% to 15.78%, depending on the producer, were introduced in the fourth quarter of 2009, whereas preliminary anti-dumping duties ranging between 36.53% and 99.14% were announced in the same period. Final anti-dumping duties are expected in the second quarter of 2010. Already from the second half of 2009, in expectation of the final rulings, Chinese OCTG imports had practically vanished from the market. As demand started picking up late in the year, the void left by Chinese imports allowed an increase in shipments from other countries, including from foreign subsidiaries of US producers, and provided additional rationale behind certain announced production expansions.

Europe

The Company estimates that pipe demand in the European market decreased by 43% as compared to 2008. Shipments of TMK pipe products fared somewhat better than the market and decreased by 26% during this period.

The European market is a key target for TMK-Artrom given the plant's location and product mix. The plant specializes in the production of seamless industrial pipes for the machine-building and automotive sectors and standard oil and gas seamless line pipe. TMK adjusted its sales structure to better react to changing market conditions, further enhancing its customer oriented strategy and supporting end-user op-

erations while cutting down on response time.

Weaker demand from the machine-building, construction and utilities sectors resulted in 30% decrease in sales at TMK-Artrom. However, according to production and marketing activities, TMK-Artrom's European seamless pipe market share grew from 2.5% in 2008 to 6% in 2009.

Faced with significant changes in market structure, TMK-Artrom and TMK-Resita, implemented product development and upgrade programs. As a result, the European mills developed new niche tubular products and steel grades enabling TMK to better respond to specific market demand during the crisis.

CIS*

Developing countries, including many CIS member states, were substantially affected by the global economic crisis. These economies were simultaneously subjected to several negative factors such as the fall in energy prices and the lower level of demand for energy products on export markets. The Company estimates that the CIS pipe market fell by 3% as compared to 2008.

Due to an increase in shipments to the oil and gas industry and the diversification of the regional sales network, TMK managed to increase shipments to the CIS market by 8% in 2009. Supplies for the construction of large oil and gas pipelines accounted for half of pipe sales in the CIS last year and TMK large-diameter shipments to the CIS increased by 28% over 2008. Large-diameter pipe consumption in the CIS was buoyed by stronger demand in Azerbaijan, Belarus, Turkmenistan, Kazakhstan and Uzbekistan.

Consumption of OCTG in the CIS decreased by 20% in 2009; however, the Company managed to increase its market share to 20%.

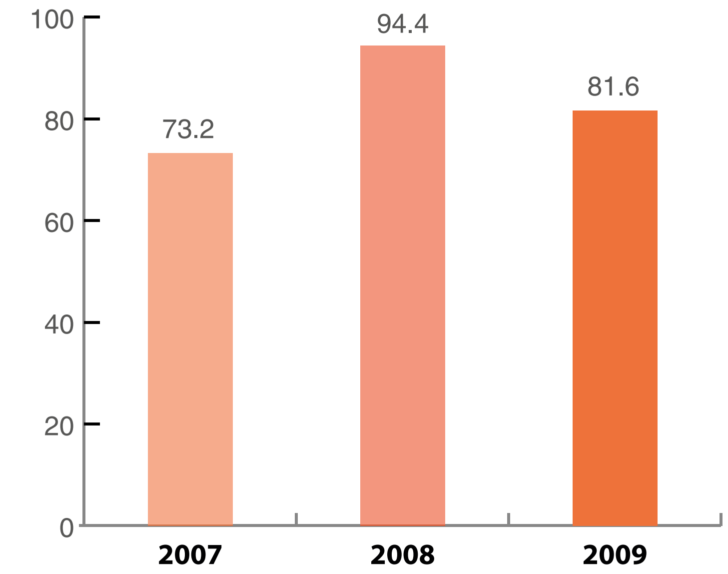
Premium connections

Russia

Premium threaded connections produced by TMK plants in Russia are designed for use in challenging operating environments and geological structures, including offshore and deep water environments and Arctic regions.

* Excluding Russia

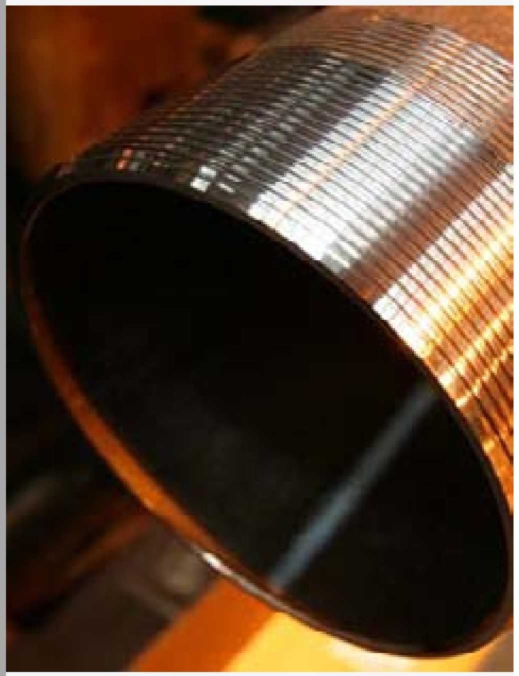
TMK premium connection shipments from Russian mills, thousand tonnes



Further developments in the premium connections business allowed TMK to build up its dominant position in Russia. Shipments to key clients such as Surgutneftegas, Lukoil and Novatek increased several times as TMK premium connections displaced imported products. In 2009, TMK added ten new customers for Russian-manufactured TMK premium connections.

Shipments of premium connections decreased by 14% in 2009 while shipments of high-margin TMK GF and TMK FMC premium connection series increased by 47% and 21% respectively. This increase in shipments stemmed from increases in drilling activity in Western and Eastern Siberia and stronger TMK premium brand recognition.

To further support TMK's premium connections market penetration, TMK Premium Service specialists provide running services and technical assistance as well as take part in the development and testing of the connections. In 2009, the TMK FMT connections were successfully tested in a Vankor horizontal well. The TMK GF, TMK TDS and TMK FMT series were field tested and certified for unconventional and high pressure environments. TMK FMT premium threaded connection



successfully underwent international certification testing at Oil States Industries' structural test laboratory in Scotland.

In 2009, a consortium of Russian oil and gas string equipment and tool producers was formed. This consortium includes TMK Premium Service and brought significant breakthroughs in 2009 which resulted in increased shipment volumes and favorable pricing. The TMK FMT and TMK CS threading technologies were licensed to AK Korvet, Voronezhskiy Mechanical Plant and the Izmeron Plant. Patent applications have been submitted in the US, Canada, China, India, Nigeria, and Algeria amongst others.

American Division

ULTRA Premium Connections, developed by TMK IPSCO, are proprietary premium connections which are widely used by North American oil and gas companies.

ULTRA connections have been used in shale plays since July 2004. As of year end 2009, TMK estimated that ULTRA had a 30% share of the US onshore gas shale premium connections market, making them one of the most widely used premium connections in US shale plays. By the end of 2009, 8 of the top 12 US shale operators were using ULTRA premium connections.

Late in the first half of 2009, while demand for API grade tubulars had collapsed and remained weak, the intensive development of US shale plays made it necessary to increase ULTRA production volumes at TMK IPSCO facilities. In response to this rapid increase in demand, in particular for the ULTRA SF, which enjoyed great success with E&P companies drilling in complex US shale plays, the Company set out to expand the threading capacity for its ULTRA Premium Connections product line. TMK IPSCO commissioned a third production line at its Houston ULTRA facility, increased output at Odessa and began installing ULTRA manufacturing equipment at its Tulsa mill.

In May 2010, TMK IPSCO opened its eleventh manufacturing facility in the US. The Brookfield, Ohio, facility is located in close proximity to the Marcellus Shale Region, one of the country's largest shale gas deposits, and will eventually add 100,000 tons of ULTRA premium threading capacity to TMK's American division.

5.3. Strategy

TMK's strategy is to enhance the Company's position as one of the world's leading producers of steel pipes. Given the current global financial and economic environment, TMK had to readjust its recent strategy of expansion and development through acquisitions and capital expenditure. The Company believes that the acquisition of TMK IPSCO in 2008 coupled with the completion of key strategic investment projects provide TMK with a strong platform from which to enhance its position as a global leader in the OCTG and oil and gas pipe segments as markets recover. TMK plans to implement the remainder of the Strategic Investment Program, including the addition of an EAF at TAGMET and a continuous FQM rolling mill at Seversky, in the near future, depending upon market conditions and the availability of financing.

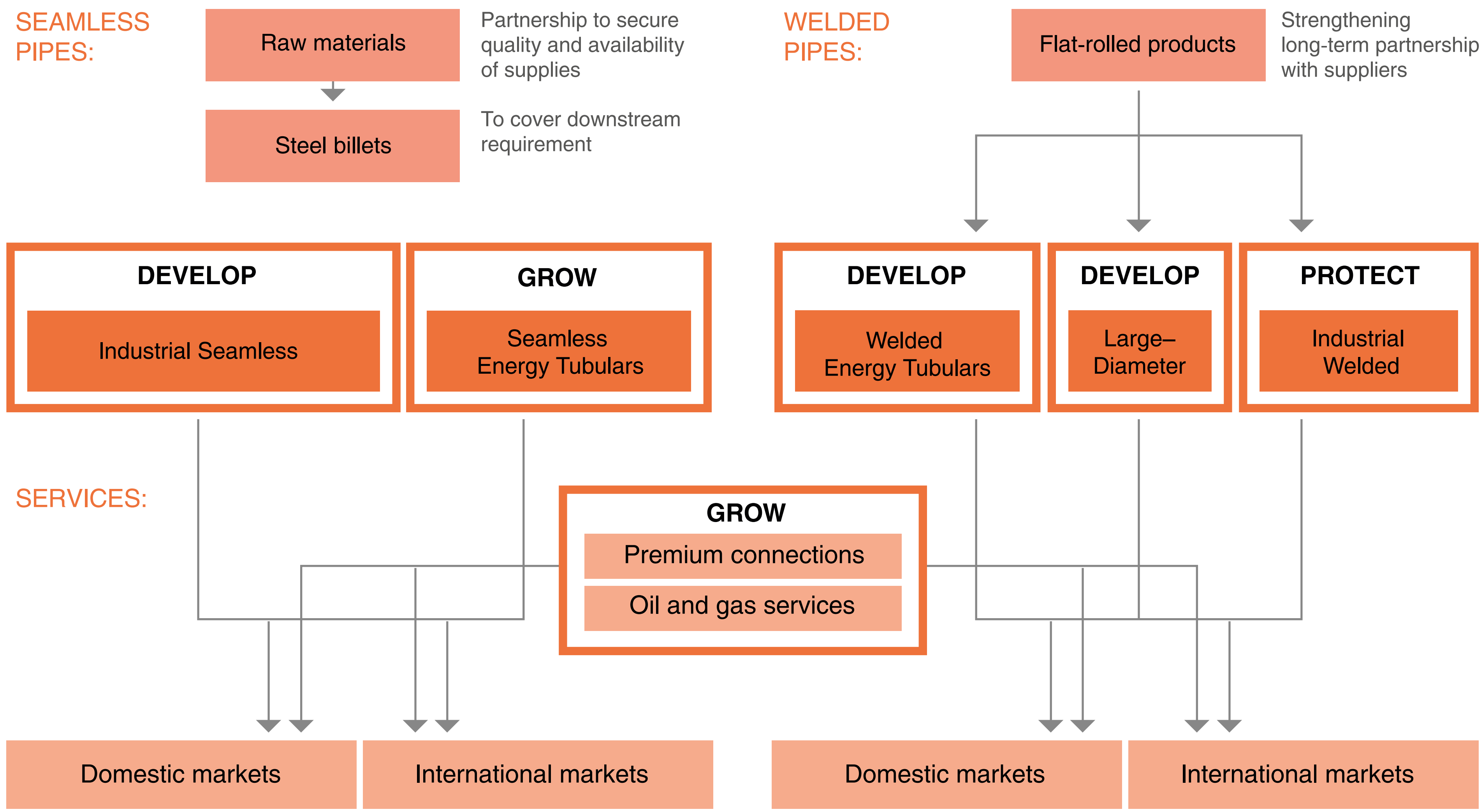
The Company intends to pursue its strategic goals by enhancing product mix, working more closely with customers and end-users to deliver higher value added products and services, increasing the efficiency of both seamless and welded pipe production, leveraging its global footprint, creating strong brand recognition and exercising greater control over costs.

TMK also intends to enhance its research and development capabilities to expand its technological footprint and increase manufacturing efficiency while decreasing production costs. Additionally, the Company aims to accelerate the transfer of best practices throughout its operations, primarily focusing on adapting TMK IPSCO technology and expertise to Russian and European operations.

In Russia, the CIS and other regions outside of the United States, TMK intends to continue to focus principally on higher margin seamless pipe products, especially on seamless OCTG. In the United States, where welded pipes have a strong market following among oil and gas producers, TMK intends to concentrate principally on welded and seamless OCTG and line pipe. With respect to the Russian welded pipe business, the Company focuses on large diameter welded pipes for the oil and gas industry. TMK's leading role in this important product segment was further strengthened with the commissioning of a new longitudinal welded pipe mill at Volzhsky.

As part of its strategy, the Company plans to further develop its premium connections business. TMK-Premium Service, which oversees the development and marketing of Russian-produced TMK premium connections, has benefited from the acquisition of TMK IPSCO and its ULTRA premium connections portfolio. The acquisitions of the Pipe Maintenance Department, Central Pipe Yard and TMK-Kaztrubprom service assets in 2007 an 2008 broadened the Company's range of transportation and inventory management services, tubing pipe repair, pipe coating and high-technology pipe threading.

Strategic development of TMK business segments



Seamless business

TMK seeks to consolidate its position as a leading supplier of OCTG and line pipe to the oil and gas industry in Russia and the CIS and become a leading supplier of OCTG in the United States and globally. The Company further aims to become a leading global supplier by enhancing product mix and combining low-cost production in Russia with a global network of strategically located distribution, service, processing and finishing facilities. TMK intends to accomplish these objectives by:

- Enhancing oil and gas pipe product mix to match global leaders;
- Strengthening the Company's position as a global leader within the OCTG and line pipe markets;
- Completing the Strategic Investment Program and leveraging the benefits achieved to date;
- Focusing on high margin products within the industrial seamless pipe sector.

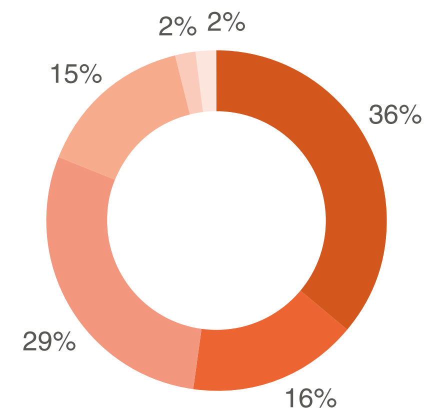
Welded business

With the acquisition of TMK IPSCO in 2008, the Company has significantly redefined the manner in which it views the welded pipe business. TMK IPSCO is a major producer of welded OCTG in the United States, where welded pipes represent a significant portion of the OCTG market and where OCTG pipes can be used interchangeably with seamless products in many applications. Accordingly, in the United States, TMK plans to focus its efforts on the high margin welded OCTG market, as well as on the seamless market. In Russia, the Company's focus in this segment is limited to large-diameter pipes for oil and gas companies and used in pipeline projects in Russia, the CIS and the Caspian region. TMK does not otherwise plan to make any significant capital expenditure in the industrial welded pipe business.

5.4. Investment Projects

Strategic Investment Program

Starting from 2004, TMK has been aggressively reconstructing steelmaking and pipe rolling equipment at the Company's mills. By the end of 2009, TMK had executed the main part of its Strategic Investment Program which enabled the Company to considerably increase the efficiency of seamless and large-diameter welded production processes and capacities, improve steelmaking and product quality, and lower production costs. Despite the economic environment and the re-evaluating of TMK's strategic priorities, the Company continued implementing the program with USD 252 million (excluding VAT) of investments in 2009.



Strategic Investment Program structure (2004-2009)

- production of steel and billets for seamless pipes
- heat treatment and finishing
- seamless pipe production and quality improvement
- production of large–diameter pipes
- environmental protection systems
- controlling and testing equipment

Capacity ramp-up of key investment projects

The company is in the final stages of the production ramp-up of capacities commissioned at the end of 2008 and early 2009.

The shutdown and replacement of obsolete Pilger equipment by a state-of-the-art PQF rolling mill at TAGMET allowed the Company to reach new heights in product quality in 2009. The new facility produces pipes of more stringent geometry and minimizes wall thickness variations, two crucial technical parameters. The Company has been able to expand its product range, including of production destined for exports, given that the mill can produce seamless pipes with wall thickness ranging from 5 to 25 mm. The past year has demonstrated that the installation of the PQF mill was justified as it allows TMK to supply the full pipe range.

In 2009, TMK began producing longitudinal welded large-diameter pipes at Volzhsky. The mill's production fully complies with the more demanding requirements of Russian customers. In late 2009 – early 2010, the mill successfully completed the DNV certification for sub-sea pipelines, allowing TMK to participate in offshore pipeline projects. Given the product mix, the mill's 2010 order backlog translates into full capacity utilization and highlights both its successful launch and the importance of longitudinal welded large-diameter pipe segment.

Following the commissioning of a ladle furnace and a continuous caster, the modernization of Seversky's steelmaking operations was completed in 2009 with the installation of an electric arc furnace and a vacuum degassing system. The introduction of leading steelmaking technology provided the mill with better energy efficiency given the balance between electricity, natural gas, coal and oxygen consumption. The EAF's recirculating water cooling system minimizes water intake and the vacuum degassing unit is unparalleled in Russian and the CIS in terms of particle emission control.

Other 2009 investment projects

Russia

Heat treatment equipment with an aggregate annual capacity of 740 thousand tonnes was brought online at Volzhsky, Sinarsky and TAGMET. The fully automated heat treatment lines have significantly expanded TMK's technological capabilities. When producing high density products, TMK can now shift from high alloy steels to low alloy steels and maintain the required mechanical properties.

A new degassing mill was commissioned at Seversky. This new equipment permitted a significant increase in steel and billet quality.

Scrap processing equipment was installed at Seversky. The commissioning of this equipment allows the mills to increase the amount of in-house scrap used in steelmaking, ultimately lowering billet production costs.

A waste water treatment facility designed for the treatment of industrial waste water using biochemical technology was launched at Sinarsky. The upgrading of Sinarsky's operations in 2009 also included heat treatment equipment of cold-deformed coiled tubing in nitrogen shielding gas environment and the installation and ramping up polishing equipment for stainless steel and alloy pipes.

Various projects aimed at improving product characteristics and quality and expanding the mix were implemented at the Company's Russian plants last year. As a result, TMK developed and started producing 42 new types of products in 2009.

US

In 2009, new heat treatment facilities were put in operation at the TMK Baytown and TMK Blytheville mills in the United States. Each of these fully automated facilities is designed to heat treat and finish up to 100,000 tonnes of pipe per year. New heat treatment facilities allowed TMK IPSCO to strengthen its positions in the high-tech steel pipe market for pipes used, among other applications, in shale gas recovery.

Europe

Faced with a significant decrease in market demand, the Company's European mills, TMK-ARTROM and TMK Resita, focused their efforts on production upgrade programs.

As part of TMK-ARTROM's continuous efforts to increase production quality, new non-destructive testing equipment was installed to the cross piercing elongator line. Furthermore, the mill's laboratory testing capabilities were extended with the installation of a new tensile testing machine from Zwick.

Throughout the year, TMK-ARTROM continued to broaden its product offering by developing and launching the production of new tubular products. After nearly two years of R&D efforts, TMK-ARTROM homologated production of a new type of drill pipe known as AC-600-1, which has already enjoyed a wide success, notably in the Netherlands, where it is used to reinforce dams and dikes in the fight against storm surges from the sea. In the seamless oil and gas tubular range, the plant started production of API-certified coupling stock. The power generation and high pressure tubulars segments were also broadened with the start of cold production of 14 meter long energy tubulars certified to A179, A210, A213, and A209 standards.

The main project undertaken at TMK-Resita in 2009 was the modernization of the electric arc furnace. Completed in December 2009, the upgrade allowed TMK-Resita to reduce electrical consumption, reduce tap time and achieve full automation of process control. This project concluded Resita's large-scale investment program implemented to create a simplified and efficient production flow of high quality tube billets.

5.5. Quality Management

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.

Some of the most significant achievements of 2009:

Russia

Development of the Corporate Quality Management System (CQMS) with the har monization of corporate processes and documentation. The application of integrated and uniformed corporate processes and of their evaluation allows TMK facilities to operate under common standards.

TMK performed the analysis of its corporate quality management system (CQMS) and its transition to the new ISO 9001-2008 requirements. In December 2009, the British audit company Lloyd Register Quality Assurance recognized the CQMS as complying with the new ISO 9001-2008 requirements.

Certification extension and implementation of CQMS at TMK-Kaztrubprom and TMK-Premium Service. In 2009, TMK-Premium Service field support activities were certified for the first time.

Supply chain quality control. RosNITI is authorized by TMK to evaluate the quality of inputs used in pipe production. RosNITI analyses product performance and audit the quality systems of suppliers wishing to qualify with TMK. The list of certified suppliers to TMK facilities is drawn-up according to RosNITI's evaluation.

Products certification in the American Petroleum Institute (API). TMK-Kaztrubprom obtained the right to use the American Petroleum Institute (API) monogram on tubing and casing threading and couplings according to API Spec 5CT.

Products certification under EU Directives. Certification of products according to European Union directive 89/106/EEC. Seversky obtained the right to apply the CE marking on products manufactured according to DIN EN 10210 and DIN EN 10219. These certifications allow the Company to expand the sales markets for threaded pipes from TMK-Kaztrubprom and industrial pipes from Seversky.

European Division

TMK-ARTPOM became one of five European pipe manufacturers accredited to produce P355N steel pipes to DIN EN 10216-3 standards, as certified by TUV-SUD

American Division

Ultra Premium Oilfield Services Ltd., a part of TMK-IPSCO, was certified to ISO 9001-2008 by QMS Registered. From 2004, TMK IPSCO has been successfully implementing various improvement initiatives using such concepts as Six Sigma and Lean manufacturing to cut down lead times and production costs while improving product quality. TMK IPSCO is currently rolling out TUBEx, its own improvement system based on Six Sigma and Lean manufacturing business strategies.

MANAGEMENT DISCUSSION AND ANALYSIS

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

This review of TMK's results of operations and financial position should be read in conjunction with the Consolidated Financial Statements of TMK and the related notes for the twelve months ended December 31, 2009 and 2008.

The information contained in this section, including information on TMK's business 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.

Overview

TMK is one of the largest oil and gas pipe producers operating in Russia, North America, Europe, the CIS and the Middle East.

In 2009, TMK sold 2,769.2 thousand tonnes of pipe products, including 1,649.2 thousand tonnes of seamless pipes and 1,037.2 thousand tonnes of oil country tubular goods (OCTG). The 14.2% year-on-year decrease in sales volumes was driven by the fall in demand brought on by the economic crisis. At the same time OCTG sales decreased by 15.6%.

Russia is TMK's key market and represented 66.9% of total sales volumes in 2009. Although the global economic crisis led to a significant reduction in the consumption of steel pipes in Russia, TMK increased its Russian market share from 27.4% in 2008 to 29.8% in 2009. TMK's share of the Russian seamless pipe market, its key business, was 56.6% and its share of the seamless OCTG market was 69.0%.

In 2009, TMK's sales outside the Russian Federation were 916.1 thousand tonnes or 33.1% of total sales volumes as compared to 37.2% in 2008. TMK exported 443.4 thousand tonnes of steel pipe products from its Russian plants.

Liquidity and capital requirements

TMK used operating cash flows and borrowings to finance its working capital needs and investment activities. As of December 31, 2009, cash balances totalled USD 243.8 million.

In 2009, the net cash inflow from operating activities amounted to USD 852.3 million as compared to USD 739.5 million in 2008. As of December 31, 2009, TMK debt was USD 3,713.2 million. Due to improvements in the loan portfolio structure in 2009, the share of short-term debt decreased from 69.9% as of December 31, 2008 to 41.4% as of December 31, 2009, with the share of long-term debt increasing from 30.1% to 58.6%.

The restructuring of TMK's loan portfolio allowed a significant reduction of its working capital deficit, i.e. excess of short-term liabilities over current assets:

– as of December 31, 2008: USD 1,446.4 million,

– as of June 30, 2009: USD 951.7 million,

– as of December 31, 2009: USD 645.0 million.

This improvement was achieved by the following:

- in January 2009, TMK attracted 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 used for the acquisition of TMK IPSCO as well as to exercise the call option (USD 507.5 million) on the remaining 49% of shares in NS Group, Inc. Under the current loan agreement, the maturities of the loans were extended to 5 years and interest rates reduced;
- in March 2009, TMK received a loan from OAO Bank VTB for an amount of USD 90.2 million with the purpose of repayment of the rouble bond loan series 02 for the sum of RUB 3 billion which matured on March 24, 2009. In the same period, the Company repaid the bond liability;
- in August and September 2009, TMK obtained a series of loans from OAO Bank VTB for an aggregate amount of USD 750 million to redeem USD 300 million Eurobonds due in September 2009 and to partially redeem the 2011 USD 600 million loan participation notes;

- between June and December 2009, TMK entered into several loan agreements with Sberbank for an aggregate amount of RUB 14.2 billion, including 7 year facilities for an aggregate amount of RUB 5.7 billion and 1 to 1.5 year facilities in an aggregate amount of RUB 8.5 billion; the facilities were used to refinance short-term borrowings;

- between September and October 2009, TMK concluded agreements with OAO Gazprombank for the opening of credit lines for a total amount of RUB 5 billion for a period of up to 3 years, and OAO Bank VTB for a total amount of RUB 10 billion for up to 5 years. Half of these facilities are secured by guarantees of the Russian Federation.

TMK continues to carry out a series of measures to maintain sufficient liquidity and improve the structure of its loan portfolio, including constant negotiations with banks concerning the improvement of loan structure and cost of borrowing, capital markets transactions, as well as reducing its operational costs and capital expenditures. Given all possible risks connected with the future activity assessment, the Company expects to continue as a going concern in the foreseeable future.

Changes in the Group structure in 2009

On January 30, 2009, TMK exercised its call option to acquire the remaining 49% of NS Group, Inc. shares from Evraz Group S.A. in accordance with the “Call/Put” option agreement concluded in March 2008. After the acquisition of the 49% of NS Group, Inc., TMK owned 100% of NS Group, Inc.’s authorized capital.

In December 2009, OOO TMK–INOX was established as a part of TMK. TMK-INOX oversees the production and sales of stainless steel pipes produced at VTZ and SinTZ.

During 2009, TMK acquired an additional 1.21% of SinTZ shares, 0.69% of STZ shares, 0.12% of TAGMET shares and 0.51% of TMK-Resita shares for USD 9.3 million. As of December 31, 2009, TMK’s effective equity share in SinTZ, STZ, TAGMET and TMK-Resita stood at 94.16%, 94.22%, 96.06% and 100.00%, respectively. In 2009, as a result of TMK-Artrom’s share capital increase TMK increased its effective equity share to 92.66%.

Recent events

In March 2010, TMK amended an agreement with OAO Bank VTB concerning an August 2009 USD 450 million loan by extending the maturity by three years and lowering the interest rate.

In February 2010, TMK issued USD 412.5 million 5.25% convertible Eurobonds due in 2015. The bonds can be converted into Global Depositary Receipts (1 GDR being equal to 4 ordinary shares) at USD 23.075 per GDR, representing a 30% premium to the reference price. These convertible Eurobonds were issued by TMK Bonds S.A. and guaranteed by TMK’s subsidiaries. The proceeds from the offering were used to refinance TMK’s existing short-term indebtedness, including:

- a USD 300 million OAO Bank VTB facility which was due in September 2010;

- a USD 55 million loan from OAO Khanty-Mansiyskiy Bank which was due in December 2010;

- loans provided by Sberbank in the amount of RUB 1.0 billion and RUB 660 million which were due in 2010.

In February 2010, TMK’s Board of Directors made a decision to increase OAO TMK’s charter capital by way of open subscription for 86,166,871 additional ordinary shares, or 9.87% of total charter capital, with par value of 10 roubles and an offering price of 133 roubles per share.

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

In March 2010, TMK entered into an agreement with OAO Bank VTB for a one-year loan in the amount of USD 94 million with an option to extend the maturity to a maximum of 5 years. The loan was used, among other purposes, to repay the OAO Bank VTB USD 90.2 million loan.

As of April 1, 2010, TMK’s debt (principal amount only) was USD 3,812.4 million, including short-term USD 752.5 million and long-term USD 3,059.9 million. The share of short-term loans and borrowings had decreased to 19.7%.

Results of operations

The table below shows TMK's consolidated income statement data for the twelve months period ended December 31:

	2009		2008	
	million USD	**% of revenue**	**million USD**	**% of revenue**
Revenue	3,461.0		5,690.0	
Cost of sales	(2,904.6)		(4,252.5)	
Gross profit	**556.4**	**16,1%**	**1,437.5**	**25,3%**
Selling and distribution expenses	(312.6)		(344.1)	
Advertising and promotion expenses	(4.6)		(10.1)	
General and administrative expenses	(203.7)		(267.9)	
Research and development expenses	(10.2)		(15.2)	
Other operating expenses	(33.2)		(52.0)	
Other operating income	16.0		7.2	
Impairment of goodwill	(10.1)		(3.5)	
Impairment of property, plant and equipment	(39.7)		(59.8)	
Reversal of impairment of property, plant and equipment	2.5		-	
Impairment of financial assets	-		(23.7)	
Foreign exchange gain/(loss), net	14.2		(99.8)	
Finance costs	(446.9)		(272.2)	
Finance income	43.3		8.7	
Share of profits in associate	1.4		3.0	
Gain on disposal of associate	0.4		-	
(Loss)/profit before tax	**(426.8)**	**(12.3)%**	**308.1**	**5,4%**
Income tax benefit/(expense)	103.0		(109.6)	
(Loss)/profit for the year	**(323.8)**	**(9.4)%**	**198.5**	**3,5%**
Attributable to:				
Equity holders of the parent entity	(315.8)		199.4	
Minority interests	(8.0)		(0.9)	
	(323.8)		**198.5**	

Beginning January 1, 2009, TMK business is represented in three operating segments consisting of:

- Russia: TMK's plants located in Russia and Kazakhstan, oil and gas services division and trading companies in Russia, Kazakhstan, Switzerland and the United Arab Emirates;
- America: TMK's plants and a trading company located in North America;
- Europe: TMK's plants and trading companies located in Europe (excluding Switzerland).

Sales volumes

The following table shows TMK's pipe sales volumes for the twelve months period ended December 31:

	2009	2008		2009	2008
	(thousand tonnes)		% change	(as a percentage of total tonnes)	
Russia	2,296.5	2,573.7	(10.8)%	83.0%	79.8%
America*	358.0	488.3	(26.7)%	12.9%	15.1%
Europe	114.7	164.5	(30.3)%	4.1%	5.1%
Total pipes	**2,769.2**	**3,226.5**	**(14.2)%**	**100.0%**	**100.0%**

* Sales volumes for 2008 are for the period from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008.

Sales volumes in 2009 declined 14.2% as compared to 2008 or by 457.3 thousand tonnes. This decline reflected the contraction in demand brought on by the economic crisis.

Sales of pipes products in the Russian segment declined 10.8% as compared to 2008.

The drop in sales volumes was brought on by a slump in demand for oil and gas pipes (line pipe and OCTG) as oil and gas companies cut down their drilling activity and suspended investments in the development of new fields.

The decline in industrial pipe sales volumes was primarily caused by the contraction in demand from the construction and machine-building sectors as demand from their respective end-customers dropped as well.

At the same time, sales of large-diameter pipes increased in 2009 by 19.8% as a result of the commissioning of a large-diameter longitudinal welded pipe mill at VTZ in late 2008. The implementation of large-scale pipeline projects by Gazprom and Transneft increased large-diameter pipe consumption in Russia by 3.9% in 2009 as compared to 2008.

In 2009, sales of pipe products in the American segment decreased 26.7% as compared to 2008. As the American pipe market significantly declined, sales of all types of pipes dropped even comparing full year 2009 sales volumes to 2008 volumes which relate to the period from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008. The American division's primary business is production of oil and gas pipes, including premium connections. The decline in sales volumes was brought on by a decrease in natural gas prices which resulted in the rig count nearly halved and high levels of inventories caused by the inflow of imported pipe products, especially from China.

The main business of the European segment is production of industrial pipes. In 2009, sales of these pipes declined by 42.4% as demand from the machine-building and automotive sectors dropped as these sectors also suffered from the fall in demand for their products. However, the decline in industrial pipe sales volumes was partly offset by a 26.1% increase in line pipe sales volumes. Nonetheless, overall sales in the European segment decreased by 30.3% in 2009.

Revenue

The table below presents TMK's revenue by operating segment for the twelve months period ended December 31:

	2009	2008		2009	2008
	(million USD)		Total change	(as a percentage of total revenue)	
Russia	2,639.2	4,194.8	(1,555.6)	76.3	73.7
America	655.2	1,203.3	(548.1)	18.9	21.2
Europe	166.6	291.9	(125.3)	4.8	5.1
Total revenue	**3,461.0**	**5,690.0**	**(2,229.0)**	**100.0**	**100.0**

The table below provides an analysis of revenue changes in 2009 in comparison with 2008:

	Due to change in prices and product mix	Due to change in sales volumes	Total change	Due to change in prices and product mix	Due to change in sales volumes
	(million USD)				
Russia	(1,103.7)	(451.9)	(1,555.6)	(26.3)%	(10.8)%
America	(227.2)	(320.9)	(548.1)	(18.9)%	(26.7)%
Europe	(36.9)	(88.4)	(125.3)	(12.6)%	(30.3)%
Total	**(1,367.8)**	**(861.2)**	**(2,229.0)**	**(24.1)%**	**(15.1)%**

The following table presents revenue by geographical area (based on the location of the customer) for the twelve months period ended December 31:

	2009		2008	
	Million USD	% of total revenue	Million USD	% of total revenue
Russia	2,170.6	62.7%	3,399.2	59.7%
America	738.7	21.3%	1,340.2	23.6%
Europe	272.0	7.9%	524.6	9.2%
Central Asia and Caspian Region	134.2	3.9%	183.8	3.2%
Middle East and Gulf Region	61.1	1.7%	152.3	2.7%
Asia and Far East	68.1	2.0%	71.4	1.3%
Africa	16.3	0.5%	18.5	0.3%
Total revenue	**3,461.0**	**100.0%**	**5,690.0**	**100.0%**

Revenue from sales decreased by 39.2% in 2009 as compared to 2008 and constituted USD 3,461.0 million as compared to USD 5,690.0 million the previous year. This decrease was brought on by changes in the prices for pipe products, as well as by the decline in production volumes triggered by the decrease in demand from key customers also affected by the economic crisis. Consequently, the decline in revenue as a result of changes in prices and product mix amounted to USD 1,367.8 million or 24.1%, while changes in sales volumes lead to a USD 861.2 million or 15.1% decline.

The decline in revenue in the Russian segment in 2009, as compared to 2008, amounted to USD 1,555.6 million or 37.1%. The decline in revenue brought on by changes in prices and product mix was USD 1,103.7 million or 26.3%, while changes in sales volumes caused a USD 451.9 million or 10.8% decline.

Revenue from sales in the American segment decreased by 45.6% or USD 548.1 million in 2009 as compared to 2008. Revenue for 2008 is calculated from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008. The decline in revenue attributable to changes in prices and product mix was USD 227.2 million or 18.9%, while attributable to changes in sales volumes amounted to USD 320.9 million or 26.7%.

Revenue from sales in the European segment in 2009 declined by USD 125.3 million or 42.9% when compared to 2008. The decline in revenue attributable to changes in prices and product mix was USD 36.9 million or 12.6%, while the decline triggered by changes in sales volumes was USD 88.4 million or 30.3%.

Cost of sales

In 2009, the cost of sales declined by USD 1,347.9 million or by 31.7% as compared to 2008 and amounted to USD 2,904.6 million. The cost of sales decreased first and foremost as a result of lower sales volumes and a decline in raw material prices. The share of costs of sales as a percentage of revenue increased from 74.7% in 2008 to 83.9% in 2009. This change reflects: (i) consumption of inventories in 2009, which were purchased in 2008 at higher cost as compared to 2009 average prices; and (ii) increased depreciation from the commissioning of new equipment in 2008 and 2009.

The Russian segment's cost of sales declined by USD 1,062.3 million or by 33.6% in 2009 and amounted to USD 2,100.9 million as compared to USD 3,163.3 million in 2008. In 2009, the share of cost of sales represented 79.6% of revenue in the Russian segment as compared to 75.4% in 2008. The cost of sales declined in the Russian segment mainly as a result of lower production volumes and reduction of raw material prices, as well as from the weakening of the rouble.

The American segment's cost of sales amounted to USD 667.9 million in 2009, representing a 22.1% decrease over 2008. In 2009, cost of sales represented 101.9% of revenue in the American segment as compared to 71.3% in 2008. The 2008 costs for the American segment are calculated from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008. TMK IPSCO experienced a significant decrease in production in 2009 as a result of the decline in pipe

consumption on the North American pipe market. The American segment's cost of sales change reflects consumption of inventories in 2009, which were purchased in 2008 at higher cost as compared to 2009 average prices.

In 2009, the European segment's cost of sales decreased by 41.4% and amounted to USD 135.8 million as compared to USD 231.7 million in 2008. The share of cost of sales was 81.5% of revenue in the European segment as compared to 79.4% in 2008.

The main components of TMK's cost of sales are discussed below.

Raw materials and supplies

The costs of raw materials and supplies include the costs of coils, steel sheets, metal scrap, pig iron, ferrous alloys, billets and other consumables.

In 2009, TMK's costs of raw materials and supplies decreased by USD 1,284.0 million, representing a 43.6% decline as compared to 2008. As a result of the declines observed in raw materials prices, production volumes and inventory levels of semi-finished and finished products, the share of raw material expenses in the total structure of TMK's cost of production decreased from 69.2% in 2008 to 63.3% in 2009.

Prices for certain types of raw materials and supplies varied depending on the region. In 2009 in Russia, the average purchase cost of metal scrap declined by 13–16%, average price for coils declined by 22–40% and the average purchase price for pig iron deceased by 40–49% as compared to 2008. The average purchase cost of metal scrap and coils at TMK IPSCO decreased by 39.0% and 37.3%, respectively, as compared to 2008.

Expenses for consumables such as spare parts for equipment repair and maintenance, fuels and lubricants, refractories and other materials declined by 31.3% in 2009 as compared to the same period of the previous year. This decline was primarily caused by the decrease in repair and maintenance activities following the optimization of the repair program as well as by the weakening of the Russian rouble and Romanian leu against the US dollar and Euro.

Labour cost

Labour costs include wages and social security payments for workers directly engaged in the production of finished product and auxiliary production.

In 2009, labour costs decreased by 23.1% to USD 393.1 million compared to USD 511.2 million in 2008, and their share in production costs amounted to 15.0% as compared to 12.0% the previous year.

In 2009, the Russian segment's labour costs and social security payments decreased by USD 96.1million or 23.6%, and amounted to USD 310.2 million as compared to USD 406.3 in 2008. This decline in labour costs reflected the reduction of both production personnel and wages implemented within the scope of the anti-crisis program begun in the fourth quarter of 2008. The weakening of the Russian rouble against the US dollar also resulted in the reduction of costs in 2009 as compared to 2008.

Labour costs and social security payments in the American segment amounted to USD 63.9 million in 2009, 16.1% less than in 2008. Labour costs for 2008 represent costs from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008. Decrease in labour costs was achieved by the use of furloughs and the implementation of flexible work arrangements, as well as by measures taken to reduce costs under TMK's anti-crisis program.

In 2009, the European segment's labour costs and social security payments declined by 34.0% and amounted to USD 19.0 million as compared to USD 28.8 million the previous year. This decline in labour costs and social security payments was achieved by measures taken to decrease costs and by the weakening of the Romanian leu against the US dollar and Euro.

Cost of energy and other utilities

TMK's cost of energy and other utilities decreased in 2009 by 23.7% and amounted to USD 216.9 million as compared to USD 284.4 million in 2008. Its share in the cost of production increased from 6.7% in 2008 to 8.3% in 2009.

The decrease in energy costs and other utilities was caused by the slowdown in production at TMK facilities and lower capacity utilization as compared to 2008, despite the inclusion of the US assets acquired in June 2008 and the effects of a weakening of the Russian rouble and Romanian leu against the US dollar and Euro.

Energy costs and other utilities in the Russian segment amounted to USD 183.5 million and USD 222.7 million in 2009 and 2008, respectively. Average electricity prices increased by 27.5% and natural gas prices increased by 6.7% as compared to 2008. The weakening of the Russian rouble against the US dollar also resulted in the reduction of costs in 2009 as compared to 2008.

In 2009, energy costs and other utilities in the American segment amounted to USD 16.6 million, or 28.4% less than in 2008. The 2008 American segment's costs are calculated from June 12, 2008, when TMK IPSCO was acquired, to December 31, 2008. Average prices for electricity and natural gas decreased by 20.4% and 23.7%, respectively, as compared to 2008.

Energy costs and other utilities in the European segment amounted to USD 16.8 million and USD 38.6 million in 2009 and 2008, respectively. In Romania, average electricity prices increased by 3.2% and average natural gas prices decreased by 4.1% as compared to 2008.

Gross profit

The table below shows the profitability of sales (ratio of gross profit to revenue) by operating segment for the twelve months ended December 31:

	2009	2008
Russia	20.4%	24.6%
America	(1.9)%	28.7%
Europe	18.5%	20.6%
Gross margin	**16.1%**	**25.3%**

In 2009, TMK's gross profit declined by USD 881.1 million or 61.3% as compared to 2008, and amounted to USD 556.4 million. Gross margin reduced from 25.3% in 2008 to 16.1% in 2009. The decline in gross profit and profitability of sales in TMK's operating segments was a result of strong declines in the revenue and cost of sales (as previously discussed). It reflects the decline in sales volumes and prices, low capacity utilization, increases in depreciation and amortisation expenses, and consumption of inventories in 2009, which were purchased in 2008 at higher cost as compared to 2009 average prices.

In 2009, the Russian segment's gross profit decreased by 47.8%, or by USD 493.3 million, and amounted to USD 538.3 million as compared to USD 1,031.6 million in 2008. Gross margin decreased from 24.6% in 2008 to 20.4% in 2009.

The American segment's gross margin decreased to negative 1.9% as compared to 28.7% in 2008. The American segment's gross profit for 2008 was consolidated from June 12, 2008, the date of TMK IPSCO acquisition, to December 31, 2008. The negative gross margin of the American segment was due to the decrease in pipe prices and was adversely affected by the fact that the impact on decreasing of the cost of sales from continuous decline of raw material prices was partially reduced by consumption of previously purchased inventories.

The European segment's gross profit in 2009 declined by 48.8% and amounted to USD 30.8 million as compared to USD 60.1 million in 2008. The gross margin decreased from 20.6% in 2008 to 18.5% in 2009.

Operating expenses

Selling and distribution expenses

In 2009, TMK's selling expenses declined by 9.2% and amounted to USD 312.6 million as compared to USD 344.1 million in 2008.

In 2009, selling expenses in the Russian segment declined by USD 76.4 million, or by 30.0% as compared to 2008. Selling expenses amounted to USD 178.2 million and USD 254.6 million in 2009 and 2008, respectively.

Selling expenses in the American segment amounted to USD 109.8 million, representing a 96.8% increase from USD 55.8 million in 2008. Much of TMK IPSCO's costs are fixed costs, for example, depreciation and amortisation costs in selling expenses. Moreover, TMK IPSCO's expenses are consolidated from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008.

Selling expenses in the European segment amounted to USD 24.5 million and USD 33.7 million in 2009 and 2008, respectively.

The decrease in selling expenses was first and foremost caused by the decrease in the cost for the transportation of finished products to customers by 28.5% in 2009 as compared to 2008, as a result of lower sales volumes. Wages and salaries and social security payments in 2009 decreased by 24.9% as compared to 2008, as a result of the measures taken to decrease expenses under the anti-crisis program started in the fourth quarter of 2008 in response to the global economic crisis. The decrease in selling expenses was also caused by the weakening of the Russian rouble and Romanian leu against the US dollar and Euro.

In 2009, depreciation and amortization expenses included in selling expenses increased by USD 49.5 million or 98.0% and their share in the selling expenses structure was 32.0% as compared to 14.7% in 2008. This increase in depreciation expenses relates to the depreciation of TMK IPSCO intangible assets, particularly, customer relationships, recognised from the date of TMK IPSCO acquisition on June 12, 2008 to December 2008, and for the full year in 2009 (see Notes to Consolidated Financial Reports – Goodwill and Other Intangible Asset).

General and administrative expenses

General and administrative expenses in 2009 decreased by 23.9%, or USD 64.2 million, and amounted to USD 203.7 million as compared to USD 267.9 million in 2008.

The decrease in these expenses was primarily due to the measures taken to reduce expenses as a response to the global economic crisis. Wages and social security payments to management decreased by 27.4% in 2009 as compared to 2008. The decline in expenses was also caused by the weakening of the Russian rouble and Romanian leu against the US dollar and Euro.

General and administrative expenses in the Russian segment amounted to USD 145.0 million and USD 225.5 million in 2009 and 2008, respectively.

In 2009, general and administrative expenses in the American segment amounted to USD 49.1 million as compared to USD 28.1 million in 2008. TMK IPSCO expenses in 2008 are consolidated from the date of TMK IPSCO acquisition on June 12, 2008 to December 31, 2008.

The European division's general and administrative expenses decreased by 32.8%; these amounted to USD 9.6 million and USD 14.2 million in 2009 and 2008, respectively.

Losses from impairment of non-current assets

TMK performed impairment tests on property, plant and equipment and on intangible assets as at June 30 and December 31, 2009, which indicated that the carrying value of the property, plant and equipment of its Romanian subsidiaries and OMZ and the carrying value of goodwill allocated to the acquisition of oilfield services companies (TMK Pipe Maintenance Department and Truboplast) and TMK-Kaztrubprom exceeded their recoverable amounts. As a result, TMK recorded a loss from the impairment of property, plant and equipment of USD 39.7 million and a loss from the impairment of goodwill of USD 10.1 million. At December 31, 2009, as a result of improvement of cash flow projections, TMK determined that the recoverable value of OMZ exceeded its carrying value. As a result, TMK reversed the impairment loss in the amount of USD 2.5 million previously recognised in the six-month period ended June 30, 2009 in respect of property, plant and equipment of OMZ.

Exchange rate fluctuations

The exchange rate fluctuations between the Russian 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 Russian 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:

	16.04.2010	31.12.2009	31.12.2008
US dollar exchange rate	28.93	30.24	29.38
EUR exchange rate	39.44	43.39	41.44
Average exchange rate [RUB/USD] (from the year beginning)	29.79	31.72	24.86
Average exchange rate [RUB/EUR] (from the year beginning)	41.11	44.13	36.43

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 currency of TMK IPSCO, TMK North America and TMK Middle East is the US dollar. 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 ex-

change 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 2009, the Russian rouble depreciated against the US dollar by 2.9% as compared to 19.7% depreciation in 2008. Against the Euro, the rouble depreciated by 4.7% in 2009 whereas the depreciation in 2008 was 15.3%.

In 2009, TMK recognized a foreign exchange gain in the amount of USD 14.2 million as compared to foreign exchange losses of USD 99.8 million in 2008. In addition, TMK recognised foreign exchange losses of USD 124.1 million and USD 381.9 million in 2009 and 2008, respectively, in the statement of other comprehensive income, representing effective portion of foreign exchanges losses on the hedged financial instruments.

Finance costs

In 2009, TMK's finance costs, including accrued interest and the amortization of borrowings issuance costs, increased by 64.2% and amounted to USD 446.9 million as compared to USD 272.2 million in 2008. This increase was caused by the expansion of the loan portfolio (see “Indebtedness”), as well as by higher interest rates for bank facilities as a result of the global financial and economic crisis. As a consequence of the high interest rates of the first half of 2009, TMK's weighted average nominal interest rate as of June 30, 2009 was 12.3%. Interest rates were lowered in the second half of 2009 and the weighted average nominal interest rate stood at 10.7% as of December 31, 2009.

Income Tax

In 2009, TMK reported a pre-tax loss of USD 426.8 million as compared to a pre-tax profit of USD 308.1 million in 2008. As a result, TMK recognised an income tax benefit of USD 103.0 million versus an income tax expense of USD 109.6 million in 2008. Effective income tax rate in 2009 declined to 24.1% from 35.6% in 2008, which reflects a decrease of share of the American division profit (loss) before tax in the total consolidated profit (loss) before tax.

(Loss)/profit for the year

As a result of the above-mentioned factors and TMK's operating results, net losses in 2009 amounted to USD 323.8 million as compared to a net profit of USD 198.5 million in 2008. Net profit/loss margin (ratio of net profit/loss to revenue) declined to negative 9.4% as compared to 3.5% in 2008.

Capital resources

Cash flows

The table below illustrates TMK's total cash flows for the twelve months ended December 31:

	2009	2008
	(million USD)	
(Loss)/profit before tax	**(426.8)**	**308,1**
Non-cash and other adjustments to profit	754.9	739.2
Operating cash flow before working capital changes	**328.1**	**1,047.3**
Changes in working capital	557.6	(81.2)
Income taxes paid	(33.4)	(226.6)
Net cash flows from operating activities	**852.3**	**739.5**
Net cash flows used in investing activities	**(899.9)**	**(2,024.3)**
Net cash flows from financing activities	**143.8**	**1,336.9**
Effect of exchange rate changes on cash and cash equivalents	**4.1**	**2.2**
Net increase in cash and cash equivalents	**100.3**	**54.3**

CONTENTS

rus

eng

Net cash flows from operating activities

Net cash flows from operating activities in 2009 amounted to USD 852.3 million, up from USD 739.5 million in 2008. Cash flows from operating activities before changes in working capital decreased by 68.7% as compared to USD 1,047.3 million in 2008, and amounted to USD 328.1 million. The decrease was primarily attributable to a pre-tax loss of USD 426.8 million as compared to a USD 308.1 million profit before tax in 2008 as a result of decreased revenues and gross profit, increases in depreciation and amortisation expenses and finance costs, recognition of impairment losses on property, plant and equipment and goodwill which were main contributing factors to generation of a loss before income tax in 2009. The loss was partially offset by a working capital release of USD 557.6 million.

Net cash flows used in investing activities

Net cash used for investing activities deceased by 55.5% as compared to 2008 and totalled USD 899.9 million. This reduction was mainly caused by a 52.9% decrease in capital spending in 2009 or USD 444.7 million, as a result of certain project postponements in TMK's Strategic Investment Program.

In January 2009, TMK exercised its call option for the remaining 49% of shares in NS Group, Inc. for a total amount of USD 507.5 million with Evraz Group S.A. in accordance with the call option concluded with Evraz Group S.A. at the time of the joint acquisition of the American pipe businesses in June 2008.

In 2009, TMK's expenditures on the purchase of minority shares in subsidiaries totalled USD 9.0 million as compared to USD 5.1 million in 2008.

Net cash flows from financing activities

In 2009, TMK was focused on sustaining its financial position. Net cash received from financing activities in 2009 decreased to USD 143.8 million compared to USD 1,336.9 in 2008. The USD 1,193.1 million decrease was caused by the significant reduction in TMK's Strategic Investment Program.

A total of USD 4,190.1 million in loans was drawn in 2009. Loan repayments amounted to USD 3,608.3 million while interest payments totalled USD 444.1 million. In 2009, TMK spent USD 0.3 million towards the purchase of its shares, while receipts from the exercise of options totalled USD 0.8 million. The Company also paid capital lease obligations of USD 2.8 million. In 2009, TMK subsidiaries were partially reimbursed by the federal government for interest costs incurred on loans provided in the aggregate amount of USD 10.5 million.

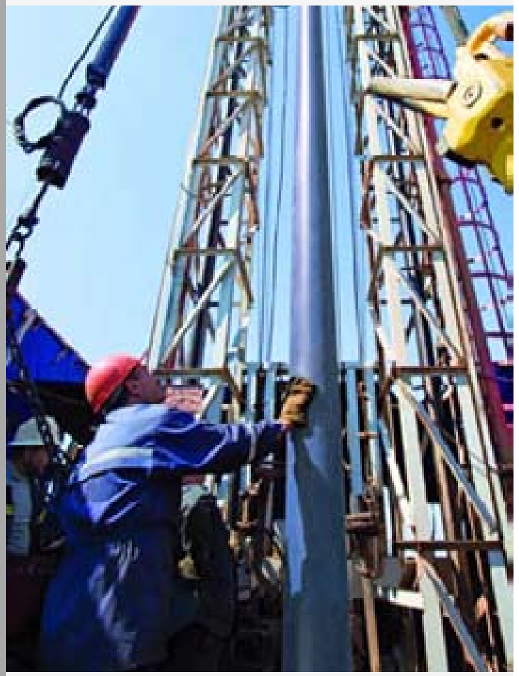
In 2009, TMK did not pay dividends based on the shareholders vote at the AGM held in June 2009. Dividends to minority shareholders in TMK subsidiaries decreased by 54.4% and amounted to USD 2.1 million.

Indebtedness

The following table gives information on TMK's debt as at December 31, 2009:

	In roubles	In US dollars	In Euros	Total
	(million USD)			
Fixed-rate debt	1,153.2	2,240.8	91.0	3,485.0
Floating-rate debt	-	4.2	224.0	228.2
Total loans and borrowings	**1,153.2**	**2,245.0**	**315.0**	**3,713.2**
Finance lease liability	38.1	-	0.2	38.3
Total debt	**1,191.3**	**2,245.0**	**315.2**	**3,751.5**

The following table gives information on debt maturity, including loans and other borrowings as at December 31, 2009:



	up to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	over 4 years	Unamortized debt issue costs (short- and long-term)	Total
				(million USD)			
Interest-bearing loans	1,357.4	541.8	382.3	292.1	838.0	(73.4)	3,338.2
Coupon bearing debt securities	165.3	186.7	-	-	-	(1.9)	350.1
Interest payable	24.9	-	-	-	-	-	24.9
Total loans and borrowings	**1,547.6**	**728.5**	**382.3**	**292.1**	**838.0**	**(75.3)**	**3,713.2**
Finance lease liability	1.6	1.6	1.6	1.6	31.9	-	38.3
Total debt	**1,549.2**	**730.1**	**383.9**	**293.7**	**869.9**	**(75.3)**	**3,751.5**

As of December 31, 2009, TMK's loans and borrowings increased by USD 543.3 million, or 17.1%, and totalled USD 3,713.2 million as compared to USD 3,169.9 million as of December 31, 2008. In 2009, TMK improved the structure of its credit portfolio by extending its maturity profile. As a result, the share of short-term debt in total borrowings decreased from 69.9% as of December 31, 2008 to 41.4%. The main part of TMK's credit portfolio as at December 31, 2009 consisted of long-term loans and debt instruments comprising 58.6% of the total borrowings or USD 2,177.4 million.

TMK's debt burden increased in 2009 due to the exercise of the call option on the remaining 49% of NS Group, Inc. shares in the amount of USD 507.5 million.

Bank loans

As of December 31, 2009, the most significant borrowings (broken down by separate loan agreements) included the following:

In December 2008, TMK obtained from OAO Khanty-Mansiiskiy Bank a loan for USD 55 million for a period of one year. As at December 31, 2008, TMK's debt for this loan amounted to USD 55.0 million. In February 2010, the loan was repaid early using the proceeds of the five-year USD 412.5 million convertible Eurobonds.

Between July and December 2009, TMK entered into several loan agreements with Sberbank for an aggregate amount of RUB 8.5 billion maturity of 1–1.5 years with possible prolongation of up to 3 years, and RUB 5.7 billion loans due 2016 with 12 semi-annual payments starting January 2011. The facilities were used to refinance short-term borrowings. As of December 31, 2009, these loans amounted to RUB 14.2 billion.

In January 2009, TMK entered into a series of agreements with OAO Gazprombank for a total of USD 1.1 billion for 2.5 years. In the second half of 2009, the maturities of the loans were extended to 5 years and interest rates reduced. The proceeds were used 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. As of December 31, 2009, the loan amounted to USD 1.1 billion.

In March 2009, TMK received a loan from OAO Bank VTB for an amount of USD 90.2 million with the purpose of repayment of the rouble bonds amounted to RUB 3 billion which matured on March 24, 2009. As of December 31, 2009, the loan amounted to USD 90.2 million. In March 2010, the loan was refinanced using the proceeds of another loan from VTB.

In August 2009, TMK signed a one-year loan agreement with OAO Bank VTB for an amount of USD 450 million subject to prolongation of up to 5 years. Proceeds from the loan were used to finance the partial buyback of the 2011 USD 600 million Eurobond. As of December 31, 2009, the loan amounted to USD 450 million. In March 2010, TMK signed an agreement decreasing the interest rate and extending the maturity up to 3 years with a possible prolongation of up to 5 years upon request.

In September 2009, TMK took a one-year loan with OAO Bank VTB in the amount of USD 300 million with a prolongation option of up to 5 years. The funds were used to redeem the 2006 Eurobonds due in September 2009. As of December 31, 2009, the loan amounted to USD 300 million. In February 2010, the loan was repaid early using some of the proceeds from the 2015 USD 412.5 million convertible Eurobonds.

In September 2009, TMK and OAO Gazprombank signed an agreement for a three-year credit line of RUB 5 billion with 50% of the amount secured by state guarantees of the Russian Federation. As of December 31, 2009, the loan amounted to RUB 2.4 billion.

In October 2009, TMK signed loan agreements with OAO Bank VTB for five-year credit lines of RUB 10 billion with 50% of the amount secured by state guarantees of the Russian Federation. As of December 31, 2009, the loan amounted to RUB 7.9 billion.

Rouble Bonds

On March 24, 2009, TMK fully redeemed its series 02 interest-bearing bonds for a total amount of RUB 3 billion issued on March 29, 2005, by the means of the loan taken in OAO Bank VTB in March 2009. The coupon of four last semi-annual periods was 7.6% p.a.

On February 21, 2006, TMK issued its series 03 interest-bearing bonds for a total amount of RUB 5 billion due on February 15, 2011. The annual rate of the fifth, sixth, seventh and eighth semi-annual coupons was 9.6%. As of December 31, 2009, all bonds were outstanding. In February 2010, a buy-back option on the outstanding bonds has expired and all bonds were left outstanding. The new rate for the semi-annual coupons was set at 9.8% p.a.

Eurobonds

On July 29, 2008, TMK issued USD 600 million Eurobonds with a coupon yield of 10% per annum. TMK's liabilities under this issue are guaranteed by its subsidiaries. The Eurobonds were registered on the London Stock Exchange. These funds were used for the partial refinancing of a USD 1.2 billion bridge loan.

In July 2009, TMK offered bond holders the option of partially redeeming the 2011 USD 600 million loan participation notes. TMK redeemed notes in the amount of USD 413.3 million. In order to fulfill its obligations, TMK entered into a loan agreement with OAO Bank VTB. As of December 31, 2009, the 2011 Eurobonds debt amounted to USD 186.7 million.

On September 29, 2009, using proceeds from a OAO Bank VTB facility, TMK redeemed the USD 300 million Eurobonds issued on September 28, 2006.

Capital expenditures

The following table provides information on TMK's capital expenditures* in each segment for twelve months ended December 31:

	2009	2008	
	(million USD)		% change
Russia	371.0	916.5	(59.5)%
America	27.4	39.8	(31.2)%
Europe	13.9	23.9	(41.8)%
Total capital expenditures*	**412.3**	**980.2**	**(57.9)%**

* Capital expenditures are defined as additions to property, plant and equipment.

With the onset of the global economic crisis in the fourth quarter of 2008, TMK reviewed its Strategic Investment Programme for the period of 2004 to 2011. As a result, capital expenditures declined by USD 567.9 million or 57.9% to USD 412.3 million in 2009 as compared to USD 980.2 million in 2008. The implementation of three major projects was delayed for at least a year. These projects include the modernization of VTZ seamless rolling operations, deferred from 2009 to 2010, the installation of an FQM mill at STZ, moved from 2012 to 2014, and the construction of an EAF at TAGMET, delayed from 2011 to 2012. Nonetheless, the major part of the Strategic Investment Programme was almost completed with the commissioning of three key projects in 2008:

- commissioning of a PQF mill at TAGMET for the production of high performance seamless pipes,
- modernization of STZ steelmaking operations with the installation of an EAF, and
- commissioning of a large-diameter longitudinal pipe mill at VTZ.

TMK's Strategic Investment Programme focuses on increasing the production of high value-added products, including large-diameter pipes and seamless pipes, and providing the Company with self-sufficiency in steelmaking for its seamless pipe production while increasing production efficiency and product quality.

In 2009, TMK successfully ramped up the production facilities commissioned earlier.

CONTENTS
rus
eng

TAGMET's state-of-the-art PQF mill ramped up to plan during the year and allowed the Company to increase its production of high-performance seamless pipes. The PQF was brought online in late 2008.

In early 2009, STZ's steelmaking operations switched to electric arc furnace steelmaking technology and the open-hearth furnaces were decommissioned.

VTZ's large-diameter longitudinal welded mill, commissioned in late 2008, successfully ramped up to produce pipes with diameters ranging from 530 to 1420 mm with wall thickness up to 42 mm. At the same time, a new external anti-corrosive coating line was commissioned while an internal smooth coating line was commissioned earlier.

Throughout the year, the upgrade of STZ's pipe rolling operations, begun in 2007, continued with the delivery of equipment, including the FQM mill.

Other investment projects, implemented in 2009:

- heat treatment equipment with an aggregate annual capacity of 740 thousand tonnes was brought online at VTZ, SinTZ and TAGMET,
- new 100 thousand tonnes capacity heat-treatment facilities were commissioned at the Baytown and Blytheville plants in the US,
- a new degassing mill was commissioned at STZ,
- scrap processing equipment was installed at STZ,
- a waste water treatment facility was launched at SinTZ; the facility is designed for the treatment of industrial waste water using bio-chemical technology, and
- heat treatment equipment of cold-deformed coiled tubing in nitrogen shielding gas environment was installed and is ramping up at SinTZ.

Key financial indices

Net debt and EBITDA

TMK uses Adjusted EBITDA, which is NOT a measure to be reported under IFRS, to analyse its operating performance. Adjusted EBITDA represents net profit/loss adjusted for depreciation and amortisation, finance costs and finance income, and other non cash items which comprise impairment of assets, effect of foreign exchange changes, gain on disposal of available-for-sale investments, gain on disposal of associate, share of profit in associate, loss on disposal of property, plant and equipment, share-based payments, inventory and doubtful debts allowances, and movement in other provisions. 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 in accordance with IFRS or as an alternative to cash flow from operating activities or as a measure of TMK's liquidity. In particular, Adjusted EBITDA should not be considered to be a measure of discretionary cash available to invest in TMK's growth.

Adjusted EBITDA has limitations as analytical tool, and potential investors should not consider it in isolation, or as a substitute for analysis of TMK's operating results as reported under IFRS. Some of these limitations include:

- Adjusted EBITDA does not reflect the impact of financing or finance costs on TMK's operating performance, which can be significant and could further increase if TMK were to incur more debt;
- Adjusted EBITDA does not reflect the impact of income taxes on TMK's operating performance;
- Adjusted EBITDA does not reflect the impact of depreciation and amortisation on TMK's operating performance. The assets which are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA, it does not reflect TMK's future cash requirements for these replacements; and
- Adjusted EBITDA does not reflect the impact of other non cash items on TMK's operating performance, such as share of profit in associate, foreign exchange loss/gain, impairment of assets, gain on disposal of available-for-sale investments, gain on disposal of associate, loss on disposal of property, plant and equipment, share-based payments, inventory and doubtful debts allowances, and movement in other provisions.

Other companies in the pipe industry may calculate Adjusted EBITDA differently or may use it for other purposes, limiting its usefulness as comparative measure.

TMK compensates for these limitations by relying primarily on its IFRS operating results and using Adjusted EBITDA only supplementally.

See TMK's Consolidated Financial Statements included elsewhere in this Annual Report.

The table below provides the EBITDA calculation for the twelve months ended 31 December:

	2009	2008	2007
	(million USD)		
(Loss)/profit for the year	(323.8)	198.5	506.3
Income tax (benefit)/expense	(103.0)	109.6	142.5
Depreciation and amortisation	313.1	247.8	140.3
Impairment of goodwill	10.1	3.5	-
Impairment of property, plant and equipment	39.7	59.8	-
Reversal of impairment of property, plant and equipment	(2.5)	-	-
Impairment of financial assets	-	23.7	-
Finance costs	446.9	272.2	102.4
Finance income	(41.3)	(8.7)	(12.6)
Gain on disposal of available-for-sale investments	(2.0)	-	-
Effect of exchange rate changes	(14.2)	99.8	(20.5)
Gain on disposal of associate	(0.4)	-	-
Share of profit in associate	(1.4)	(3.0)	(1.0)
Loss on disposal of property, plant and equipment	4.0	1.6	7.4
Share-based payments	-	6.0	6.7
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	-	-	(2.2)
Allowance for net realizable value of inventory	(4.6)	24.7	1.2
Allowance for doubtful debts	4.2	7.2	(0.8)
Movement in other provisions	3.3	4.5	(0.1)
Adjusted EBITDA	**328.1**	**1,047.2**	**919.6**

As a result of the above-mentioned factors affecting TMK, adjusted EBITDA in 2009 amounted to USD 328.1 million, 68.7% less than in 2008.

Net Debt represents loans and borrowings and finance lease liabilities less cash and cash equivalents and short-term financial investments. Net Debt is not a balance sheet measure under IFRS, and it should not be considered to be an alternative to other measures of financial position. Other companies in the pipe industry may calculate Net Debt differently and therefore comparability may be limited. Net Debt is a measure of TMK's operating performance that is not required by, or presented in accordance with, IFRS. Although Net Debt is a non IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. TMK believes Net Debt provides an accurate indicator of TMK'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 net financial position over the periods presented. However, the use of Net Debt assumes that gross debt can be reduced by cash. In fact, it is unlikely that all available cash will be used to reduce gross debt all 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, or leverage, are used to evaluate TMK'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 evaluate if TMK's financial structure is adequate to achieve its business and financial targets. TMK management monitors the net debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess TMK's liquidity and financial structure relative to such companies. TMK management also monitors the trends in TMK's Net Debt and leverage in order to optimise the use of internally generated funds versus borrowed funds.

Net debt has been calculated as follows:

	At December 31,	
	2009	2008
	(million USD)	
Short-term loans and borrowings	1,535.8	2,214.6
Long-term loans and borrowings	2,177.4	955.3
Total loans and borrowings	**3,713.2**	**3,169.9**
Finance lease liabilities	38.3	40.8
Total debt	**3,751.5**	**3,210.7**
Net of:		
Cash and cash equivalents	(243.8)	(143.4)
Short-term financial investments	(4.1)	(3.9)
Total cash and short-term financial investments	**(247.9)**	**(147.3)**
Net debt	**3,503.6**	**3,063.4**

Net debt increased by 14.4% to USD 3,503.6 million in 2009 as compared to USD 3,063.4 million in 2008. The increase was brought on by the growth of TMK's financial indebtedness by approximately 17.1% (see "Indebtedness").

Development trends

In line of the economic recovery and increasing raw material prices, the Company expects pipe demand to return in 2010. Since major Russian oil and gas companies announced plans in late 2009 to increase exploration and production spending, the Russian OCTG and line pipe markets have demonstrated steady growth in the first quarter of 2010. Given the current level of oil prices and the forecast upward trend, TMK expects the positive dynamics observed in oil and gas pipe consumption to remain throughout the year. The Company also expects prices for tubular products to increase in 2010 on the back of rising raw material prices and renewed demand in key markets.

The North American OCTG and line pipe markets are also showing signs of recovery. Against the background of a steady growth in drilling activity, successful prosecution of trade cases against Chinese OCTG imports and the development of shale gas, there has been a significant decrease of pipe inventory. Given this increasing oil and gas drilling activity and the growth in the consumption of tubular goods used in the extraction of hydrocarbons, demand from oil and gas operators is expected to lift volumes. Pipe prices in North America are determined by a combination of several factors, such as natural gas prices, steel prices and drilling activity. All domestic pipe producers announced price increases in the beginning of 2010.

In 2010, TMK expects a significant increase in the demand for large diameter pipes in Russia due to the continuation of such pipeline projects as the Bovanenkovo-Ukhta and Sakhalin-Khabarovsk-Vladivostok gas systems and the oil BTS-2 and ESPO-2 oil pipelines.

TMK expects the demand for industrial pipes to start to recover in the second quarter of 2010, as a result of a general recovery in the economy and the reemergence of consumer demand. Pipe prices in this market segment will correlate with market conditions.

6.1. Key Risks

Industry risks

Dependence on the oil and gas industry

Steel pipes used in the oil and gas industry constitute a significant proportion of TMK shipment volumes. In 2009, pipes used in oil and gas production and transportation accounted for approximately 67% of the Company's produced tubular products. As a result, the level of investment activities of oil and gas companies, which has been largely driven by prevailing prices for oil and natural gas and their stability, significantly affects the level of consumption of TMK products. In case of significant and/or sustained decline in hydrocarbon prices oil and gas companies will seek to limit exploration and production expenses, as well as investments in the development of oil and gas transportation infrastructure. As a result of this process, the demand for oil and gas pipes can substantially decrease, which also leads to tightening of competition and a possible drop of market prices for tubular products. Thus, the decline in prices for energy commodities as well as other factors affecting the global oil and gas industry could have a negative impact on the Company's results of operations and financial position.

Increases in the cost of raw materials

The prices for raw materials and supplies are one of the main factors affecting TMK results of operations. The main raw materials used in production processes include scrap and pig iron for steelmaking, steel billets used for the production of seamless pipes and strips and steel plate for the production of welded pipes. In 2009, raw materials and supplies accounted for approximately 63% of total cost of production. The global economic downturn observed in 2009 caused a decrease in demand for raw materials and average purchase prices of TMK plants significantly decreased as compared to average prices in 2008. In particular, the average purchase price of scrap metal for TMK in Russia decreased by 13–16%, prices for pig iron decreased on average by 40–49%, prices for billets fell by 46% and the decline in prices for strips amounted to 22–40% in 2009. Despite the decrease in purchase prices and TMK internal steelmaking capacities, the costs for raw materials continue to have a key influence on the production costs of the Company. The increase in prices for scrap, strips and other raw materials costs adversely affect TMK profit margins and results of operations.

TMK plants also consume significant quantities of energy, particularly electricity and gas. In 2009, energy costs amounted to 8% of the cost of production, despite a significant increase in tariffs for energy resources. A further increase in electricity tariffs may also have a negative impact on the Company's financial results.

Dependence on a small group of customers

Due to a large capacity and a high degree of concentration of the global oil and gas market, TMK's largest customers are oil and gas companies. In 2009, the Company's five largest customers in Russia were Gazprom (excluding Gazprom Neft), Rosneft, Surgutneftegas, TNK BP and LUKOIL, which together accounted for 33% of total pipe shipments in Russia. Such a high proportion of sales to mentioned companies indicates a strong business relationship with key customers. Nevertheless, the increased dependence of pipe sales on a relationship with a single large customer increases the risk of an adverse effect on TMK results of operations in case relationships with any of these customers deteriorate.

At the same time, TMK IPSCO cooperates with a wide range of distributors in North America, each of whose share in total TMK shipments is not significant.

Competition

The global market for steel pipe products is highly competitive. In various segments of the pipe market the Company competes primarily against large pipe producers such as Tenaris, Vallourec, Sumitomo and TPCO. In the Russian and CIS markets, TMK faces competition in primarily from ChTPZ Group and OMK. In the United States, our subsidiary TMK IPSCO faces competition primarily from local producers: Tenaris, U.S. Steel and V&M Star, as well as from imported OCTG and line pipe products. Several key competitors have announced new capacity additions for late 2010. The position of a supplier at the national level allows TMK to conduct an active dialogue with government bodies in Russia and the United States on questions concerning the application of trade protection measures of national markets and manufacturers. However, increased competition on the Company's key markets may reduce sales and lead to pricing pressures, which could adversely affect TMK's financial position and results of operations.

Financial risks

Liquidity risk

TMK is significantly leveraged, primarily as a result of acquisition of TMK IPSCO assets in 2008 and the implementation of the Company's Strategic Capital Expenditure Programme in 2004–2009. Significant portion of the acquisition and capital expenditure was financed using short-term debt. As at December 31, 2009, TMK's total debt amounted to USD 3,713.2 million as compared to USD 3,169.9 million at the end of 2008. In 2009, TMK exercised the option to purchase the remaining part in NS Group, Inc. (now part of TMK IPSCO) from Evraz Group S.A. for USD 507.5 million, which was the main reason for the growth of total debt in 2009.

In 2009, while actively refinancing short-term indebtedness, TMK significantly improved the structure of its loan portfolio. Key 2009 refinancing activities included:

- Loans from Gazprombank in the aggregate amount of USD 1,107.5 million received in January 2009 with a subsequent extension of the final maturity from 2.5 to 5 years and a reduction in the interest rate;
- Loans from VTB Bank in the aggregate amount of USD 750 million, which TMK used to redeem its 2006 Eurobonds and partially buy back 2011 Eurobonds;
- Loans from Sberbank in an aggregate amount equivalent to 14.2 billion roubles, including a 5.7 billion rouble loan with a final maturity of 7 years;
- Loans from Gazprombank and VTB Bank in the aggregate amount of 10.3 billion roubles, as part of RUB 5 billion and RUB 10 billion agreements with maturities of 3 and 5 years, respectively, and 50% guaranteed by the Russian government.

As a result of these activities, TMK's short-term indebtedness reduced from 70% as of December 31, 2008 to 41% as of December 31, 2009.

In 2010 the Company continued to improve its loan portfolio structure and terms of financing. In February 2010, the Company placed convertible bonds in the amount of USD 412.5 million with the possibility of conversion into OAO TMK depositary receipts. The proceeds were used to repay short-term debt of the Company. At the

same time, TMK reached an agreement with VTB Bank to extend a USD 450 million loan to 3 years maturity. As a result, in view of this agreement, the share of short-term debt decreased to only 19.7% as at March 31, 2010.

Active liquidity management allowed TMK to significantly improve the weighted average term of the loan portfolio, which stood at 970 days on March 31, 2010 as compared with 744 and 438 days as at December 31, 2009 and 2008, respectively.

Thus, in 2009 and early 2010, the Company improved its liquidity and significantly increased the maturity of the loan portfolio. Nevertheless, further development of the global crisis may adversely affect the Company's operating cash flow, which can put pressure on TMK's liquidity, increase borrowing costs, temporary reduce the availability of credit lines and lead to unavailability of financing on acceptable terms.

Compliance with covenants

A part of the Company's loan agreements and public debt securities currently include certain financial covenants, including a ratio of financial debt to EBITDA or to net tangible assets limit. Some covenants limit the Company's ability to increase the total debt amount. Other covenants may impose restrictions in respect of certain transactions. A breach of a financial or other covenant in existing debt facilities, if not resolved by means such as obtaining a waiver from the relevant lender, could trigger a default under the Company's obligations. Prior to December 31, 2009, the Group obtained waivers from the relevant lenders of financial covenants as of December 31, 2009.

Based on management forecasts for 2010 year results, in order to be in compliance with covenants the Group undertook some actions to reset the level of the certain financial covenants for 2010. In March 2010, the Group negotiated with relevant lenders the reset of financial covenants for 2010 in way which allows the Group to comply with the covenants in 2010. Nevertheless, TMK may not comply with relevant covenants in case of future deterioration on global financial markets.

Interest rate risk

TMK's loan portfolio includes loans taken out at floating interest rates. As of December 31, 2009, loans with floating interest rates represented USD 228.1 million or 6% of the total TMK credit portfolio. EURIBOR is an underlying rate in most current credits with floating interest rates. During 2009, under the influence of the financial crisis, EURIBOR rates declined steadily, reaching their lows in the second half of the year, which reduced the Company's interest expense on the relevant loans.

As at March 31, 2009, loans with floating interest rates amounted to USD 172.3 million or only 4.5% of the total credit portfolio. Taking into account the insignificant share of floating rate loans, TMK considers interest risks negligible and, at present, does not use derivative instruments to hedge such interest rate risks.

The effect of interest rate risk on TMK financial position in 2009 was different. In the first half of the year, while refinancing its short-term loans, TMK was faced with rising fixed interest rates on the back of the ongoing financial crisis. However, in the second half of 2009, the Company reduced the cost of a large part of its debt, including loans from Gazprombank in a total amount of USD 1,107.5 million. In general, the average interest rate of credit resources in 2009 moderately increased as compared to 2008. Thus, at the end of 2009, the average interest rates of rouble and dollar denominated loans rose by 74 and 304 basis points (bps), respectively, as compared to the beginning of the year. On the other hand, interest rates on loans attracted in euros decreased at the end of 2009 by 163 basis points, which was mainly caused by the reduction of EURIBOR floating rates.

As at March 31, 2009, the average interest rate of TMK loans is further decreasing. Nevertheless, an increase of interest rates in the future may increase the Company's interest expense which will adversely affect TMK's financial performance.

Currency risk

TMK products are typically priced in roubles for Russian sales and in US dollars and euros for CIS, US and other international sales. The Group's direct costs, including raw materials, labour and transportation costs, are largely incurred in roubles, and, with the acquisition of TMK IPSCO, in US dollars. Other costs, such as interest expense, are currently incurred largely in US dollars and euros, and capital expenditures are incurred principally in roubles, euros and US dollars. As a result of the onset of the global economic crisis in the second half of 2008, the Russian rouble significantly depreciated against the US dollar and reached RUB 36.43 to USD 1.00 in February 2009. Further in 2009, the rouble recovered somewhat from its February 2009 lows, standing at RUB 30.24 to USD 1.00 as at December 31, 2009. In 2009 as a whole, the Russian rouble depreciated against the US dollar and euro by 3% and 5%, respectively. TMK incurred losses from spot rate changes in 2009 in the amount of USD 109.9 million, including gains in the amount of USD 14.2 million recognised in the income statement and losses of USD 124.1 million recognised in other comprehensive income. Gains in the income statement were primarily attributable to the fact that in January-February 2009 the Company attracted loans nominated in foreign currency, when the exchange

rate was at its high, and the income arose from these relevant loans. Losses from foreign exchange difference in balance, which relates to hedging, arose from the revaluation of loans attracted for the acquisition of TMK IPSCO assets and the effect of revaluation of the option exercised in January 2009.

Though the rouble has recovered somewhat from its lows, it remains considerably volatile. As TMK debt is currently largely denominated in US dollars, the possible devaluation of the ruble against the dollar in the future could adversely affect the Company's financial position.

In addition, fluctuations in the value of the Romanian lei against the euro and the US dollar may adversely affect the results of TMK Romanian operations. Exports from TMK-Artrom and TMK-Resita are priced largely in US dollars and euros, while direct costs are incurred largely in lei and US dollars. The mix of revenues and costs with respect to Romanian operations is such that appreciation in real terms of the lei against the euro and the US dollar tends to result in an increase in the costs of TMK-Artrom and TMK-Resita relative to their revenues which can adversely affect profit margins.

Inflation risk

A significant amount of TMK production activities are located in Russia, and a majority of direct costs are incurred in Russian roubles. The Company tends to experience inflation-driven increases in certain costs, such as raw material costs, transportation costs, energy costs and salaries that are linked to the general price level in Russia. In 2009, inflation rate in Russia decreased significantly and reached 8.8% as compared to 13.3% in 2008. In spite of forecasts of further decreases of inflation rate, TMK may not be able to increase the prices that the Company receives from the sale of pipe products sufficiently in order to preserve existing operating margins.

Inflation rates in the United States, with respect to TMK IPSCO operations, are historically much lower than in Russia. For example, in 2008, US inflation was 3,8%, and deflation in 2009 reached 0,3%. Accordingly, high rates of inflation, especially in Russia, could increase TMK costs, decrease operating margins and materially adversely affect the Company's business, financial position and results of operations.

Legal risks

Changes in tax legislation and tax system

TMK subsidiaries make significant tax payments, in particular, profit tax, VAT, social and pension payments and property tax. Changes in tax legislation could lead to an increase in tax payments and, as a result, to a lowering of the Company's net profit. As significant part of TMK operations is located in Russia, the main risks relate to changes in the legislation of the Russian tax system. The Russian Government continually reviews the Russian tax system and passes a number of laws to carry out tax reforms. The new laws reduce the number of taxes and the overall tax burden on business while simplifying tax legislation. For example, since 2009, profit tax in Russia was reduced from 24% to 20%. Despite measures to improve the tax system, tax legislation continues to give wide latitude to local tax authorities and leaves a multitude of unresolved problems which may have a negative effect on TMK's operating results.

Changes in environmental law

TMK meets the requirements of national environmental regulations at its Russian plants as well as the directives and regulations of EU and national Romanian legislation as has plants located in Europe. The main ecological-and-economical risks for TMK are related to expected changes and tightening of Russian environmental protection laws. Environmental legislation in Russia is currently undergoing significant change as the government attempts to improve it and make it similar to environmental legislation in the European Union. Changes to environmental protection laws or regulations with respect to environmental impacts may require further expenditures install new technologic or pollution control equipment. Stricter regulations will also lead to increases in the rate of payments for negative impact on the environment and the use of increasing payment coefficients. Compliance with the regulations will be accompanied by stricter control by state monitoring authorities. Such changes in existing legislation may lead to additional costs and obligations which were unforeseen, which could have a material adverse effect on TMK financial position and results of operations.

With the acquisition of TMK IPSCO, the Company is now responsible for compliance with US environmental laws, which differ significantly from the Russian environmental protection system. The Company estimates that the environmental legislation of the European Union and the United States will not undergo any material changes in the near future. Although the Group does not anticipate any significant environmental matters in those countries, if such matters arise, the cost of compliance could have a material adverse effect on our business.

Other risks

Equipment failures or production curtailments or shutdowns

TMK production capacities are subject to the risk of equipment failures due to unanticipated events, such as fires, explosions and adverse weather conditions. Unanticipated failures could require the Company to close part of the relevant production facility or cause to reduce production on one or more of production lines. The cost of relevant repairs could have a negative effect on TMK profitability and cash flows. We currently maintain insurance against losses that may arise in case of property damage, accidents, transportation of goods, occupational diseases and natural disasters. The Company also maintains corporate product liability and directors and officers' liability insurance policies. Nevertheless, any recoveries under insurance coverage that may be obtained in the future may not offset the lost revenues or increased costs resulting from a disruption of operations.

The ongoing turmoil in the global financial and credit markets and worldwide economic downturn

The ongoing financial and credit crisis has reduced the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide and in Russia. The shortage of liquidity and credit in the global and Russian markets, combined with substantial losses in worldwide equity markets, has contributed heavily to a worldwide economic recession. The slowdown in economic activity has reduced worldwide demand for energy and resulted in extreme volatility in the prices of oil and natural gas and raw materials since the second half of 2008. Such price fluctuations, combined with difficult conditions in the credit markets, declines in oil and gas drilling and lower demand for TMK products and services, have had and may continue to have a negative impact on the Company's business, revenues, profitability and financial position.

Insurance against all potential risks and losses

TMK has limited level of insurance coverage for expenses and losses that may arise in connection with the quality of the Company's products, property damage, work-related accidents and occupational illnesses, natural disasters and environmental contamination. TMK has no insurance coverage for loss of profits or other losses caused by the incapacitation of our senior management and has no business interruption insurance. Losses or liabilities arising from these or other such events could increase TMK costs and could adversely affect the Company's business, financial position and operating results.

Ability to effect staff alterations and shortages of skilled labour

TMK's Russian subsidiaries are in many regions the largest employers in the cities in which they operate, such as Volzhsky (where Volzhsky is located), Taganrog (where Tagmet is located), Kamensk Uralsky (where Sinarsky is located) and Polevskoy (where Seversky is located). While the Company does not have any specific legal social obligations or responsibilities with respect to these regions, the ability to effect alterations in the number of TMK employees may nevertheless be subject to political and social considerations. Any inability to make planned reductions in the number of employees or other changes to operations in such regions could have an adverse effect on the Company's results of operations and prospects.

Despite the effects of the global economic crisis, competition for skilled labour in the steel pipe industry remains relatively intense, and labour costs continue to increase moderately, particularly in the CIS, Eastern Europe and the United States. TMK expects the demand and, hence, costs for skilled engineers, construction workers and operators will continue to increase, reflecting the significant demand from other industries and public infrastructure projects. Continual high demand for skilled labour and continued increases in labour costs could have a material adverse effect on the Company's business, financial position and results of operations.

Furthermore, any work slowdowns, stoppages, strikes or other labour-related developments could have an adverse effect on our business, financial position and results of operations.

CONTENTS
rus
eng

CORPORATE GOVERNANCE REPORT

7.1. Corporate Governance System

TMK's corporate governance system is based on Russian legislation and international practices.

The Company's corporate governance system is regulated by a combination of publicly available documents which are accessible on the TMK website (www.tmk-group.com), the Company's Charter, regulations regarding the executive management, TMK's Code of Ethics, the information disclosure policy, the dividend policy, insider information regulations, as well as internal standards.

OAO TMK Corporate Governance System

DOCUMENTS	BODIES
Charter of OAO TMK	
Regulations on the General Meeting of Shareholders	General Meeting of Shareholders
Regulations on the Revision Committee	Revision Committee
Regulations on the Board of Directors	Board of Directors
Regulations on the Audit Committee	Audit Committee
Regulations on the Nomination and Remuneration Committee	Nomination and Remuneration Committee
Regulations on the Strategic Development Committee	Strategic Development Committee
Charter	CEO
Regulations on the Internal Audit Service	Internal Audit Service
Regulations on the Risk Management Committee	Risk Management Committee
Regulations on the Management Board	Management Board

The OAO TMK Board of Directors relies on its Nomination and Remuneration Committee to annually evaluate the Company's corporate governance system.

This includes an evaluation of the performance of the Board of Directors and its Committees, executive management, and the risk management system. The Board of Directors reviewed and approved the Committee's conclusion regarding TMK's corporate governance practices in 2009, which contained the following evaluation results:

- All key elements of effective corporate governance are present and function efficiently: the Board of Directors, its independent directors, the Board's Committees, independent internal audit, external audit, and information disclosure procedures;
- The activity of the executive management as well as of independent directors and the Board Committees were deemed satisfactory;
- Risks management procedures are adequate to the Company's scale and geography of business and take into account macroeconomic considerations.

The regular assessment of TMK's corporate governance system defined the following priorities for 2010:

- Update the corporate governance system to further focus on business demands, risk management procedures, and shareholder value;
- Monitor TMK's financial situation and increase the accountability of executive management for the Company's performance.

Moreover, corporate governance, as well as risk management and internal control processes are analyzed by TMK's Internal Audit Service. Its activity is governed by procedures approved by the Board of Directors. In 2009, the Internal Audit Service monitored the implementation of TMK's cost reduction program.

Internal audit priorities in 2009 included:

- • Operational audit (procurement, production, sales) – analysis of the main business processes, accounting and control systems, including monitoring of steel consumption in pipe production;
- IT audit (SAP R/3);
- Audit of costs associated with the outsourcing of repair and maintenance services for production equipment at TMK subsidiaries.

In 2009, TMK was named one of the most transparent Russian companies and ranked 7th in Standard & Poor's annual transparency rating of Russian companies.

General Meeting of Shareholders

As stipulated in the OAO TMK Charter, the primary means for shareholders to exercise their rights is to participate in the General Meeting of Shareholders, OAO TMK's highest management body.

One annual general meeting and three extraordinary general meetings of shareholders were held in 2009. The following items were on the agenda: approval of annual report and accounts, distribution of profit according to 2008 results, election of the OAO TMK Board of Directors and the Revision Commission members, approval of the auditor, amendments to the OAO TMK Charter, approval of a standard contract with Board members, and approval of related-party transactions.

7.2. The Board of Directors and the Committees of the Board of Directors

To ensure its maximum efficiency, OAO TMK's Board of Directors membership is based on reputation, qualification, and practical experience.

The number of independent directors grew to five in 2009. By resolution of the Annual General Meeting of Shareholders dated June 30th, 2009, the authority of non-executive director Adrian Cobb was terminated as he became an executive of OAO TMK. Thomas Reeve Pickering was appointed as independent director to the OAO TMK Board of Directors.

The OAO TMK Board of Directors as of December 31, 2009* was composed of:

Dmitriy A. Pumpyanskiy
Chairman of the Board of Directors

Graduated from the Kirov Ural Polytechnic Institute in 1986, Candidate of Technical Sciences, Doctor of Economic Sciences. Has been working in TMK since 2002.
Experience: President of ZAO Sinara Group, member of the Board of Directors in industrial and financial companies, member of the Management Board of the Russian Union of Industrialists and Entrepreneurs (RUIE), CEO of OAO TMK, CEO of ZAO Sinara Group, executive of metallurgical and pipe companies.

Andrey Yu. Kaplunov

Graduated from the Moscow Finance Institute in 1982, Candidate of Economic Sciences. Has been with TMK since 2001.
Experience: Chairman of the Board of Directors of TMK Russian plants, TMK Trade House, member of the Board of Directors of some financial institutions, Deputy CEO of Organizational Development of OAO TMK, Director of HR and Organizational Development Department of OJSC Joint-Stock Bank INKOMBANK, JSB ROSBANK, Vice-President of CLSC Commercial Bank Guta-bank, Deputy Head of the Currency and Finance Department of the foreign trade association Zarubezhneft, assistant professor of the Economic Theory Faculty of the Moscow Finance Institute.

* Detailed biographies of members of the Board of Directors and Management Board of OAO TMK can be found in Russian in TMK's quarterly reports: http://www.tmk-group.ru/financial-reports.php

Josef
Marous

Graduated from the Goethe University Frankfurt in 1976.
Experience: Head of the representative office of ThyssenKrupp AG in Russia, member of the Board of Directors of ThyssenKrupp Elevator AG, Chairman of the Automotive Components Manufacturers Committee in the European Business Association in RF.

Sergey T.
Papin

Graduated from the Donetsk Polytechnic Institute in 1977. Has been with TMK since 2002.
Experience: Vice President of ZAO Sinara Group, member of the Board of Directors of several companies, Deputy CEO of External and Social Projects of OAO TMK, Vice President of OJSC Joint-Stock Bank INKOMBANK and CLSC Commercial Bank Guta-bank.

Thomas Reeve
Pickering

Graduated from the University of Melbourne in Australia in 1956.
Experience: Vice Chairman of International Consultants Hills and Co. US ambassador to Russia, India, Israel, El Salvador, Nigeria, Jordan; Undersecretary of State for Political Affairs, Special Assistant to Secretary of State, Senior Vice President for International Relations and member of the Executive Board at Boeing, Ambassador to the United Nations. Holds the distinction of Career Ambassador, the highest in the US Foreign Service.

Geoffrey
Townsend

Graduated from the St. Catherine's College (Oxford) in 1970, member of the Institute of Chartered Accountants in England and Wales.
Experience: member of the Board of Directors JSC Raspadskaya, Head of Consulting Department and Corporate Finances Department at KPMG, independent consultant at KPMG.

Igor B.
Khmelevskiy

Graduated from the Ural State Law Academy in 1995. Has been with TMK since 2003.
Experience: Vice President and member of the Board of Directors of ZAO Sinara Group, member of the board of directors of some financial institutions and TMK companies, Deputy CEO of Legal Work at OAO TMK, Head of Legal Work Directorate of ZAO Sinara Group.

Alexander G.
Shiryaev

Graduated from the Sverdlovsk Institute of National Economy in 1991 (now the Ural State University of Economics). Has been with TMK since 2003.
Experience: member of the Board of Directors of TMK Russian plants, TMK Trade House, Deputy CEO of Development, CEO, then Board of Directors member of ZAO Sinara Group, Deputy CEO of Finances and Economy of OAO TMK, CEO of OAO Uralshina.

Alexander N.
Shokhin

Graduated from the Lomonosov Moscow State University in 1974, Doctor of Economic Sciences, professor.
Experience: President of RUIE, CEO of the State University Higher School of Economics, member of the Board of Directors of OAO Lukoil, OAO Russian Railways, OAO Brewery Baltica, OAO Fortum, OAO TNK-BP Limited, member of the RF Public Chamber, Chairman of the Supervisory Board Renaissance Capital Investment Group, member of the State Duma in three convocations, Minister of Labor and Employment and Minister of Economic Affairs, Head of the Russian Agency for International Co-operation and Development; twice appointed as Deputy Head of the Russian Government, represented Russia at IMF and World Bank.

Mukhadin A.
Eskindarov

Graduated from the Moscow Finance Institute in 1976, Doctor of Economic Sciences, professor.
Experience: President of the RF Government Finance Academy, member of the Board of Directors of OAO Bank of Moscow and OAO VTB Bank, Senior Vice President of the RF Government Finance Academy, member of the Board of Directors of OAO Rosbank.

The OAO TMK Board of Directors as of December 31, 2009 comprised 10 people.

Name	Year of birth	Membership in the Committees of the BoD as of December 31, 2009 (AC – Audit Committee; NRC – Nomination and Remuneration Committee; SDC – Strategic Development Committee)	Position (independence criterion)	Year of appointment	Attendance according to the number of meetings held	Share in the Capital of OAO TMK as of December 31, 2009,%*
Pumpyanskiy D. A (Chairman)	1964	-	Non-executive director	2004	67/67	0.0075**
Kaplunov A. Yu.	1960	-	Executive director	2005	67/67	0.0124
Marous J.	1949	Chairman of SDC, member of NRC	Independent director	2005	66/67	0.0034
Papin S.T.	1955	-	Non-executive director	2005	67/67	0.013
Pickering T.	1931	-	Independent director	2009	48/48	0
Townsend G.	1949	Chairman of AC	Independent director	2005	65/67	0.0017
Khmelevskiy I.B.	1972	Member of ARC and AC	Non-executive director	2004	67/67	0.011
Shiryaev A.G.	1952	Member of SDC	Executive director	2003	65/67	0.018
Shokhin A.N.	1951	Member of SDC	Independent director	2008	66/67	0
Eskindarov M.A.	1951	Chaiman of NRC, member of AC	Independent director	2005	65/67	0.0019

* Share Capital of OAO TMK only consists of ordinary shares

** Direct ownership. Information on beneficiary owners of OAO TMK is given in the Section Share Capital of this annual report on p. 58

Activity of the Board of Directors in 2009

67 meetings of the Board of Directors were held in 2009, 7 of which were held through joint attendance.

Key items included:

- Consolidated budget of TMK Group for 2010;
- Development of TMK's American Division;
- Liquidity position and anti-crisis measures;
- Capacity ramp-up of investment projects;
- Target structure of TMK Group;
- Approval of large-scale and related-party transactions.

Committees of the Board of Directors

The Board of Directors has three committees:

- Audit Committee;
- Nomination and Remuneration Committee;
- Strategic Development Committee.

Participation in Committee meetings in 2009

	Audit Committee (10 + 4 joint meetings)	Nomination and Remuneration Committee (5 + 2 joint meetings)	Strategic Development Committee (8 +6 joint meetings)
J. Marous		7	14
G. Townsend	14		
A.G. Shiryaev			13
I.B. Khmelevskiy	11	6	
A.N. Shokhin			13
M.A. Eskindarov.	6	6	

Audit Committee Report

Reporting period

This report covers the 2009 calendar year. Activities from January 01, 2010 to April 30, 2010 are shown separately if required for the analysis of the 2009 consolidated financial statements.

Power and authorities

The tasks of the Committee are determined by the Regulations on the Audit Committee of the Board of Directors of OAO TMK; the Regulations can be found on the corporate website at www.tmk-group.com.

The main tasks of the Committee include:

- Review of the company's and of the group's financial statements
- Review of the company's standards and procedures for internal control and risk management
- Review of the annual plan and periodic and annual reports of the internal audit department
- Co-operation with the company's "revision commission"
- Making recommendations to the Board on the appointment and/or re-appointment of the external auditor
- Review of plan and scope of the audit
- Active discussion with the external auditor of matters arising from the audit.
- Overseeing the independence of the external auditor
- Oversight of the appointment of independent appraisers and review of any independent appraisers' reports

Audit Committee in 2009

Geoffrey Townsend	Chairman, Independent director
Mukhadin A. Eskindarov	Chairman of the Nomination and Remuneration Committee, Independent director
Adrian Cobb (until February 26, 2009)	Non-executive director
Igor B. Khmelevskiy (from February 26, 2009)	Non-executive director

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

The Board of Directors considers G. Townsend has recent and relevant financial experience as recommended, by the Guidance on Audit

Committees published by the Financial Reporting Council (UK) in October, 2008. At the same time M. Eskindarov and I. Khmelevskiy are highly qualified and have a deep knowledge of the Russian financial sector.

Participation in 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.

Independent legal advice

Pursuant to the regulation given in clause 2.14 of the Guidance on Audit Committees published by the Financial Reporting Council, the Audit Committee may solicit impartial legal advice as deemed necessary. During 2009 the Committee did not solicit such services.

Areas of focus in 2009

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

Committee oversight of the external audit of the financial statements for 2009

The Audit Committee oversaw on the external audit of the Company's consolidated financial statements for 2009 (IFRS) and the parent company financial statements prepared according to Russian accounting standards for 2009. Most of this work was carried out in 2010. The external auditor's opinion on the consolidated financial statements is key to external investors

The external auditor discussed its audit plans with the Committee before the commencement of the audit. During the course of the audit the external auditor discussed potential problems and their resolution with the Audit Committee. Once the audit completed, the external auditor presented the following 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.

The auditor issued an unqualified audit opinion on TMK's IFRS consolidated financial statements. Furthermore, the Audit Committee reviewed OAO TMK's statutory financial statements prepared in accordance to Russian accounting standards and concluded that these statements are consistent with the IFRS consolidated financial statements, given the differences in accounting standards and the fact that statutory financial statements are unconsolidated and include only OAO TMK accounts.

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

Internal control

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

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 Committee has recommended to the Board of Directors that it recommends to the shareholders the reappointment of Ernst & Young as external auditor for the 2010 financial year.

Nomination and Remuneration Committee

Nomination and Remuneration Committee in 2009 (no changes).

Mukhadin A. Eskindarov	Chairman of the Nomination and Remuneration Committee, member of the Audit Committee, independent director.
Josef Marous	Member of the Committee, Chairman of the Strategic Development Committee, independent director.
Igor B. Khmelevskiy	Member of the Committee, non-executive director

The main goals of the Committee are to create favorable conditions for the employment of qualified managers in the Company and incentives for their effective work, as well as to improve the corporate governance system and keep it within the best international practices.

During the reporting period the Committee operated in compliance with the Regulation on the Committee approved by the Board of Directors, annual corporate plan and orders of the Board of Directors.

In 2009, the Committee reviewed and presented to the Board of Directors recommendations on the following key matters:

- Candidates of senior managers and managing members of OAO TMK;
- Corporate structure, management system, HR and social policy of divisions and special-purpose facilities of the Company;
- Key indicators of the number of employees and salary for TMK budget calculation;
- Monitored labor relations with TMK's top managers, considered the results of their activity and the motivation system;
- Policy and competitiveness of TMK in labor productivity increase and personnel optimization;
- Staff support for TMK strategic investments;
- Implementation of the Company's anti-crisis program with regards to personnel management and Sales, General, and Administrative expenses.

Strategic Development Committee

Strategic Development Committee in 2009 (no changes).

Josef Marous	Chairman of the Committee, Member of the Nomination and Remuneration Committee, independent director
Alexander N. Shokhin	Independent director, member of the Committee
Alexander G. Shiryaev	CEO, Chairman of the Management Board

In 2009, the Committee reviewed and presented to the Board of Directors recommendations on the following key matters:

- Prospective developments of TMK's European Division and TMK Oilfield Services;
- Results of current investment activities and implementation of investment plans;
- Automatic control system implementation at TMK plants;
- Establishment of Level I ADR program.

7.3. 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 Management Board decides on the more complex issues that require collegial decision-making.

In 2009, the Board of Directors brought changes to the procedures of membership of OAO TMK's executive bodies that halved the Management Board. In accordance with decisions taken by the Board of Directors, the following changes were made in the executive bodies of the Company:

- Early termination of the authority of a member of the Management Board, Alexey S. Degay (minutes dates April 29, 2009);
- Alexander A. Klachkov was elected as member of the Management Board at the annual re-election of the Management Board (minutes dated 30.06.2009);
- Early termination of the authority of the members of the Management Board: Elena E. Blagova, Anatoly I. Brizhan, Piotr D. Galitzine, Leonid G. Marchenko, Andrian Popescu, Nikolay I. Fartushniy, Natalia B. Khonina, Sergey Agafonov and Sergey Bilan (minutes dated 03.07.2009)

As at December 31, 2009 the Management Board of OAO TMK included the following 8 people:

Management Board members as of December 31, 2009	Year of birth	Share in the charter capital of OAO TMK, %	Share in the charter capital of affiliated companies
A.G. Shiryaev (Chairman of the Board, CEO OAO TMK)	1952	0.018	
A.Yu. Kaplunov	1960	0.0124	
A.G. Lyalkov	1961	0.0040	
T.I. Petrosyan	1968	0.0049	
K.A. Semerikov	1959	0.0013	0.02% shares of OAO TAGMET
V.V. Shmatovich	1964	0.0000	
A.A. Klachkov	1957	0.0032	
V.B. Oborskiy	1961	0.0089	

In 2009 OAO TMK Management Board focused on the following matters:

- Marketing improvements;
- Quality compliance, improvement of quality standardization and monitoring systems;
- Cost optimization and anti-crisis measures;
- Outsourcing developments;
- The Company's financial and economic performance;
- Enhancement of foreign trade activities;
- TMK 2010 investment plans.

Alexander G.
Shiryaev
CEO, Chairman of the Management Board. Has been with TMK since 2003.

Graduated from the Sverdlovsk Institute of National Economy in 1991 (now the Ural State University of Economics).
Experience: member of the Board of Directors of TMK Russian plants, TMK Trade House, Deputy CEO of Development, CEO, then Board of Directors member of ZAO Sinara Group, Deputy CEO of Finances and Economy of OAO TMK, CEO of OAO Uralshina.

Andrey Yu.
Kaplunov
First Deputy CEO. Has been with TMK since 2001.

Graduated from the Moscow Finance Institute in 1982, Candidate of Economic Sciences.
Experience: Chairman of the Board of Directors of TMK Russian plants, TMK Trade House, member of the Board of Directors of some financial institutions, Deputy CEO of Organizational Development of OAO TMK, Director of HR and Organizational Development Department of OJSC Joint-Stock Bank INKOMBANK, JSB ROSBANK, Vice-President of CLSC Commercial Bank Guta-bank, Deputy Head of the Currency and Finance Department of the foreign trade association Zarubezhneft, assistant professor of the Economic Theory Faculty of the Moscow Finance Institute.

Alexander A.
Klachkov
Deputy CEO - Chief Engineer, OAO TMK. Has been with TMK since 2003.

Graduated from the Moscow Institute of Steel and Alloys in 1979, Candidate of Technical Sciences
Experience: Head of the Technology Directorate of OAO TMK.

Alexander G.
Lyalkov
Deputy CEO of Production, OAO TMK. Has been with TMK since 2003.

Graduated from the Volgograd Polytechnic Institute in 1989.
Experience: Deputy CEO of Production, Technology and Quality, OAO TMK, CEO at OAO VTZ, he has been working at the plant in different positions since 1990.

Vladimir B.
Oborskiy
Deputy CEO of Sales, OAO TMK. Has been with TMK since 2003.

Graduated from the Frunze Military Academy in 1982 and the Frunze Kiev Higher Combined-Arms Command Academy in 1994.
Experience: CEO of ZAO TMK Trade House, Head of the Transneft and Gas Producers Customer Service Directorate at ZAO TMK Trade House, Head of the Strategic Customer Service Department and Gas Producers Customer Service Department of ZAO VTZ Trade House.

Tigran I.
Petrosyan
CFO. Has been with TMK since 2001.

In 1993 graduated from the Erevan State University.
Experience: Deputy CEO of Economy, Head of Economic and Planning Directorate of OAO TMK, Head of Economic and Planning Department of OAO BT3, Deputy CEO of LLC Volzhsky Audit, officer at the Armenian Ministry of Economy.

Konstantin A.
Semerikov
First Deputy CEO – Executive director. Has been with TMK since 2003.

Graduated from the Moscow Institute of Steel and Alloys in 1981.
Experience: CEO of ZAO TMK Trade House, Deputy CEO of Production, then CEO of OAO TMK, mayor of Taganrog, CEO of OAO TAGMET.

Vladimir V.
Shmatovich
Senior Vice-President for Strategy and Business Development. Has been with TMK since 2005.

Graduated from the Moscow Finance Institute in 1989 and from the University of Notre Dame (MBA) in 1993.
Experience: CFO, OAO TMK, Deputy CEO, CFO in several companies (Udmurtneft, Sidanko, RusPromAvto), CEO of OAO Interros.

7.4. Remuneration

The Board of Directors and Executive Management remuneration system focuses on ensuring the long-term growth of the Company's share value. The main principle is fair compensation for the work performed.

Board of Directors

In accordance with the Regulation on OAO TMK Board of Directors, 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 June, 30 2009 the Board of Directors had 4 independent directors, 4 non-executive directors and 2 executive directors. As of June, 30 2009 the Board of Directors is comprised of 5 independent directors, 3 non-executive directors and 2 executive directors.

The remuneration to be paid includes:

- a fixed base remuneration paid on a monthly basis in the amount of 1/12 of the fixed annual amount;
- additional remuneration for the performance of the duties of Chairman or of a member of a Board Committee, paid every six months in the amount of 1/2 of an annual additional remuneration.

In 2009, the aggregate remuneration of the members of the Board of Directors was USD 2.52 million*.

CEO and Management Board

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, subject to the approval of performance reports by the Board of Directors.

* At the average 2009 rate of 31.7231 RUB/USD.

In 2009 the aggregate remuneration of the Chief Executive Officer and the members of the Management Board was USD 6.50 million.

External auditor

By decision of the annual General Meeting of Shareholders of OAO TMK of June 30, 2009, Ernst & Young LLP, member of the "Russian Audit Chamber" non-profit organization, was approved as the Company's auditor for 2009.

The external auditor is proposed by the executive management of OAO TMK and discussed by the Audit Committee and the Board of Directors. Auditors of the external auditor are constantly changed to keep them independent and not influenced by a long-standing relationship.

OAO TMK places significant restrictions on non-audit related services of the external auditor. The overwhelming majority of non-audit fees relate to mandatory preparation of securities prospectuses and the share of remuneration paid to the external auditor for these services in 2009 amounted to less than 15% of the total remuneration paid for the performance of the annual audit.

SHARE CAPITAL AND SECURITIES

SHARE CAPITAL AND SECURITIES

Share capital structure

As at 31 December 2009, the share capital of OAO TMK consisted of 873,001,000 fully paid 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.

As at 31 December 2008	
TMK Steel Ltd. (incl. affiliated companies)*	74.83%
Subsidiaries of OAO TMK	0.82%
Free float	24.35%
As at 31 December 2009	
TMK Steel Ltd. (incl. affiliated companies)*	74.83%
Subsidiaries of OAO TMK	0.82%
Free float	24.35%

* Dmitriy A. Pumpyanskiy is the main beneficiary of TMK Steel Ltd.

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, 2009, 24.35% of shares of OAO TMK are in free circulation of which approximately 89% 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 2009.

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 %

Securities

TMK securities are traded on the following stock exchanges:

- OAO TMK shares are traded on MICEX stock exchange (www.micex.ru) under the trade ticker TRMK and RTS stock exchange (www.rts.ru) under the trade ticker TRMK on the classic market and TRMKG on the stock exchange market;
- OAO TMK Global Depositary Receipts (GDR) are traded on the London Stock Exchange (www.londonstockexchange.com) under the trade ticker TMKS;
- OAO TMK American Depositary Receipts (ADR) are traded on the OTCQX trading platform (www.otcqx.com) under the trade ticker TMKXY.

In July 2009, TMK shares were admitted to trading on the MICEX A1 quotation list, which enabled to significantly expand the Company's potential investor base, including public and private pension funds and insurance companies.

In February 2010, the Company issued USD 412.5 million 5.25% convertible Eurobonds due in 2015. The nominal value of each bond is USD 100 thousand. Starting from 24 March, 2010, the bonds can be converted into GDRs (each representing 4 ordinary shares) at USD 23.075 per GDR.

In connection with the February 2010 convertible bonds issue, the OAO TMK Board of Directors made a decision to increase OAO TMK's charter capital by way of an additional ordinary share placement on the following terms:

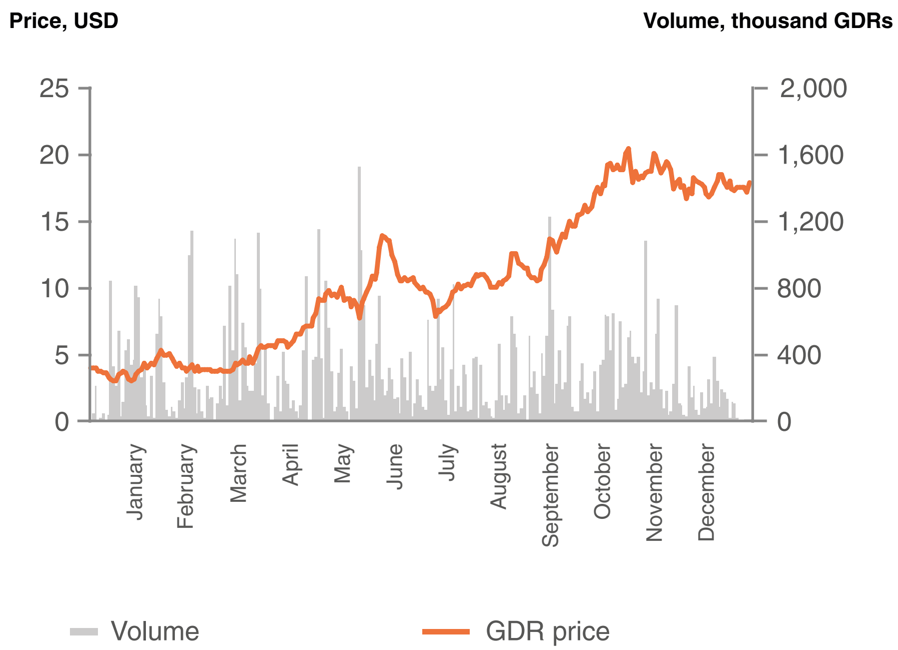
- 86,166,871 additional shares with par value of 10 roubles each
- open subscription
- offering price of 133 roubles per share with payment in roubles

In March 2010, TMK ADRs were listed and started trading on the OTC market in the US. The Company's ADRs are traded on the OTCQX International Premier trading platform, the OTC market's highest tier, under the symbol TMKXY. Each TMK ADR, as each TMK GDR, represents four ordinary shares. This expanded presence in the world's largest financial market provides the Company with access to a wider range of investors and expands the potential investor base with retail and institutional investors.

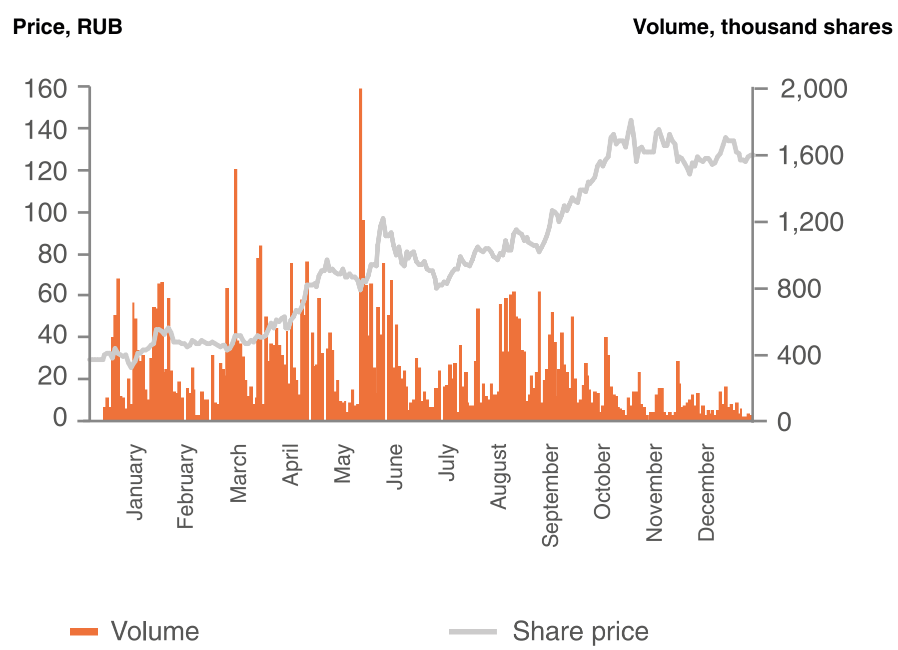
As at 31 December 2009, the Company had two outstanding public debt issues:

- Series 03 bonds for a total amount of 5 billion roubles due in February 2011, which are currently fully outstanding; and
- USD 600 million Eurobonds due on 26 July 2011. In 2009, the Company bought back 69% of the issue; as a result, the 2011 Eurobonds debt currently amounts to USD 186.7 million.

GDR performance on the London Stock Exchange in 2009



Share performance on the MICEX in 2009



In 2009, the TMK GDR price on the London Stock Exchange increased 4.6 times from USD 3.90 to USD 17.93 per GDR. The significant growth was attributable to the low price levels in the beginning of 2009. TMK's share price was affected by stock market sell-offs and capital outflows from developing economies coupled with investors' concerns regarding TMK's high leverage. Debt restructuring and favorable operating results were responsible for the share price appreciation of 2009. TMK securities outperformed both RTS and MICEX indices, which grew 2.3 and 2.2 times, respectively.

Dividends

In 2009, the Company did not pay dividends for 2008 based on the shareholders' decision taken at the June 2009 AGM.

CORPORATE CITIZENSHIP

CORPORATE CITIZENSHIP

9.1. 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 organizations by supporting projects in the regions where it operates.

The Company carries out its charitable work in the Urals through the Sinara Charitable Foundation, an organization under the patronage of TMK. Charity projects are funded through grant competitions. In the Sverdlovsk Region, 24 non-profit organizations received grants in 2009. Thus, TMK supports innovative social practices in education, culture, health care and sports.

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

TMK's approach to charitable activity has yielded positive results as it ranked fourth in PricewaterhouseCoopers' study of corporate charity among 60 major Russian companies in 2008, an improvement of one rank over the 2007 result.

TMK's socially responsible position helps it maintain its image of a reliable and respected employer and attract and retain qualified personnel.

9.2. Environmental Protection

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

Environmental Management System

An Environmental Management System (EMS) conforming to ISO 14001-2004 has been implemented at all production locations and certified at 10 plants with an additional 8 plants scheduled to undergo certification in 2010. In 2009, TMK introduced the EMS corporate documents: "TMK Environmental Policy" and "TMK Environment Policy Implementation Model".

Environmental investments

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.

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 in the implementation of the Strategic Investment Programme. In 2009, 27 environmental investment projects were carried out for a total amount of USD 24.4 million. Total expenses for environmental activities in 2009 amounted to USD 42.95 million.

The acquisition of US assets requires the Company to comply with US environmental legislation as well as regulations at both federal and state levels. The investment programs implemented at US plants comply with these requirements and seek to minimize the environmental impact of operations.

Air conservation

In 2009, TMK focused on reducing atmospheric emissions, including solid particles and greenhouse gases. Atmospheric emissions at TMK operations did not exceed the set standards in 2009 as per-unit atmospheric emissions continued to steadily decrease.

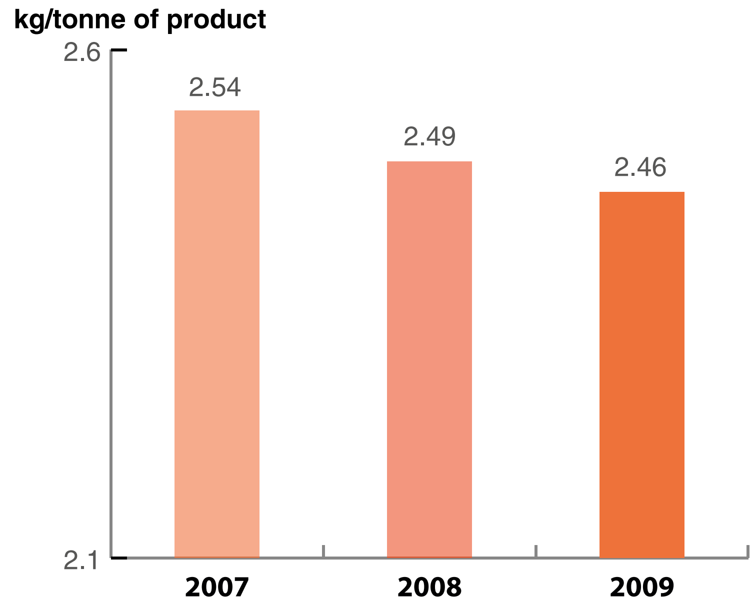
Air conservation investments at TMK's Russian plants in 2009 yielded the following results:

- 24.5% less gross emissions;
- 9.2% decrease in unfiltered emissions;
- 16.8% increase in the number of gas-cleaning units;
- Gas cleaning system efficiency increased from 95.9% to 97.0%.

Per-unit atmospheric emission levels have been decreasing due to the reconstruction and upgrade of steelmaking and pipe rolling operations and the implementation of emissions reduction programs.

The most significant breakthroughs in air protection in 2009 include:

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



56.5% decrease in atmospheric emissions at Seversky from the upgrading of steelmaking operations.

- 16 emission points were liquidated, including 4 open-hearth furnaces.
- EAF was equipped with a state-of-the-art gas cleaning system with filtration efficiency of up to 7 mg/m3, unparalleled in Russia and the CIS.
- Installation of thermal and catalytic incinerators for EAF wastes.

The efficiency of Volzhsky's gas cleaning system reached 99.6%.

Water consumption and water conservation

In 2009, TMK targeted both the reduction of water consumption and impact of activities on surface water bodies.

In spite of the consolidation of US assets, TMK key water consumption figures improved in comparison with the previous year::

- Total water consumption decreased by 21.3%;
- 7.5 million m3 decrease in the amount of water used in manufacturing processes;
- Volume of effluent discharged into surface water bodies decreased by 12.2%;
- 12.9% 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. The installation of water recycling systems is mandatory in all upgrading and modernizing investments. In 2009, 93.9% of water used in production processes at TMK Russian and Romanian facilities was recycled.

Waste and land conservation

The Company's waste management system focuses on the implementation of practical solutions for the reduction of waste discharged into the environment.

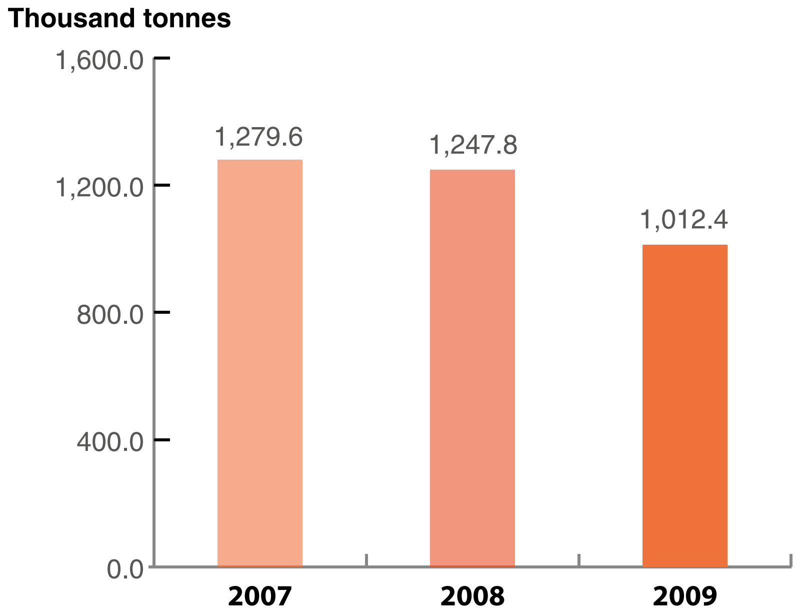
Priorities for 2009 included:

- Reducing the amount of waste;
- Reducing wastes stored and disposed at dedicated facilities;
- Increasing the recycling of accumulated production wastes, including metallic waste;
- Increasing the amount of recycled and reused waste at TMK or third-party facilities

For TMK as a whole, the total amount of waste generated in 2009 was 1,012.4 thousand tonnes, 18.9% less than in 2008. Excluding TMK IPSCO, this amount was reduced by 22.1%. The limits set for both the generation and disposal of wastes at the Company's facilities were not exceeded, 11.2% of total industrial wastes were disposed of at specialized facilities.

CONTENTS
rus
eng

Volume of waste created



Compared to 2008:

- Amount of wastes disposed at TMK facilities decreased by 21.2 %;
- Amount of wastes recycled and treated at TMK facilities increased by 25.3 %;
- Accumulated wastes decreased by 11%.

Compliance with environmental legislation

TMK supports and enforces international environmental protection initiatives and agreements. The Company operates under the commitments agreed by Russia within the United Nations Framework Convention on Climate Change. In 2009, a greenhouse gases emissions reduction program was implemented along with the reconstruction of Seversky's steelmaking operations. The emission reduction program will decrease greenhouse gas emissions by more than 600 thousand tonnes per year.

The Company's Romanian plants comply with the requirements of the Kyoto Protocol to monitor greenhouse gas emissions and report to supervisory authorities. Actual greenhouse gas emissions did not exceed established limits.

Following changes in the US environmental regulatory framework in 2009, TMK IPSCO plants are establishing green house gas emission monitoring and reporting procedures. Reports will be submitted to the US Environmental Protection Agency starting from 2010.

In 2009, the results of an MWH environmental and social audit of OAO TMK, Seversky, Sinarsky, Volzhsky and TAGMET to assess compliance with Russian environmental laws as well as European Union and EBRD requirements recognized the Company as environmentally responsible.

CONSOLIDATED FINANCIAL STATEMENTS

CONTENTS
rus
eng

Independent Auditors' Report

The Shareholders and Board of Directors OAO TMK

We have audited the accompanying consolidated financial statements of OAO TMK and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2009, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 of 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 aspects, the financial position of the Group as at 31 December 2009, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 16, 2010
Moscow, Russia

CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 2009

Contents

Consolidated Income Statement

for the year ended December 31, 2009 (All amounts in thousands of US dollars)

		Year ended December 31	
	NOTES	2009	2008
Revenue:	1	3,460,997	5,690,002
Sales of goods		3,393,303	5,603,411
Rendering of services		67,694	86,591
Cost of sales	2	(2,904,597)	(4,252,452)
Gross profit		**556,400**	**1,437,550**
Selling and distribution expenses	3	(312,551)	(344,061)
Advertising and promotion expenses	4	(4,579)	(10,122)
General and administrative expenses	5	(203,748)	(267,897)
Research and development expenses	6	(10,214)	(15,164)
Other operating expenses	7	(33,157)	(52,043)
Other operating income	9	16,006	7,120
Impairment of goodwill	20	(10,053)	(3,512)
Impairment of property, plant and equipment	19	(39,730)	(59,846)
Reversal of impairment of property, plant and equipment	19	2,454	-
Impairment of financial assets	17	-	(23,675)
Foreign exchange (loss)/gain, net		14,233	(99,817)
Finance costs		(446,875)	(272,175)
Finance income	10	43,264	8,720
Share of profit in associate	8	1,416	3,006
Gain on disposal of associate	8	379	-
(Loss)/profit before tax		**(426,755)**	**308,084**
Income tax benefit/(expense)	12	103,010	(109,612)
(Loss)/profit for the year		**(323,745)**	**198,472**
Attributable to:			
Equity holders of the parent entity		(315,726)	199,408
Minority interests		(8,019)	(936)
		(323,745)	**198,472**
(Loss)/earnings per share attributable to equity holders of the parent entity, basic and diluted (in US dollars)	13	**(0.36)**	**0.23**

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

Consolidated Statement of Comprehensive Income

for the year ended December 31, 2009 (All amounts in thousands of US dollars)

	NOTES	2009	2008
(Loss)/profit for the year		**(323,745)**	**198,472**
Exchange differences on translation to presentation currency[(a)]		60,200	39,608
Foreign currency (loss)/gain on hedged net investment in foreign operation[(b)]	29 (x)	(124,077)	(381,917)
Income tax[(b)]	12, 29 (x)	7,698	53,577
		(116,379)	(328,340)
Net unrealised gain/(loss) on available-for-sale investments		312	(10,683)
Income tax		(62)	-
		250	(10,683)
Reclassification of the net gains on available-for-sale investments to the income statement		(312)	-
Income tax		62	-
		(250)	-
Impairment of available for sale investments		-	13,043
Other comprehensive (loss)/income for the year, net of tax		**(56,179)**	**(286,372)**
Total comprehensive (loss)/income for the year, net of tax		**(379,924)**	**(87,900)**
Attributable to:			
Equity holders of the parent entity		(368,319)	(66,641)
Minority interests		(11,605)	(21,259)
		(379,924)	**(87,900)**

(a) The amount of exchange differences on translation to presentation currency represents other comprehensive income of 63,786 (2008: 60,104) attributable to equity holders of the parent entity and other comprehensive loss of 3,586 (2008: 20,496) attributable to minority interests.

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

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

Consolidated Statement of Financial Position

as at December 31, 2009 (All amounts in thousands of US dollars)

	NOTES	2009		2008	
ASSETS					
Current assets					
Cash and cash equivalents	14, 27	243,756		143,393	
Financial investments		4,075		3,885	
Trade and other receivables	15	578,956		751,691	
Accounts receivable from related parties	27	1,240		6,009	
Inventories	18	926,394		1,175,936	
Prepayments and input VAT	16	176,489		186,744	
Prepaid income taxes		46,104	**1,977,014**	26,290	**2,293,948**
Non-current assets					
Investments in an associate		-		2,726	
Available-for-sale investments	17	-		6,520	
Intangible assets	20	558,359		665,545	
Accounts receivable from related parties	27	68		68	
Property, plant and equipment	19	3,402,680		3,322,160	
Goodwill	20	555,462		568,424	
Deferred tax asset	12	135,652		138,707	
Other non-current assets	17	51,874	**4,704,095**	69,609	**4,773,759**
TOTAL ASSETS			**6,681,109**		**7,067,707**
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	21	573,518		709,934	
Advances from customers		325,549		96,430	
Accounts payable to related parties	27	21,772		1,459	
Accrued liabilities	22	145,247		665,452	
Provisions	23	9,455		10,476	
Interest-bearing loans and borrowings	24	1,537,382		2,216,459	
Dividends payable		469		361	
Income tax payable		8,596	**2,621,988**	39,823	**3,740,394**

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

Consolidated Statement of Financial Position (continued)

as at December 31, 2009 (All amounts in thousands of US dollars)

	NOTES	2009		2008	
Non-current liabilities					
Interest-bearing loans and borrowings	24	2,214,168		994,225	
Deferred tax liability	12	271,664		370,561	
Provisions	23	21,851		19,702	
Employee benefit liability	25	18,441		17,187	
Other liabilities		13,701	**2,539,825**	15,216	**1,416,891**
Total liabilities			**5,161,813**		**5,157,285**
Equity	29				
Parent shareholders' equity					
Issued capital		305,407		305,407	
Treasury shares		(37,378)		(37,827)	
Additional paid-in capital		104,003		97,915	
Reserve capital		15,387		15,387	
Retained earnings		1,019,322		1,343,255	
Foreign currency translation reserve		36,681	1,443,422	89,274	1,813,411
Minority interests			75,874		97,011
Total equity			**1,519,296**		**1,910,422**
TOTAL EQUITY AND LIABILITIES			**6,681,109**		**7,067,707**

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

Consolidated Statement of Changes in Equity

for the year ended December 31, 2009 (All amounts in thousands of US dollars)

	Attributable to equity holders of the parent								
	Issued capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Foreign currency translation reserve	Total	Minority interests	TOTAL
At January 1, 2009	**305,407**	**(37,827)**	**97,915**	**15,387**	**1,343,255**	**89,274**	**1,813,411**	**97,011**	**1,910,422**
Loss for the period	-	-	-	-	(315,726)	-	**(315,726)**	(8,019)	**(323,745)**
Other comprehensive income/ (loss)	-	-	-	-	-	(52,593)	**(52,593)**	(3,586)	**(56,179)**
Total comprehensive income/ (loss)	**-**	**-**	**-**	**-**	**(315,726)**	**(52,593)**	**(368,319)**	**(11,605)**	**(379,924)**
Purchase of the Company's shares for the purpose of realisation of the Share Options Programme (Note 29 viii)	-	(89)	-	-	-	-	**(89)**	-	**(89)**
Purchase of treasury shares	-	(221)	-	-	-	-	**(221)**	-	**(221)**
Sale of treasury shares	-	759	-	-	-	-	**759**	-	**759**
Expiration of warrants (Note 29 ix)	-	-	5,590	-	(5,590)	-	**-**	-	**-**
Dividends by subsidiaries of the Group to the minority interest owners in subsidiaries (Note 29 v)	-	-	-	-	-	-	**-**	(2,302)	**(2,302)**
Acquisition of minority interests (Note 29 iv)	-	-	498	-	(2,617)	-	**(2,119)**	(7,230)	**(9,349)**
At December 31, 2009	**305,407**	**(37,378)**	**104,003**	**15,387**	**1,019,322**	**36,681**	**1,443,422**	**75,874**	**1,519,296**

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

Consolidated Statement of Changes in Equity (continued)

for the year ended December 31, 2009 (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 loss	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**
Profit/(loss) for the period	-	-	-	-	199,408	-	-	**199,408**	(936)	**198,472**
Other comprehensive income/ (loss)	-	-	-	-	-	(268,236)	2,187	**(266,049)**	(20,323)	**(286,372)**
Total comprehensive income/ (loss)	**-**	**-**	**-**	**-**	**199,408**	**(268,236)**	**2,187**	**(66,641)**	**(21,259)**	**(87,900)**
Purchase of the Company's shares for the purpose of realisation of the Share Options Programme (Note 29 viii)	-	(27,110)	-	-	-	-	-	**(27,110)**	-	**(27,110)**
Sale of treasury shares (Note 29 viii)	-	35	-	-	-	-	-	**35**	-	**35**
Share-based payments (Note 29 vii)	-	-	5,989	-	-	-	-	**5,989**	-	**5,989**
Purchase of warrants (Note 29 ix)	-	-	(5,590)	-	-	-	-	**(5,590)**	-	**(5,590)**
Dividends by subsidiaries of the Group to the minority interest owners in subsidiaries (Note 29 v)	-	-	-	-	-	-	-	**-**	(4,752)	**(4,752)**
Acquisition of minority interests (Note 29 iv)	-	-	178	-	(191)	-	-	**(13)**	(2,534)	**(2,547)**
Derecognition of liability under expired minority interest put-option (Note 29 vi)	-	-	-	-	(1,366)	-	-	**(1,366)**	21,643	**20,277**
Dividends (Note 29 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**

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

Consolidated Statement of Cash Flows

for the year ended December 31, 2009 (All amounts in thousands of US dollars)

		Year ended December 31	
	NOTES	2009	2008
Operating activities			
(Loss)/profit before tax		(426,755)	308,084
Adjustment to reconcile profit before tax to net cash flows			
Non-cash:			
Depreciation of property, plant and equipment	19	205,288	188,941
Amortisation of intangible assets	20	107,798	58,831
Loss on disposal of property, plant and equipment	7	3,959	1,555
Impairment of goodwill	20	10,053	3,512
Impairment of property, plant and equipment	19	39,730	59,846
Reversal of impairment of property, plant and equipment	19	(2,454)	-
Impairment of financial assets	17	-	23,675
Foreign exchange (gain)/loss, net		(14,233)	99,817
Finance costs		446,875	272,175
Finance income	10	(41,276)	(8,720)
Gain on disposal of available-for-sale investments	17	(1,988)	-
Share-based payments	29 vii	-	5,989
Share of profit in associate	8	(1,416)	(3,006)
Gain on disposal of associate	8	(379)	-
Allowance for net realisable value of inventory	18	(4,559)	24,669
Allowance for doubtful debts	30	4,219	7,212
Movement in other provisions		3,232	4,656
Operating cash flow before working capital changes		**328,094**	**1,047,236**
Working capital adjustments:			
Decrease/(increase) in inventories		226,912	(178,665)
Decrease/(increase) in trade and other receivables		183,001	(156,557)
Decrease in prepayments		5,152	6,381
(Decrease)/increase in trade and other payables		(98,325)	401,560
(Decrease)/increase in accrued liabilities		21,112	(144,927)
(Decrease)/increase in advances from customers		219,747	(8,945)
Cash generated from operations		885,693	966,083
Income taxes paid		(33,387)	(226,573)

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

Consolidated Statement of Cash Flows (continued)

for the year ended December 31, 2009 (All amounts in thousands of US dollars)

		Year ended December 31	
	NOTES	2009	2008
Net cash flows from operating activities		**852,306**	**739,510**
Investing activities			
Purchase of property, plant and equipment and intangible assets		(395,318)	(839,994)
Proceeds from sale of property, plant and equipment		1,323	2,436
Sale of available-for-sale investments		8,177	-
Disposal of associate		785	-
Acquisition of subsidiaries, net of cash acquired	11	(509,714)	(1,184,839)
Acquisition of minority interest		(8,961)	(5,149)
Issuance of loans		(1,833)	(1,083)
Proceeds from repayment of loans issued		991	151
Interest received		2,013	2,968
Dividends received from associate		2,676	1,232
Net cash flows used in investing activities		**(899,861)**	**(2,024,278)**
Financing activities			
Purchase of treasury shares		(310)	(27,110)
Purchase of warrants	29 ix	-	(5,590)
Proceeds from exercise of options		759	-
Proceeds from borrowings		4,190,093	4,541,071
Repayment of borrowings		(3,608,268)	(2,760,583)
Interest paid		(444,111)	(184,254)
Reimbursement of interest paid		10,498	1,678
Payment of finance lease liabilities		(2,809)	(227)
Capital contribution by minority interest owners to a subsidiary		46	-
Dividends paid to equity holders of the parent		-	(223,568)
Dividends paid to minority interest shareholders		(2,069)	(4,533)
Net cash flows from financing activities		**143,829**	**1,336,884**
Net increase in cash and cash equivalents		96,274	52,116
Net foreign exchange difference		4,089	2,232
Cash and cash equivalents at January 1		143,393	89,045
Cash and cash equivalents at December 31		**243,756**	**143,393**

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

Corporate Information

These consolidated financial statements of OAO TMK and its subsidiaries (the "Group") for the year ended December 31, 2009 were authorised for issue in accordance with a resolution of the General Director on April 16, 2010.

OAO TMK (the "Company"), the parent company of the Group, is registered in the Russian Federation. The list of subsidiaries is disclosed in Note 26.

As at December 31, 2009, the Company's controlling shareholder was TMK Steel Limited.

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. Both registered and 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.

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. The Group's activities in all its operating segments have been adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis. The Group reported net loss of 323,745 for the year ended December 31, 2009. As at December 31, 2009, the Group's current liabilities were 2,621,988 (including loans and borrowings of 1,537,382 with maturities within 12 months after the reporting date) and exceeded current assets by 644,974.

In the period from December 31, 2009 to the date of authorisation for issue of these consolidated financial statements, the Group has extended the maturities, repaid or refinanced substantially all of its borrowings classified as short-term. The Group received 764,607 of new borrowings (including long-term borrowings of 722,848) and repaid 733,442 of current loans and borrowings (Note 31). In February-March 2010, the Group extended the maturities of certain borrowing facilities of 450,000 to 2012 and of certain debt instruments totaling to 165,321 to 2011, both of which were classified as short-term debt at December 31, 2009 (Note 31). The remaining loans with current maturities are expected to be covered by free operating cash flows and additional refinancings.

Prior to December 31, 2009, the Group obtained waivers from its lenders of certain financial covenants as at December 31, 2009. In March 2010, the Group negotiated with its lenders the reset of financial covenants for 2010 (Note 24).

Taking into consideration the current economic environment, management believes that the Group has adequate resources to continue in operational existence for the foreseeable future and anticipates that the Group will comply with all debt covenants during 2010.

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.

Basis of Preparation of the Financial Statements (continued)

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 end of reporting period. 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 a separate component of 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 separate component of 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 end of reporting period 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 2009, the Group recognised impairment losses of 39,730 in respect of property, plant and equipment of Romanian Subsidiaries and Orsk Plant (2008: 59,846). In 2009, the Group reversed 2,454 of impairment losses recognised in six-month period ended June 30, 2009 in respect of property, plant and equipment of Orsk Plant (Note 19).

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 2009.

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 11).

Significant Estimates and Assumptions (continued)

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, 2009 was 555,462 (2008: 568,424). In 2009 the Group recognised impairment losses of 10,053 in respect of goodwill (Note 20) (2008: 3,512).

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 25).

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, 2009 and 2008, allowances for doubtful accounts have been made in the amount of 15,172 and 13,132, respectively (Notes 15, 17, 30).

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 end of reporting period to the extent that such events confirm conditions existing at the end of the period. As at December 31, 2009 and 2008, allowances for net realisable value of inventory were 22,133 and 28,587, respectively (Note 18).

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, 2009, 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 12).

Significant Estimates and Assumptions (continued)

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 29 vii.

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 to provide financing to the Group's companies (Note 24).

Changes in Accounting Policies

Application of new and amended IFRS and IFRIC

The Group has adopted the following new and amended IFRS and IFRIC in the consolidated financial statements for the annual period beginning on January 1, 2009:

- **IFRS 2** "Share-based payment" (amended);
- **IFRS 7** "Financial Instruments: Disclosures" (amended);
- **IFRS 8** "Operating Segments";
- **IAS 1** "Presentation of Financial Statements" (revised);
- **IAS 23** "Borrowing costs" (revised);
- **IAS 32** "Financial instruments: Presentation" and IAS 1 "Puttable Financial Insruments and Obligations Arising on Liquidation";
- **IFRIC 9** "Remeasurement of Embedded Derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement";
- **IFRIC 13** "Customer Loyalty Programmes";
- **IFRIC 15** "Agreements for the Construction of Real Estate";
- **IFRIC 16** "Hedges of a Net Investment in a Foreign Operation";
- **IFRIC 18** "Transfer of Assets to Customer".
- **Improvements to IFRSs (May 2008)**

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

IFRS 2 "SHARE-BASED PAYMENT" – VESTING CONDITIONS AND CANCELLATIONS (AMENDED)

The amendments specify 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 adoption of these amendments did not have any impact on the financial position or performance of the Group.

Changes in Accounting Policies (continued)

Application of new and amended IFRS and IFRIC (continued)

IFRS 7 “FINANCIAL INSTRUMENTS: DISCLOSURES” (AMENDED)

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. These amendments do not have impact on the financial position or performance of the Group. The liquidity risk disclosures are presented in Note 30.

IFRS 8 “OPERATING SEGMENTS”

This standard requires disclosure of information about the Group’s operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The new disclosures are included in the financial statements, including revised comparative information (Note 1).

IAS 1 “PRESENTATION OF FINANCIAL STATEMENTS” (REVISED)

The revision separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the revision introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.

IAS 23 “BORROWING COSTS” (REVISED)

The revised IAS 23 requires capitalisation of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. The Group’s previous policy was to expense borrowing costs as they were incurred. In accordance with the transitional provisions of the amended IAS 23, the Group has adopted the standard on a prospective basis. Therefore, borrowing costs are capitalised on qualifying assets with a commencement date on or after January 1, 2009. During the year ended December 31, 2009 borrowing costs in the amount of 1,702 have been capitalised (Note 19).

IAS 32 “FINANCIAL INSTRUMENTS: PRESENTATION” AND IAS 1 “PRESENTATION OF FINANCIAL STATEMENTS” – PUTTABLE FINANCIAL INSTRUMENTS AND OBLIGATIONS ARISING ON LIQUIDATION

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. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

IFRIC 9 “REASSESSMENT OF EMBEDDED DERIVATIVES” AND IAS 39 “FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT”

These amendments require an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

IFRIC 13 “CUSTOMER LOYALTY PROGRAMMES”

This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The adoption of this interpretation did not have any impact on the financial position or performance of the Group.

IFRIC 15 “AGREEMENTS FOR THE CONSTRUCTION OF REAL ESTATE”

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 adoption of this interpretation did not have any impact on the financial position or performance of the Group.

Changes in Accounting Policies (continued)

Application of new and amended IFRS and IFRIC (continued)

IFRIC 16 "HEDGES OF A NET INVESTMENT IN A FOREIGN OPERATION"

The Group has applied early adoption of IFRIC 16 in the 2008 year 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 assess 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 (Note 29 x).

IFRIC 18 "TRANSFER OF ASSETS TO CUSTOMER"

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 circumstances, in which the definition of an asset is met, recognition of asset and its measurement on initial recognition, identification of separately identifiable services, recognition of revenue and accounting for transfer of cash from customers.

IMPROVEMENTS TO IFRSs (MAY 2008)

These amendments clarify wording and remove inconsistencies in the standards. There are separate transitional provisions for each standard.

Reclassifications

Certain corresponding information, presented in the consolidated financial statements for the year ended December 31, 2008 has been reclassified in order to achieve comparability with the presentation used in these consolidated financial statements.

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. The Group expects that the adoption of the pronouncements listed below will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

IFRS 1 "FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS" AND IAS 27 "CONSOLIDATED FINANCIAL STATEMENTS" – COST OF AN INVESTMENT IN A SUBSIDIARY, JOINTLY CONTROLLED ENTITY OR ASSOCIATE (AMENDED) (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JULY 1, 2009)

The amendments to IFRS 1 allows an entity to determine the cost of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the statement of operations in the separate financial statements. The new requirements affect only separate financial statements and do not have any impact on the consolidated financial statements.

IFRS 2 "SHARE-BASED PAYMENT" – GROUP CASH-SETTLED SHARE-BASED PAYMENT (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JANUARY 1, 2010)

The amendment clarified the scope and the accounting for group cash-settled share-based payment transactions.

IFRS 3 "BUSINESS COMBINATION" (REVISED) (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JULY 1, 2009)

The revision introduced significant changes in the accounting for business combinations. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period of acquisition occurs and future reported results.

IAS 24 "RELATED PARTY DISCLOSURES" (REVISED) (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JANUARY 1, 2011)

The revision clarifies and simplifies the definition of a related party, provides some relief for government-related entities to disclose details of all transactions with other government-related entities (as well as with the government itself).

Changes in Accounting Policies (continued)

New accounting pronouncements (continued)

IAS 27 "CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS" (REVISED) (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JULY 1, 2009)

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.

IAS 32 "FINANCIAL INSTRUMENTS: PRESENTATION" (AMENDED) – CLASSIFICATION OF RIGHTS ISSUES (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER FEBRUARY 1, 2010)

The amendment introduces changes for rights issues in a currency other than their functional currency. Such rights issues may now be classified as equity instruments in some cases. Application of the change is retrospective and will result in the reversal of profits or losses previously recognised.

IAS 39 "FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT" (AMENDED) (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JULY 1, 2009)

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.

IFRS 9 "FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT" (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JANUARY 1, 2013)

The standard will ultimately replace IAS 39 in three main phases. As part of the first phase the International Accounting Standards Board issued the chapters of IFRS 9 relating to the classification and measurement of financial assets in November 2009. The requirements of the standard apply a consistent approach to classifying financial assets and replace the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. They also result in one impairment method, replacing the numerous impairment methods in IAS 39 that arise from the different classification categories.

IFRIC 17 "DISTRIBUTION OF NON-CASH ASSETS TO OWNERS" (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JULY 1, 2009)

This interpretation provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognise a liability, how to measure it and the associated assets, and when to derecognise the asset and liability. The Group does not expect IFRIC 17 to have an impact on the consolidated financial statements as the Group has not made non-cash distributions to shareholders in the past.

IFRIC 19 "EXTINGUISHING FINANCIAL LIABILITIES WITH EQUITY INSTRUMENTS" (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JULY 1, 2010)

The new interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

AMENDMENTS TO IFRIC 14/IAS 19 "THE LIMIT ON A DEFINED BENEFIT ASSET, MINIMUM FUNDING REQUIREMENTS AND THEIR INTERACTION" – PREPAYMENTS OF A MINIMUM FUNDING REQUIREMENT (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JANUARY 1, 2011)

The amendment removes an unintended consequence that meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment allows these entities to recognise a prepayment of pension contributions as an asset rather than an expense.

IMPROVEMENTS TO IFRSs (EFFECTIVE FOR FINANCIAL YEARS BEGINNING ON OR AFTER JANUARY 1, 2010 OR LATER)

In April 2009 the International Accounting Standards Board issued "Improvements to International Financial Reporting Standards", primarily with a view to removing inconsistencies and clarifying wording. These are separate transitional provisions for each standard. The document sets out amendments to different International Financial Reporting Standards, which are mainly related to accounting changes for presentation, recognition or management purposes terminology or editorial changes. But in general those amendments shall be applied prospectively for annual periods beginning on January 1, 2010 or later.

Significant Accounting Policies

Index to Accounting Policies

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 end of reporting period represent the minority interest shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minority interests' 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 interests 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 interest 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.

Significant Accounting Policies (continued)

A) Principles of Consolidation (continued)

Acquisition of Subsidiaries from Entities under Common Control (continued)

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.

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 other comprehensive income in the available-for-sale reserve until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss 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 end of reporting period. 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.

Significant Accounting Policies (continued)

C) Investments and Other Financial Assets (continued)

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset 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 the Unites States against foreign currency risks using US dollar denominated liabilities. Hedges of net investment in 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 as other comprehensive income 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 as separate component of equity is transferred to the income statement. The Group uses a new borrowing facility and loan participation notes as a hedge of its exposure to foreign exchange risk on its investments in foreign subsidiaries (Note 29 x).

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.

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 using the effective interest rate method. Carrying amount of the loan is decreased by unamortised balance of debt issue costs.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of cost of respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after January 1, 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to January 1, 2009.

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.

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 production 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 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. Average depreciation periods, which represent estimated useful economic lives of 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 assets replaced are retired. Gains and losses arising from retirement of property, plant and equipment are included in the income statement as incurred.

When material repairs are performed, the Group recognises 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 do not meet the definition of an asset according to IFRS. Construction and maintenance costs of social infrastructure facilities are expensed as incurred.

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.

Significant Accounting Policies (continued)

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 net assets of 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 recoverable amount of 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 gain or loss on disposal of the operation.

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

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 intangible asset may be impaired. Amortisation period and amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in expected useful life or expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates.

The amortisation periods which represent estimated useful economic lives of respective assets are as follows:

Customer relationships	8–10 years
Proprietary technology	8 years
Backlog	1.5 year
Other	2–18 years

Amortisation expense of intangible assets is recognised in the income statement in the expense category consistent with the function of 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 design and testing of new or improved products) are recognised as intangible assets only when the Group can demonstrate technical feasibility of completing 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, availability of resources to complete and 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 commencement of 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.

Significant Accounting Policies (continued)

K) Impairment of Non-Financial Assets (Other than Goodwill)

An assessment is made at each reporting 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 is 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 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, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment loss is recognised for the difference between estimated recoverable amount and carrying value. Carrying amount of asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of loss is included in the net profit and loss for the period.

Impairment loss is reversed if subsequent increase in recoverable amount can be related objectively to event occurring after the impairment loss was recognised. 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 outflow of resources will be required to settle obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be 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 time value of money is material, provisions are determined by discounting expected future cash flows at a pre-tax rate that reflects current market assessments of time value of money and where appropriate, risks specific to the liability. Where discounting is used, increase in 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.

Liability recognised in the statement of financial position in respect of post-employment benefits is the present value of defined benefit obligation at the end of reporting period less fair value of the plan assets. Defined benefit obligation is calculated annually using the projected unit credit method. Present value of the benefits is determined by discounting estimated future cash outflows using interest rates of high-quality government bonds that are denominated in currency in which benefits would be 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. 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 end of the reporting period, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, 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 deferred income tax arises from initial recognition of goodwill or of an asset or liability in transaction that is not a business combination and, at the time of the transaction, affects neither 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 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 end of the reporting period.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where timing of reversal of temporary differences can be controlled and it is probable that temporary differences will not bereversed in the near future.

Significant Accounting Policies (continued)

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 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 the 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 end of reporting period only if they are declared before or on the end of the reporting period. Dividends are disclosed in the financial statements when they are proposed before the end of the reporting period or proposed or declared after the end of the reporting period but before the financial statements are authorised for issue.

Q) Revenue Recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the amount of revenue can be measured reliably. Revenues from sales of inventory are recognised when significant risks and rewards of ownership of 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 fair value of the consideration received or receivable. When the fair value of consideration received cannot be measured reliably, revenue is measured at the fair value of goods or services provided.

Index to the Notes to the Consolidated Financial Statements

CONTENTS
rus
eng

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

1) Segment Information

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

- Russia segment represents the results of operations and financial position of plants located in Russian Federation, a finishing facility in Kazakhstan, Oilfield service companies and traders located in Russia, Kazakhstan, the United Arab Emirates, Switzerland that are selling their production (seamless and welded pipes).
- Americas segment represents the results of operations and financial position of plants located in the United States of America and trader located in the United States of America (primarily welded pipes).
- Europe segment represents the results of operations and financial position of plants located in Europe and traders located in Europe (excluding Switzerland) selling their production (seamless pipes and steel billets).

Management monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on adjusted EBITDA. Adjusted EBITDA represents net profit before depreciation and amortisation, finance costs and finance income, exchange rate fluctuations, impairment of non-current assets, income tax expenses and other non-cash items which comprise share of profit in associate, loss (gain) on disposal of property, plant and equipment, share-based payments, inventory and doubtful debts allowances and movement in other provisions, determined based on IFRS Financial Statements. Group financing (including finance costs and finance income) is managed on a group basis and are not allocated to operating segments.

The following tables present revenue and profit information regarding the Group's reportable segments for the year ended December 31, 2009 and 2008, respectively.

Year ended December 31, 2009	Russia	Americas	Europe	TOTAL
Revenue	2,639,292	655,151	166,554	**3,460,997**
Cost of sales	(2,100,970)	(667,868)	(135,759)	**(2,904,597)**
GROSS PROFIT	**538,322**	**(12,717)**	**30,795**	**556,400**
Selling, general and administrative expenses	(336,272)	(160,670)	(34,150)	**(531,092)**
Other operating income/(expenses), net	(14,819)	16	(2,348)	**(17,151)**
OPERATING PROFIT/(LOSS)	**187,231**	**(173,371)**	**(5,703)**	**8,157**
ADD BACK:				
Depreciation and amortisation	141,115	162,615	9,356	**313,086**
Loss on disposal of property, plant and equipment	2,698	227	1,034	**3,959**
Allowance for net realisable value of inventory	(9,646)	4,471	616	**(4,559)**
Allowance for doubtful debts	1,190	1,125	1,904	**4,219**
Movement in other provisions	3,585	184	(537)	**3,232**
	138,942	**168,622**	**12,373**	**319,937**
ADJUSTED EBITDA	**326,173**	**(4,749)**	**6,670**	**328,094**

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

1) Segment Information (continued)

Year ended December 31, 2009	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
ADJUSTED EBITDA	**326,173**	**(4,749)**	**6,670**	**328,094**
Reversal of adjustments from operating profit to EBITDA	(138,942)	(168,622)	(12,373)	**(319,937)**
OPERATING PROFIT/(LOSS)	**187,231**	**(173,371)**	**(5,703)**	**8,157**
Impairment of goodwill	(10,053)	-	-	**(10,053)**
Impairment of property, plant and equipment	(2,713)	-	(37,017)	**(39,730)**
Reversal of impairment of property, plant and equipment	2,454	-	-	**2,454**
Foreign exchange gain/(loss), net	29,640	8	(15,415)	**14,233**
OPERATING PROFIT/(LOSS) AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	**206,559**	**(173,363)**	**(58,135)**	**(24,939)**
Finance costs				**(446,875)**
Finance income				**43,264**
Share of profit in associate				**1,416**
Gain on disposal of associate				**379**
PROFIT/(LOSS) BEFORE TAX				**(426,755)**

Year ended December 31, 2008	Russia	Americas	Europe	TOTAL
Revenue	4,194,858	1,203,292	291,852	**5,690,002**
Cost of sales	(3,163,274)	(857,455)	(231,723)	**(4,252,452)**
GROSS PROFIT	**1,031,584**	**345,837**	**60,129**	**1,437,550**
Selling, general and administrative expenses	(504,801)	(84,503)	(47,940)	**(637,244)**
Other operating income/(expenses), net	(41,719)	21	(3,225)	**(44,923)**
OPERATING PROFIT/(LOSS)	**485,064**	**261,355**	**8,964**	**755,383**
ADD BACK:				
Depreciation and amortisation	150,337	84,983	12,452	**247,772**
Loss on disposal of property, plant and equipment	2,602	21	(1,068)	**1,555**
Share-based payments	5,989	-	-	**5,989**
Allowance for net realisable value of inventory	23,941	546	182	**24,669**
Allowance for doubtful debts	7,228	(109)	93	**7,212**
Movement in other provisions	1,980	2,401	275	**4,656**
	192,077	**87,842**	**11,934**	**291,853**
ADJUSTED EBITDA	**677,141**	**349,197**	**20,898**	**1,047,236**

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

1) Segment Information (continued)

Year ended December 31, 2008	Russia	Americas	Europe	TOTAL
RECONCILIATION TO PROFIT/(LOSS) BEFORE TAX:				
ADJUSTED EBITDA	**677,141**	**349,197**	**20,898**	**1,047,236**
Reversal of adjustments from operating profit to EBITDA	(192,077)	(87,842)	(11,934)	**(291,853)**
OPERATING PROFIT/(LOSS)	**485,064**	**261,355**	**8,964**	**755,383**
Impairment of goodwill	(3,512)	-	-	**(3,512)**
Impairment of property, plant and equipment	(4,166)	-	(55,680)	**(59,846)**
Impairment of financial assets	(23,675)	-	-	**(23,675)**
Foreign exchange gain/(loss), net	(82,147)	37	(17,707)	**(99,817)**
OPERATING PROFIT/(LOSS) AFTER IMPAIRMENT AND FOREIGN EXCHANGE GAIN/(LOSS)	**371,564**	**261,392**	**(64,423)**	**568,533**
Finance costs				**(272,175)**
Finance income				**8,720**
Share of profit in associate				**3,006**
PROFIT/(LOSS) BEFORE TAX				**308,084**

The following table presents additional information of the Group's reportable segments as at December 31, 2009 and 2008:

Year ended December 31, 2009	Russia	Americas	Europe	TOTAL
Segment assets	4,433,558	1,903,097	344,454	**6,681,109**
Property, plant and equipment expenditure	370,981	27,417	13,925	**412,323**

Year ended December 31, 2008	Russia	Americas	Europe	TOTAL
Segment assets	4,296,542	2,360,064	411,101	**7,067,707**
Investment in an associate	2,726	-	-	**2,726**
Property, plant and equipment expenditure	916,449	39,828	23,929	**980,206**
Property, plant and equipment acquired in business combinations	20,271	424,458	-	**444,729**

The following table presents the revenues from external customers for each group of similar products and services for the year ended December 31, 2009 and 2008, respectively.

	Welded pipes	Seamless pipes	Other operations	TOTAL
SALES TO EXTERNAL CUSTOMERS				
Year ended December 31, 2009	1,150,370	2,082,945	227,682	**3,460,997**
Year ended December 31, 2008	1,876,136	3,546,044	267,822	**5,690,002**

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

1) Segment Information (continued)

The following tables present the geographic information. The revenue information is disclosed based on the location of the customer. Non-current assets are disclosed based on the location of the Group's assets and include property, plant and equipment, intangible assets and goodwill.

Year ended December 31, 2009	Russia	Americas	Cent.Asia & Caspian Region	Middle East & Gulf Region	Africa	Europe	Asia & Far East	TOTAL
REVENUE	2,170,662	738,657	134,189	61,116	16,291	271,982	68,100	**3,460,997**
NON-CURRENT ASSETS	2,864,046	1,420,701	24,372	38	-	207,344	-	**4,516,501**

Year ended December 31, 2008	Russia	Americas	Cent.Asia & Caspian Region	Middle East & Gulf Region	Africa	Europe	Asia & Far East	TOTAL
REVENUE	3,399,176	1,340,249	183,801	152,306	18,519	524,526	71,425	**5,690,002**
NON-CURRENT ASSETS	2,714,352	1,556,570	28,470	61	-	256,676	-	**4,556,129**

2) Cost of Sales

	2009	2008
Raw materials and consumables	1,662,709	2,946,681
Contracted manufacture	17,720	176,495
Energy and utilities	216,907	284,429
Depreciation and amortisation	192,665	178,192
Repairs and maintenance	70,729	93,199
Freight	24,946	22,852
Rent	4,121	2,775
Insurance	646	1,104
Staff costs including social security	393,086	511,234
Professional fees and services	12,323	21,549
Travel	1,042	1,723
Communications	886	1,938
Taxes	32,225	26,607
Other	6,005	3,947
Less capitalised costs	(9,013)	(13,360)
TOTAL PRODUCTION COST	**2,626,997**	**4,259,365**
CHANGE IN OWN FINISHED GOODS AND WORK IN PROGRESS	244,396	(73,354)
COST OF EXTERNALLY PURCHASED GOODS	26,705	33,768
OBSOLETE STOCK AND WRITE-OFFS	6,499	32,673
COST OF SALES	**2,904,597**	**4,252,452**

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

3) Selling and Distribution Expenses

	2009	2008
Freight	117,550	164,338
Rent	6,386	7,169
Insurance	1,416	1,372
Depreciation and amortisation	100,006	50,519
Staff costs including social security	45,079	60,043
Professional fees and services	15,634	20,031
Travel	2,613	4,855
Communications	1,242	1,645
Utilities and maintenance	2,131	2,776
Taxes	1,703	2,557
Consumables	12,974	19,916
Bad debt expense	4,219	7,212
Other	1,598	1,628
TOTAL SELLING AND DISTRIBUTION EXPENSES	**312,551**	**344,061**

4) Advertising and Promotion Expenses

	2009	2008
Media	564	1,134
Exhibits and catalogues	1,410	3,116
Outdoor advertising	2,248	4,995
Other	357	877
TOTAL ADVERTISING AND PROMOTION EXPENSES	**4,579**	**10,122**

5) General and Administrative Expenses

	2009	2008
Staff costs including social security	100,838	138,868
Professional fees and services	44,753	54,071
Depreciation and amortisation	15,678	17,939
Travel	6,398	11,833
Transportation	4,700	6,839
Rent	6,029	6,908
Communications	4,160	1,805
Insurance	4,977	1,228
Utilities and maintenance	6,743	10,271
Taxes	5,113	5,382
Consumables	2,468	8,262
Other	1,891	4,491
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	**203,748**	**267,897**

6) Research and Development Expenses

	2009	2008
Staff costs including social security	7,990	9,192
Professional fees and services	563	3,421
Depreciation and amortisation	536	725
Travel	119	255
Transportation	131	171
Communications	48	63
Utilities and maintenance	336	536
Consumables	323	546
Other	168	255
TOTAL RESEARCH AND DEVELOPMENT EXPENSES	**10,214**	**15,164**

CONTENTS
rus
eng

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

7) Other Operating Expenses

	2009	2008
Loss on disposal of property, plant and equipment	3,959	1,555
Social and social infrastructure maintenance expenses	10,266	20,991
Charitable donations	8,330	13,325
Other	10,602	16,172
TOTAL OTHER OPERATING EXPENSES	**33,157**	**52,043**

Other operating expenses include expenses and additional provisions related to tax issues, tax fines and other fines in the amount of 8,694 (7,983 in 2008).

8) Share of Profit in Associate and Disposal of Associate

Share of Profit in Associate

Share of profit in associate represents 20% share of profit of North-Europe Pipe Project (1,416 for the year ended December 31, 2009 until the date of disposal and 3,006 for the year ended December 31, 2008).

Disposal of Associate

In December 2009, the Group sold 12% participation in North-Europe Pipe Project to a third party for a total consideration of 24,100 thousand Russian roubles (797 at the exchange rate as at December 31, 2009). The group recognised gain on disposal of 379. The Group discontinued the use of equity method from the date when significant influence was lost. As at December 31, 2009, the investment in North-Europe Pipe Project was stated at cost as part of Other non-current assets.

9) Other Operating Income

	2009	2008
Gain from reversal of litigation provision	1,994	910
Gain from penalties and fines	5,560	1,742
Income from emission rights sale	3,290	-
Other	5,162	4,468
TOTAL OTHER OPERATING INCOME	**16,006**	**7,120**

10) Finance Income

	2009	2008
Gain on extinguishment of debts	38,928	-
Interest income – bank accounts and deposits	2,348	2,739
Gain on disposal of available-for-sale investments (Note 17)	1,988	-
Change in fair value of liabilities under put options held by minority interest shareholders in Taganrog Metallurgical plant	-	5,981
TOTAL FINANCE INCOME	**43,264**	**8,720**

Change in fair value of liabilities under put options held by minority interest shareholders in Taganrog Metallurgical Plant relates to liability under put-call option, which expired on August 1, 2008. On that date, the Group recognised minority interests in Taganrog Metallurgical Plant (Note 29 vi).

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. As a result, the Group recognised gain on extinguishment of debts of 32,251 as finance income for the year ended December 31, 2009 (Note 11).

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

10) Finance Income (continued)

In August 2009, the Group bought back loan participation notes with the nominal amount of 413,300 for cash consideration 406,623 including transaction costs in the amount of 34,713. As a result, the Group recognised a gain on extinguishment of debts in the amount of 6,677 as finance income for the year ended December 31, 2009.

11) Acquisition of Subsidiaries

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:

	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 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 Tubulars 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 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.

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

11) Acquisition of Subsidiaries (continued)

NS Group Inc. and IPSCO Tubulars Inc. (continued)

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 for the year ended December 31, 2008 beginning June 12, 2008.

As the Group acquired both entities in a single transaction, combined fair values of identifiable assets, liabilities and contingent liabilities of IPSCO Tubulars Inc. and NS Group Inc. at the date of acquisition were as follows:

	12 June 2008
Property, plant and equipment	424,458
Intangible assets	705,165
Deferred Tax asset	38,779
Inventories	376,801
Accounts and notes receivable, net	139,705
Prepayments	892
Total assets	**1,685,800**
Non-current liabilities	19,922
Deferred income tax liabilities	219,736
Current liabilities	266,915
Overdraft	7,183
Total liabilities	**513,756**
NET ASSETS	**1,172,044**
Fair value of net assets attributable to 100% ownership interest	1,172,044
TOTAL CONSIDERATION	**1,645,012**
Goodwill arising on acquisition	**472,968**

In 2008 and 2009, the cash flow on acquisition was as follows:

	2009	2008
Overdrafts of the acquired subsidiaries	-	(7,183)
Cash paid	(508,204)	(1,133,725)
NET CASH OUTFLOW	**(508,204)**	**(1,140,908)**

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 Tubulars Inc. and NS Group Inc. for the period from June 12, 2008 to December 31, 2008 amounted to 166,601.

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. As a result, the Group recognised gain on extinguishment of debts of 32,251 (Note 10).

As at December 31, 2009, the Group had no liability in respect of this purchase.

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.

As at December 31, 2008, the Group had a liability of 1,510 in respect of this purchase. During 2009 year the Group paid a liability in full amount.

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

11) Acquisition of Subsidiaries (continued)

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.

12) Income Tax

	Year ended December 31	
	2009	**2008**
Current income tax	17,133	209,879
Current income tax benefit	(36,777)	-
Adjustments in respect of income tax of previous years	1,269	1,001
Deferred tax expenses arising from write-down of deferred tax asset	1,464	-
Deferred income tax benefit related to origination and reversal of temporary differences	(86,099)	(101,268)
TOTAL INCOME TAX (BENEFIT)/ EXPENSE	**(103,010)**	**109,612**

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2009	**2008**
Income before taxation	(426,755)	308,084
Theoretical tax charge at statutory rate in Russia of 20% (24% in 2008)	(85,351)	73,940
Adjustment in respect of income tax of previous years	1,270	1,001
Effect of items which are not deductable or assessable for taxation purposes	23,887	30,487
Effect of different tax rates in countries other than Russia	(38,447)	35,627
Effect of changes in tax rate in Russia and Kazakhstan	(98)	(31,853)
Effect of change of US (state) effective tax rate	(5,163)	-
Effect of currency translation	892	410
TOTAL INCOME TAX (BENEFIT)/ EXPENSE	**(103,010)**	**109,612**

In November 2008, a reduction of income tax rate from 24% to 20% was announced by the Russian government. The new rate became effective on January 1, 2009. Respective deferred tax assets and liabilities as at December 31, 2008 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 and 17.5% for 2010 year. Respective deferred tax assets and liabilities were remeasured using the announced tax rates as at respective dates.

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

12) Income Tax (continued)

Deferred income tax assets and liabilities, their movements for the periods ended December 31, 2009 and December 31, 2008 were as follows:

	2009	Change recogn-ised in income statement	Change recog-nised in other compre-hensive income	Foreign currency translation reserve	2008	Change recogn-ised in income statement	Change due to business combina-tion	Change recog-nised in other compre-hensive income	Foreign currency translation reserve	2007
Deferred income tax liability:										
Valuation and depreciation of property, plant and equipment	(256,215)	(28,567)	-	3,584	(231,232)	53,214	(63,470)	-	48,466	(269,442)
Valuation and amortisation of Intangible assets	(72,614)	32,012	-	141	(104,767)	(11,309)	(118,143)	-	24,685	-
Valuation of accounts receivable	(6,661)	851	-	264	(7,776)	(755)	-	-	1,522	(8,543)
Valuation of inventory	-	-	-	-	-	905	-	-	11	(916)
Other	955	3,700	-	82	(2,827)	(2,654)	-	-	525	(698)
	(334,535)	**7,996**	**-**	**4,071**	**(346,602)**	**39,401**	**(181,613)**	**-**	**75,209**	**(279,599)**
Deferred income tax asset:					-					
Tax losses available for offset	152,297	76,852	7,698	1,040	66,707	19,404	-	53,577	(10,689)	4,415
Accrued liabilities	6,616	(719)	-	(62)	7,397	1,776	4,880	-	(1,608)	2,349
Impairment of accounts receivable	2,849	(2,294)	-	(264)	5,407	1,695	1,185	-	(1,086)	3,613
Impairment of prepayments and other current assets	505	(686)	-	(124)	1,315	(500)	1,334	-	(312)	793
Valuation of inventory	18,194	(1,904)	-	(795)	20,893	31,792	(7,450)	-	(3,449)	-
Provisions	4,165	(1,340)	-	(229)	5,734	182	-	-	(1,128)	6,680
Finance lease obligations	7,075	5,780	-	253	1,042	1,232	-	-	(190)	-
Trade and other payable	6,822	950	-	(381)	6,253	6,286	-	-	(1,152)	1,119
	198,523	**76,639**	**7,698**	**(562)**	**114,748**	**61,867**	**(51)**	**53,577**	**(19,614)**	**18,969**
Net deferred income tax liability	**(271,664)**	**93,258**	**-**	**5,639**	**(370,561)**	**47,513**	**(220,443)**	**-**	**81,403**	**(279,034)**
Net deferred income tax asset	**135,652**	**(8,623)**	**7,698**	**(2,130)**	**138,707**	**53,755**	**38,779**	**53,577**	**(25,808)**	**18,404**

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

12) Income Tax (continued)

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, 2009, the deferred tax asset for 3,661 (2008: 7,775) relating to tax deductible losses incurred in transactions with securities has not been recognised, as it is not probable that sufficient taxable profit on transactions with securities will be available to offset the deductible temporary differences to which the asset relates. Such tax losses offsets only against future taxable profits generated in transactions with securities over a period of 5 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, 2009, the Group has not recognised deferred tax liability in respect of 1,335,353 (2008: 1,480,501) 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 became tax free from January 1, 2008.

13) 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.

	For the year ended December 31	
	2009	2008
Net (loss)/profit attributable to the equity holders of the parent entity	(315,726)	199,408
Weighted average number of ordinary shares outstanding (excluding treasury shares)	865,857,940	870,182,985
Effect of dilution:		
Share options	-	-
Weighted average number of ordinary shares outstanding (excluding treasury shares) adjusted for the effect of dilution	865,857,940	870,182,985
(Loss)/earnings per share attributable to equity holders of the parent entity (in US dollars):		
(Loss)/earnings per share attributable to equity holders of the parent entity, basic and diluted in US dollars ((11.57) RUR for 2009 and 5.80 RUR for 2008):	(0.36)	0.23

Share options under the TMK share options programme (Note 29 viii) were not included in the calculation of diluted earnings per share because they were antidilutive in 2008 and 2009.

There have been no transactions involving ordinary shares or potential ordinary shares between December 31, 2009 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, 2009 if those transactions had occurred before that date.

CONTENTS
rus
eng

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

14) Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	2009	2008
Russian rouble	185,710	60,036
US dollar	43,363	75,727
Euro	13,810	6,286
Romanian lei	149	854
Other currencies	724	490
TOTAL CASH AND CASH EQUIVALENTS	**243,756**	**143,393**

The above cash and cash equivalents consist of the following:

	2009	2008
Cash and cash equivalents	210,082	131,502
Deposits	33,674	11,891
TOTAL CASH AND CASH EQUIVALENTS	**243,756**	**143,393**

A cash deposit in the amount of 130 has been pledged as security for borrowings at December 31, 2009 (December 31, 2008: 854).

15) Trade and Other Receivables

	2009	2008
Trade receivables	576,132	755,680
Officers and employees	1,471	2,312
Other accounts receivable	16,514	6,819
GROSS ACCOUNTS RECEIVABLE	594,117	764,811
Allowance for doubtful debts	(15,161)	(13,120)
NET ACCOUNTS RECEIVABLE	**578,956**	**751,691**

There are no accounts receivables to secure bank borrowings at December 31, 2009 (December 31, 2008: 114) (Note 24).

16) Prepayments and Input VAT

	2009	2008
Prepayment for services, inventories	37,171	36,666
Prepayment for rent	267	405
Deferred charges	3,365	3,129
Prepayment for VAT, Input VAT	123,351	136,851
Prepayment for property tax	184	168
Prepayment for other taxes	2,293	2,596
Prepayment for insurance	9,858	6,929
TOTAL PREPAYMENTS	**176,489**	**186,744**

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.

17) Available-for-Sale Investments and Other Non-Current Assets

Available-for-Sale Investments

The amount of Available-for-sale investments as at December 31, 2009 and 2008 was nil and 191,646 thousand Russian roubles (6,520 at the exchange rate as at December 31, 2008) respectively. Available-for-sale investments were represented by the quoted ordinary shares of VTB Bank, a Russian state-owned bank. The fair value of these shares was 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 in other comprehensive income was 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 in the income statement.

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

17) Available-for-Sale Investments and Other Non-Current Assets (continued)

Available-for-Sale Investments (continued)

On September 10, 2009 the Group disposed off VTB shares for 8,177.

As a result, the Group recognised gain on disposal of 1,988 as finance income for the year ended December 31, 2009.

Other Non-Current Assets

	2009	2008
Prepayment for acquisition of property, plant and equipment	37,996	52,179
Loans to employees	5,796	5,112
Prepaid debt issue costs	2,136	7,190
Restricted cash deposits for fulfillment of guaranties	2,237	3,739
Other	3,720	1,401
GROSS INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	**51,885**	**69,621**
Allowance for doubtful debts	(11)	(12)
NET INVESTMENTS AND OTHER LONG-TERM RECEIVABLES	**51,874**	**69,609**

18) Inventories

	2009	2008
Raw materials	233,924	233,534
Work in process	244,998	307,287
Finished goods and finished goods in transit	282,795	477,389
Goods for resale	4,688	6,334
Supplies	182,122	179,979
GROSS INVENTORIES	948,527	1,204,523
Allowance for net realisable value of inventory	(22,133)	(28,587)
NET INVENTORIES	**926,394**	**1,175,936**

Inventories carried at net realisable value in the amount of 194,494 (December 31, 2008: 84,415) are included in inventories as at December 31, 2009.

As at December 31, 2009, certain items of inventory with a carrying amount of 166,182 (December 31, 2008: 64,002) were pledged as security for borrowings (Note 24).

The following summarises the changes in the allowance for net realisable value of inventory:

	2009	2008
Balance at the beginning of the year	28,587	9,450
Additional (decrease)/increase in allowance	(4,559)	24,669
Currency translation adjustments	(1,895)	(5,532)
BALANCE AT THE END OF THE YEAR	**22,133**	**28,587**

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

19) Property, Plant and Equipment

The movement in property, plant and equipment for the year ended December 31, 2009 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, 2009	1,182,748	1,941,585	62,588	35,569	3,579	765,577	**3,991,646**
Additions	-	-	-	-	-	412,323	**412,323**
Assets put into operation	92,356	479,754	1,452	5,046	5,863	(584,471)	**-**
Disposals	(2,621)	(13,951)	(2,136)	(977)	-	(281)	**(19,966)**
Currency translation adjustments	(30,869)	(32,710)	(2,333)	(897)	(3)	(25,944)	**(92,756)**
BALANCE AT DECEMBER 31, 2009	**1,241,614**	**2,374,678**	**59,571**	**38,741**	**9,439**	**567,204**	**4,291,247**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at January 1, 2009	(123,709)	(508,098)	(20,562)	(16,682)	(435)	-	**(669,486)**
Depreciation charge	(30,055)	(165,613)	(4,016)	(5,043)	(1,147)	-	**(205,874)**
Impairment	-	(39,730)	-	-	-	-	**(39,730)**
Impairment reversal	-	2,454	-	-	-	-	**2,454**
Disposals	263	8,790	849	679	-	-	**10,581**
Currency translation adjustments	2,740	9,888	579	288	(7)	-	**13,488**
BALANCE AT DECEMBER 31, 2009	**(150,761)**	**(692,309)**	**(23,150)**	**(20,758)**	**(1,589)**	**-**	**(888,567)**
NET BOOK VALUE AT DECEMBER 31, 2009	**1,090,853**	**1,682,369**	**36,421**	**17,983**	**7,850**	**567,204**	**3,402,680**
NET BOOK VALUE AT JANUARY 1, 2009	**1,059,039**	**1,433,487**	**42,026**	**18,887**	**3,144**	**765,577**	**3,322,160**

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

19) Property, Plant and Equipment (continued)

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	1,151,250	1,439,470	68,416	32,025	33	582,911	**3,274,105**
Additions	2,570	19,873	473	900	-	956,390	**980,206**
Assets put into operation	159,973	529,108	6,617	6,189	1,194	(703,081)	**-**
Disposals	(6,008)	(26,231)	(1,587)	(609)	-	(929)	**(35,364)**
Assets acquired in business combinations	85,207	289,287	60	2,640	2,541	64,994	**444,729**
Currency translation adjustments	(210,244)	(309,922)	(11,391)	(5,576)	(189)	(134,708)	**(672,030)**
BALANCE AT DECEMBER 31, 2008	**1,182,748**	**1,941,585**	**62,588**	**35,569**	**3,579**	**765,577**	**3,991,646**
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	-	(59,846)	-	-	-	-	**(59,846)**
Disposals	352	21,542	675	502	-	-	**23,071**
Currency translation adjustments	23,058	88,399	3,750	2,787	1	-	**117,995**
BALANCE AT DECEMBER 31, 2008	**(123,709)**	**(508,098)**	**(20,562)**	**(16,682)**	**(435)**	**-**	**(669,486)**
NET BOOK VALUE AT DECEMBER 31, 2008	**1,059,039**	**1,433,487**	**42,026**	**18,887**	**3,144**	**765,577**	**3,322,160**
NET BOOK VALUE AT JANUARY 1, 2008	**1,037,207**	**1,025,594**	**48,856**	**17,742**	**33**	**582,911**	**2,712,343**

Bank borrowings are secured by properties and equipment with the carrying value of 817,520 (December 31, 2008: 133,624) (Note 24).

At December 31, 2009, the Group conducted an impairment test of property, plant and equipment and determined that carrying value of property, plant and equipment of its Romanian subsidiaries 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 15.03% for determining the value in use for Romanian subsidiaries. As a result, the Group recognised impairment of property, plant and equipment amounting to 37,017 (2008: 55,680). The entire amount of impairment loss of Romanian subsidiaries was recognised in the income statement.

As at June 30, 2009, the Group conducted an impairment test of property, plant and equipment at that date. As a result the Group determined that carrying value of property, plant and equipment of its Orsk Plant exceeds their recoverable amount. The recoverable amount was determined based on the value in use determined based on discounted future cash flow. The group used pre-tax discount rate 15.14% for determining the value in use for Orsk Plant. As a result, the Group recognised impairment of property, plant and equipment amounting to 2,713.

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

19) Property, Plant and Equipment (continued)

At December 31, 2009 the Group determined that the value in use of Orsk Plant significantly exceeded its carrying value. As a result, the Group reversed the impairment loss in amount of 2,454 previously recognised in six-month period ended June 30, 2009 in respect of property, plant and equipment of Orsk Plant (2008: 4,166 of impairment loss). The Group used pre-tax discount rates of 15.41% for determining of the value in use of Orsk Plant. The increase of the recoverable amount of property, plant and equipment of Orsk Plant was mostly due to the increase of the share of the most profitable products in total production and sales volume of Orsk Plant.

Capitalised borrowing costs

The Group started capitalising borrowing costs for all eligible assets where construction was commenced on or after January 1, 2009. The amount of borrowing costs capitalized during the year ended December 31, 2009 was 1,702. The rate of the specific borrowing used to determine the amount of borrowing costs eligible for capitalization was 5.11%.

20) Goodwill and Other Intangible Assets

	Patents and trademarks	Goodwill	Software	Customer relationships	Proprietary technology	Backlog	Other	TOTAL
COST								
Balance at January 1, 2009	209,530	571,394	15,731	472,300	14,100	8,500	8,065	**1,299,620**
Additions	7	-	497	-	-	-	2,283	**2,787**
Disposals	(35)	-	-	-	-	-	(3,004)	**(3,039)**
Reclassification	255	-	1,177	-	-	-	(1,432)	**-**
Currency translation adjustments	(17)	(2,503)	(356)	-	-	-	(204)	**(3,080)**
BALANCE AT DECEMBER 31, 2009	**209,740**	**568,891**	**17,049**	**472,300**	**14,100**	**8,500**	**5,708**	**1,296,288**
ACCUMULATED AMORTISATION AND IMPAIRMENT								
Balance at January 1, 2009	(180)	(2,970)	(5,740)	(48,851)	(974)	(4,332)	(2,604)	**(65,651)**
Amortisation charge	(70)	-	(2,955)	(98,241)	(1,763)	(4,168)	(601)	**(107,798)**
Impairment	-	(10,053)	-	-	-	-	-	**(10,053)**
Disposals	28	-	-	-	-	-	1,417	**1,445**
Currency translation adjustments	5	(406)	(235)	-	-	-	226	**(410)**
BALANCE AT DECEMBER 31, 2009	**(217)**	**(13,429)**	**(8,930)**	**(147,092)**	**(2,737)**	**(8,500)**	**(1,562)**	**(182,467)**
NET BOOK VALUE AT DECEMBER 31, 2009	**209,523**	**555,462**	**8,119**	**325,208**	**11,363**	**-**	**4,146**	**1,113,821**
NET BOOK VALUE AT JANUARY 1, 2009	**209,350**	**568,424**	**9,991**	**423,449**	**13,126**	**4,168**	**5,461**	**1,233,969**

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

20) Goodwill and Other Intangible Assets (continued)

	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 in 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 AND IMPAIRMENT								
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**

Customer relationships represent non-contracted interactions with clients. Remaining amortisation period for customer relationships is 7-9 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 (2008: 208,700).

CONTENTS
rus
eng

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

20) Goodwill and Other Intangible Assets (continued)

The carrying amount of goodwill and intangible assets with indefinite useful lives were allocated among cash generating units as follows at December 31:

	2009		2008	
	Goodwill	Intangible assets with indefinite useful lives	Goodwill	Intangible assets with indefinite useful lives
American division	472,968	208,700	472,968	208,700
European division	6,855	-	6,740	-
Kaztrubprom Plant	8,365	-	12,236	-
Oilfield division	31,891	-	40,058	-
Other cash generating units	35,383	-	36,422	-
TOTAL GOODWILL	**555,462**	**208,700**	**568,424**	**208,700**

The Group determines whether goodwill and intangible assets with indefinite useful lives are impaired on an annual basis and when circumstances indicate the goodwill and intangible assets may be impaired. At December 31, 2009 there were indicators of impairment, therefore, the Group performed an impairment test at that date.

The aggregation of assets for identifying cash generating units and estimate of the cash-generating unit's recoverable amount has changed in comparison to December 31, 2008 classification. The changes in aggregating the assets into cash generating units are as follows:

Cash generating units in 2009	Cash generating units in 2008
American division	IPSCO Tubulars Inc.
	NS Group Inc.
	TMK North America Inc.
European division	TMK Italia s.r.l.
	TMK Europe GmbH
	SC TMK-ARTROM SA, SC TMK-RESITA SA

In 2009 the Group formed the European and American divisions as a separate business units of the Group. As a result, there were changes in management and performance assessment approach of these entities. This caused the changes in the way of aggregating assets into cash generating units.

Goodwill and intangible assets with indefinite useful lives were tested for impairment at December 31, 2009. As a result of the test, the Group determined that the carrying value of cash generating units in all cash generating units approximates their recoverable amounts. Consequently, no additional impairment to the previously reported in the period ended June 30, 2009 in the amount of 10,053, was recognised (2008: 3,512).

For the purpose of impairment testing of goodwill the Group has determined fair value of each of its cash generating units. The fair value 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 the fair value are presented in the table below. For the periods not covered by management plans, cash flow projections have been estimated by extrapolating the respective business plans taking into account business cycles using in zero growth rate.

Cash generating units	Period of forecast, years	Pre-tax discount rate, %
American division	5	12.27
European division	5	14.37
Kaztrubprom Plant	5	14.05
Oilfield division	5	14.45
Other cash generating units	5	14.36

The calculation of Oilfield service, Kaztrubprom Plant and European division cash generating unit's fair value 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. Reasonably possible change in discount rate could lead to impairment of goodwill.

20) Goodwill and Other Intangible Assets (continued)

Discount Rates (continued)

A 10% increase in the discount rate of Oilfield service cash generating unit would result in an additional impairment of 3,841.

A 10% increase in the discount rate of Kaztrubprom Plant cash generating unit would result in an additional impairment of 1,485.

A 10% increase in the discount rate of European Division cash generating unit would result in a full impairment of goodwill in the amount of 6,855.

Volume of production of OCTG pipes (Kaztrubprom Plant cash generating unit)

The management assumed that sale volumes of OCTG pipes would increase by 331% in 2010 in comparison with 2009. This growth will be provided by production capacity increase of the plant and increase of demand.

Reasonably possible changes in quantities of produced and sold could lead to the additional impairment. The most sensitive years for analysis are 2010–2011, as the economic growth rate can be lower than forecasted. If the quantities of the units of production sold were 10% lower than those assumed in the impairment test during 2010 and 2011, this would lead to an additional impairment of 419.

Volume of production of seamless pipes (European cash generating unit)

The management assumed that the volume of sales of seamless pipes would increase by 40% during 2010 and would grow in 2011, 2012 and 2013 by 1%, 9%, and 7%, respectively. In 2014 and thereafter a zero growth rate was assumed. Reasonably possible changes in quantities of produced and sold could lead to the additional impairment. The most sensitive years for analysis are 2010–2011, as the economic growth rate can be lower than forecasted. If the quantities of the units of seamless pipes sold were 10% lower than those assumed in the impairment test during 2010 and 2011, this would lead to the full impairment of goodwill in the amount of 6,855.

Costs and Expenses

The recoverable amounts of Oilfield service cash generating unit, Kaztrubprom Plant cash generating unit and European Division cash generating unit are based on the business plans approved by management. The reasonably possible deviation of cost from these plans could lead to an additional impairment.

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

If the actual costs of Kaztrubprom Plant cash generating unit were 10% higher than those assumed in the impairment test during 2010–2013, this would lead to the full impairment of goodwill in the amount of 8,365.

If the actual costs of European Division cash generating unit were 10% higher than those assumed in the impairment test during 2010–2013, this would lead to the full impairment of goodwill in the amount of 6,855.

Commodity Prices

The recoverable amounts of Oilfield service cash generating unit, Kaztrubprom Plant cash generating unit and European Division cash generating unit are based on the business plans approved by management. The reasonably possible deviation of prices from these plans could lead to an additional impairment.

If the actual prices of Oilfield service cash generating unit were 5% lower than those assumed in the impairment test, this would lead to an additional impairment of 24,286.

If the actual prices of Kaztrubprom Plant cash generating unit were 5% lower than those assumed in the impairment test, this would lead to the full impairment of goodwill in the amount of 8,365.

If the actual prices of European Division cash generating unit were 5% lower than those assumed in the impairment test, this would lead to the full impairment of goodwill in the amount of 6,855.

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

21) Trade and Other Payables

	2009	2008
Trade payables	417,108	546,217
Accounts payable for property, plant and equipment	138,092	144,585
Notes issued to third parties	5,941	869
Sales rebate payable	1,541	5,400
Other payables	10,836	12,863
TOTAL ACCOUNTS PAYABLE	**573,518**	**709,934**

22) Accrued Liabilities

	2009	2008
Payroll liabilities	26,861	34,447
Accrued and withheld taxes on payroll	13,091	11,529
Liabilities for VAT	58,779	19,298
Liabilities for property tax	7,537	4,791
Liabilities for other taxes	5,165	3,309
Deferred VAT	73	99
Current portion of employee-benefit liability	1,540	1,869
Accrual for long-service benefit	5,872	5,348
Liabilities under put options of minority interest shareholders in subsidiaries	15,836	552,989
Liability for bonuses	1,873	17,028
Accrued liability on acquisitions	-	1,510
Miscellaneous	8,620	13,235
TOTAL ACCRUED LIABILITIES	**145,247**	**665,452**

23) Provisions

	2009	2008
Current:		
Provision for unused annual leaves, current portion	8,030	8,813
Accrual for tax fines	706	1,270
Environmental provision	719	393
TOTAL CURRENT PROVISIONS	**9,455**	**10,476**
Non-current:		
Environmental provision	6,446	6,508
Provision for unused annual leaves	15,405	13,194
TOTAL NON-CURRENT PROVISIONS	**21,851**	**19,702**

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

24) Interest-Bearing Loans and Borrowings

Short-term and long-term borrowings were as follows as at December 31, 2009:

	2009	2008
Current:		
Bank loans	1,251,575	1,676,590
Interest payable	24,891	46,651
Current portion of non-current borrowings	105,858	92,463
Current portion of bearer coupon debt securities	165,321	402,078
Unamortised debt issue costs	(11,858)	(3,145)
	1,535,787	**2,214,637**
Finance lease liability – current	1,595	1,822
TOTAL SHORT-TERM BORROWINGS	**1,537,382**	**2,216,459**
Non-current:		
Bank loans	2,160,060	287,811
Bearer coupon debt securities	352,021	1,172,259
Unamortised debt issue costs	(63,470)	(10,273)
Less: current portion of non-current borrowings	(105,858)	(92,463)
Less: current portion of bearer coupon debt securities	(165,321)	(402,078)
	2,177,432	**955,256**
Finance lease liability – non-current	36,736	38,969
TOTAL LONG-TERM BORROWINGS	**2,214,168**	**994,225**

In addition to collaterals disclosed in Notes 14, 15, 18, 19 the Group pledged its rights under sales contracts in Romania totaling to 4,914 as collateral under loan agreements as at December 31, 2009 (December 31, 2008: 15,169). Proceeds from sales pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

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

24) Interest-Bearing Loans and Borrowings (continued)

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

	Interest rates for period ended	2009	Interest rates for period ended	2008
Russian rouble	Fixed 5% – 17%	1,153,219	Fixed 7.6% – 17.55%	1,206,957
US dollar			Fixed 8.5%	305,451
	Fixed 10%	192,812	Fixed 10%	619,506
	Fixed 6.48% – 12.1%	2,048,035	Fixed 9.75% – 14.7%	114,195
	Variable:	4,179	Variable:	659,234
			Libor (1m) + 1.6% – 2.5%	
	Libor (3m) + 1.7%		Libor (3m) + 1.7%	
			Federal Funds Rate +1.6%	
	Libor (1w) + 1.8%			
Euro	Fixed 1.3% – 5.11%	91,044	Fixed 5.11% – 9.4%	5,405
	Cost of funds + 1.25% (*)	34,611		
	Variable:	189,319	Variable:	258,734
	Euribor (1m) + 0.23% – 1.6%		Euribor (1m) + 1.6%	
	Euribor (3m) 0.45% + 4%		Euribor (3m) + 2.75%	
	Euribor (6m) + 0.23% – 4%		Euribor (6m) + 0.23% – 2.4%	
Romanian lei		-	Fixed 16%	411
		3,713,219		**3,169,893**

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

Covenants reset and covenants compliance during 2009

Certain loan agreements provide for 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.

Prior to December 31, 2009, the Group obtained waivers from the relevant lenders for the testing of financial covenants as of December 31, 2009.

At the date of publication of interim condensed consolidated financial statements for the six-month period ended June 30, 2009 the Group's debt to EBITDA ratio under 10% loan participation notes due 2011 exceeded its allowed level. As a consequence, the Group has been limited to increase its financial indebtedness except for amounts available under clauses of permitted indebtedness.

In August 2009, to increase financial flexibility the Group implemented a tender offer and consent solicitation with respect of 600,000 loan participation notes due 2011 to modify certain restrictive covenants in order to increase financial flexibility of the Group by raising the level of secured debt. In particular the Group amended the definition of "Permitted Liens" and increased the level of permitted indebtedness.

Based on management forecasts for 2010 year results, in order to be in compliance with covenants the Group undertook some actions to reset the level of the certain financial covenants for 2010. At the date of issue of consolidated financial statements for the year ended December 31, 2009, the Group amended the relevant loan agreements so as to ensure compliance with the relevant financial covenants during 2010.

24) Interest-Bearing Loans and Borrowings (continued)

Bank Loans

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. 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. In July 2008 the Group partly refinanced this bridge facility using the proceeds from issuance of 600,000 10% loan participation notes due 2011.

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 in the amount of 507,542. In August 2009, the Group amended agreement with Gazprombank for borrowing facilities of 1,107,542 extending the loan term from 2.5 to 5 years and reducing interest rate. In December 2009, the Group further amended agreement reducing interest rate. The facilities will be repaid by 13 tranches starting from 2011. As at December 31, 2009, the principle outstanding balance of the loan was 1,107,542.

On March 23, 2009, TMK entered into a short-term loan with VTB Bank in the principal amount of 90,185. The proceeds were used to redeem the bearer coupon debt securities for the amount of 3,000,000 thousand Russian roubles on March 24, 2009. As at December 31, 2009, the principle outstanding balance was 90,185.

On August 18, 2009 and on September 25, 2009, the Group entered into loans with VTB in the amounts of 450,000 and 300,000, respectively, with an initial maturity of one year, and with an option to extend the maturity by up to 5 years. The proceeds from the loans were used to partially redeem 10% loan participation notes due 2011 and fully repaid the liability under 8.5% loan participation notes due 2009. As at December 31, 2009, the principle outstanding balances of the loans were 450,000 and 300,000, respectively.

In October 2009, the Group entered into several credit line arrangements with VTB in the aggregated amount of 10,000 million Russian roubles with a maturity of 5 years. As at December 31, 2009 the principal outstanding balance was 7,928.6 million Russian roubles (262,153 at the exchange rate at December 31, 2009).

In June – December 2009, the Group entered into short-term and long-term loans with Sberbank in the aggregated amounts of 1,660 million Russian roubles and 12,555 million Russian roubles, respectively. As at December 31, 2009, the principle outstanding balances were 1,660 and 12,555 million Russian roubles (54,887 and 415,121 at the exchange rate at December 31, 2009), respectively.

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. 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 10% loan participation notes were used for partial repayment of the IPSCO Bridge Facility for the amount of 1.2 billion.

On July 8, 2009, the Group offered to the holders of the 10% loan participation notes to increase the level of permitted indebtedness up to 100,000 or sell the notes to the Group at offered price. The offer expired on July 31, 2009. As a result, the Group bought back 4,133 notes with nominal amount of 413,300. Total payments of the Group related to this transaction comprised 406,623, which was financed by 450,000 loan provided by VTB. As at December 31, 2009, an aggregate of 186,700 of notes remained outstanding.

On September 29, 2009, the Group fully repaid its liability for the amount of 300,000 and 12,750 of coupon under the loan participation notes issued on September 29, 2006 using the proceeds from the loan provided by VTB.

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 coupon periods of 182 days each. The bonds matured on March 24, 2009. The annual interest rate for the last four semi-annual coupons was 7.6% per annum. On March 24, 2009, the Group repaid its liability under these bonds using the proceeds from the loan provided by VTB.

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

24) Interest-Bearing Loans and Borrowings (continued)

Bearer Coupon Debt Securities (continued)

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, 2009, an aggregate of 5.0 billion Russian roubles (165,321 at the exchange rate as at December 31, 2009) remained outstanding under these bonds series.

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, 2009, the Group had unutilised borrowing facilities in the amount of 411,175 (December 31, 2008: 280,522).

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 19 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:

	2009	2008
Machinery and equipment	30,806	34,578
Transport and motor vehicles	133	863
	30,939	**35,441**

The leased assets are included in property, plant and equipment in the consolidated statement of financial position (Note 19).

Future minimum lease payments under finance leases with the present value of the net minimum lease payments are as follows at December 31, 2009:

	Minimum payments	Present value of payments
2010	2,841	1,595
2011–2014	10,883	6,456
after 2014	37,828	30,280
Total minimum lease payments	**51,552**	**38,331**
Less amounts representing finance charges	(13,221)	-
Present value of minimum lease payments	**38,331**	**38,331**

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**

In the years ended December 31, 2009 and December 31, 2008, the average interest rate under the finance lease liabilities was 3%.

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

25) 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 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 summarises the components of net benefit expense recognised in the consolidated income statement and amounts recognised in the consolidated statement of financial position by country:

	Russia		Romania		Total	
	2009	2008	2009	2008	2009	2008
Movement in the benefit liability:						
At January 1	(17,543)	(22,216)	(1,513)	(1,931)	(19,056)	(24,147)
Benefit expense	(2,464)	(365)	(28)	53	(2,492)	(312)
Benefit paid	941	1,568	112	119	1,053	1,687
Change in liability due to business combinations	-	-	-	-	-	-
Currency translation adjustment	427	3,470	87	246	514	3,716
At December 31	**(18,639)**	**(17,543)**	**(1,342)**	**(1,513)**	**(19,981)**	**(19,056)**
Short-term	**(1,540)**	**(1,869)**	**-**	**-**	**(1,540)**	**(1,869)**
Long-term	**(17,099)**	**(15,674)**	**(1,342)**	**(1,513)**	**(18,441)**	**(17,187)**
Net benefit expense (recognised in cost of sales, general and administrative expenses and selling and distribution expenses):						
Current service cost	718	1,127	29	250	747	1,377
Interest cost on benefit obligation	1,613	967	128	168	1,741	1,135
Net actuarial (gain) / loss recognised in the period	(30)	(1,913)	(130)	(471)	(160)	(2,384)
Past service cost	163	184	-	-	163	184
Net benefit expense / (income)	**2,464**	**365**	**27**	**(53)**	**2,491**	**312**

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

25) Employee Benefit Liability (continued)

The Group expects to contribute 1,539 to its defined post-employment benefit programme in 2010.

	2009	2008
Present value of defined benefit obligation	22,362	21,317
Unrecognised past service cost	(2,381)	(2,261)
Benefit liability as at December 31	**19,981**	**19,056**

The Group had no plan assets and unrecognised actuarial gains or losses in the year ended December 31, 2009.

The following table is a summary of the present value of the benefit obligation and experience adjustments as at December 31:

	2009	2008
Defined benefit obligation as at December 31	**22,362**	**21,317**
Experience adjustments on plan liabilities	(1,485)	954

The principal actuarial assumptions used in determining pension obligations for the Group's plan are shown below:

	Russia		Romania	
	2009	2008	2009	2008
Discount rate	8.75%	8.85%	current 9.98%, decreasing to 3.53% in the long-term	current 9.51%, decreasing to 3.53% in the long-term
Average long-term rate of compensation increase	6.8%	6.25%	current 4.0%, decreasing to 2.0% in the long-term	current 6.0%, decreasing to 2.0% in the long-term

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

26) Principal Subsidiaries

Company	Location	Main activity	Actual ownership interest	Effective ownership interest	Actual ownership interest	Effective ownership interest
			December 31, 2009		December 31, 2008	
IPSCO Tubulars Inc.	USA	Manufacturing of welded steel pipes and other products	100.00%	100.00%	100.00%	100.00%
NS Group Inc.	USA	Manufacturing of seamless steel pipes, welded steel pipes and other products	100.00%	100.00%	51.00%	51.00%
OAO “Sinarsky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, sale of electric and heat-ing power and other services	94.16%	94.16%	92.95%	92.95%
OAO “Seversky Pipe Plant”	Russia	Manufacturing of seamless steel pipes, welded steel pipes, sale of electric and heating power and other services	94.22%	94.22%	93.53%	93.53%
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 prod-ucts	96.06%	96.06%	95.94%	95.94%
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 of pipes, raw materials procurement	100.00%	99.92%	100.00%	99.92%
OOO “TMK-INOX”	Russia	Sales & Distrubution of pipes	100.00%	100.00%	0.00%	0.00%
OOO “Skladskoy Kompleks TMK”	Russia	Sales & Distrubution of pipes	100.00%	100.00%	100.00%	100.00%
TOO “TMK-Kazakhstan”	Kazakhstan	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
TOO Kaztrubprom	Kazakhstan	Manufacturing of seamless steel pipes	100.00%	100.00%	100.00%	100.00%
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	0.00%	0.00%	100.00%	100.00%
TMK Global AG	Switzerland	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%

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

26) Principal Subsidiaries (continued)

Company	Location	Main activity	Actual ownership interest	Effective ownership interest	Actual ownership interest	Effective ownership interest
			December 31, 2009		December 31, 2008	
TMK North America Inc.	USA	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
TMK Italia s.r.l.	Italy	Sales & Distribution of pipes	100.00%	100.00%	100.00%	100.00%
TMK Middle East FZCO	UAE	Sales & Distribution of 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	92.66%	92.66%	80.56%	80.56%
SC TMK-RESITA SA	Romania	Manufacturing of billets	100.00%	100.00%	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.	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%	97.36%
OOO “Predpriyatiye “Truboplast”	Russia	Coating of pipes	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 servicing	100.00%	100.00%	100.00%	100.00%
ZAO “TMK-CPW”*	Russia	Manufacturing of welded steel pipes	51.00%	48.05%	54.00%	50.51%
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 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.

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

27) 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.

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, 2009 and 2008 are detailed below.

In the year ended December 31, 2009, sales transactions with related parties constituted approximately 0.03 % of the total volume of the Group's sales of goods (2008: 0.2 %).

The following table provides outstanding balances with related parties at the year-end:

	2009	2008
Cash and cash equivalents	86,541	6,062
Accounts receivable – current	818	6,007
Prepayments – current	422	2
Accounts receivable – non-current	68	68
Accounts payable – current	(21,249)	(1,427)
Interest payable	(523)	(32)

The following table provides the total amount of transactions with related parties for the years ended December 31:

	2009	2008
Sales revenue	1,201	13,628
Purchases of goods and services	6,897	8,283
Interest income from loans and borrowings	216	841
Interest expenses from loans and borrowings	489	155
Loss on sale of treasury shares to management	2	15

Parent company, TMK Steel, pledged shares of OAO "TMK" in order to guarantee the Group's loans from Gazprombank in the amount of 1,107,542. The Group paid to the parent company 56,300 for the guarantee. Bravecorp Limited (an entity under common control with TMK Steel) pledged its shares of OAO "TMK" to VTB in order to guarantee the Group's loans in the amount of 750,000 from VTB. The Group paid 6,000 to Bravecorp for the guarantee. Accounts payable balance as at December 31, 2009 related principally to the unpaid fees for the guarantee provided by TMK Steel and Bravecorp in the amount of 16,300 and 4,000 respectively.

The Group paid no dividends to the parent company in 2009 (2008: 163,861).

In addition to transactions with related parties disclosed in this note, other transactions with related parties are disclosed in Notes 11 and 29.

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 28 persons as at December 31, 2009 (30 persons as at December 31, 2008). Total compensation to key management personnel included in general and administrative expenses in the income statement amounted to 13,231 for the year ended December 31, 2009 (2008: 22,875). There were no share-based payments to key management personnel for the year ended December 31, 2009 (2008: 4,452).

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

The Group issued loans to key management personnel in the amount of 360 during for the year ended December 31, 2009.

The Group guaranteed debts of key management personnel outstanding as at December 31, 2009 in the amount of 3,201 with maturity in 2011–2014 (2008: 3,826).

The Group purchased 75,943 shares of OAO TMK from key management personnel for 223 during the year ended December 31, 2009. The Group sold 107,859 shares of OAO TMK to key management personnel for 467 during the year ended December 31, 2009.

28) 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 ongoing global financial crisis resulted in capital market instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia. The volatile global economic climate resulted in negative effects on the Group's business in North America.

The worldwide financial crisis may result in further reduction of the available credit facilities as well as substantively higher interest rates. The reduced cash from operations and reduced availability of credit may increase the cost, delay the timing of, or reduce planned capital expenditures.

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

Taxation

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

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

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

Claims from the tax authorities received by the Group in 2007–2008 were successfully contested by the Group in the courts (except those accepted by the Group). In 2009, the Russian subsidiaries of the Group received claims from the tax authorities for the total amount of 496,512 thousand Russian roubles (16,417 at the exchange rate as at December 31, 2009). The Group contested these claims in the courts; however, up to the date of authorisation of consolidated financial statements of the Group for issuance the court proceedings had not been finalised.

In 2009, tax authorities started tax audits of major Russian production entities for 2006–2008 fiscal periods. These audits had not been completed up to the date of authorization of consolidated financial statements of the Group for issuance.

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, 2009.

Contractual Commitments and Guarantees

As at December 31, 2009, the Group had contractual commitments for the acquisition of property, plant and equipment from third parties for 1,162,497 thousand Russian roubles (38,437 at the exchange rate as at December 31, 2009), 55,929 thousand Euros (80,235 at the exchange rate as at December 31, 2009), 749 thousand Romanian lei (253 at the exchange rate as at December 31, 2009) and 9,338 thousand US dollars for the total amount of 128,263 (all amounts of contractual commitments are expressed net of VAT). The Group had paid advances of 37,996 with respect to such commitments (2008: 52,179).

Under contractual commitments disclosed above, the Group opened unsecured letters of credit in the amount of 52,458 (2008: 154,556).

28) Contingencies and Commitments (continued)

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, 2009 in the amount of 4,246 (2008: 6,219).

29) Equity

i) Share Capital

As at December 31, 2009, the authorised number of ordinary shares of the Company was 873,001,000 (2008: 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 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.

The Company declared no final dividends in respect of 2008. No interim dividends were declared during 2009.

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 463,768 of undistributed and unreserved earnings recognised in Russian statutory financial statements as at December 31, 2009. In addition, the Group's share in the undistributed and unreserved earnings of its subsidiaries was 1,228,862 as at December 31, 2009.

iv) Acquisition of Minority Interests in Subsidiaries

In the year ended December 31, 2009, the Company purchased additional 0.69% of OAO "Seversky Pipe Plant" shares, 1.21% of OAO "Sinarsky Pipe Plant" shares, 0.12% of OAO "Taganrog Metallurgical Plant" and 0.51% of SC TMK-RESITA SA. The total cash consideration for the shares amounted to 9,349.

The excess in the amount of 1,121 of the consideration given for the shares over the carrying values of net assets attributable to interest in OAO "Seversky Pipe Plant", OAO "Sinarsky Pipe Plant", OAO "Taganrog Metallurgical Plant" and SC TMK-RESITA SA was charged to accumulated profit. The excess in the amount of 498 of the carrying values of net assets attributable to interest in OAO "Sinarsky Pipe Plant" and OAO "Taganrog Metallurgical Plant" over the consideration paid for such minority interest is recorded in additional paid-in capital.

29) Equity (continued)

iv) Acquisition of Minority Interests in Subsidiaries (continued)

In the year ended December 31, 2009 SC TMK-ARTROM SA issued additional shares, which were acquired by the Group. As a result, the share of minority interest decreased and the Group increased its interest in this subsidiary by 12.10%. The effect of the decrease of share of minority interest shareholders in the carrying value of net assets in SC TMK-ARTROM SA in the amount of 1,496 was charged to accumulated profit. Additional contribution from minority interest shareholders comprised 145.

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 accumulated 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.

v) Dividends by Subsidiaries of the Group to the Minority Interest Owners in Subsidiaries

Dividends declared by subsidiaries of the Group to the minority interest owners in subsidiaries were recorded as a reduction in minority interests of 2,302 and 4,752 in the consolidated financial statements for the years ended December 31, 2009 and 2008, respectively.

vi) Minority Interests 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 minority interest 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 interest 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 interest 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 interest put options, the Group recognised minority interests in OAO "Taganrog Metallurgical Plant" for 21,443 and derecognised 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 interest shareholders for 389.

As at August 1, 2008 the Group recognised minority interests in OAO "RosNITI" for 200 and derecognised a liability to minority interest shareholders for 200.

In 2007, the Group established ZAO "TMK-CPW", a new subsidiary with 51% ownership. Under the shareholders' agreement, the minority interest 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.

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 interest 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.

In 2009, the minority interest shareholder made contribution to share capital of TMK-CPW in accordance to initial agreement. As a result, share capital of TMK-CPW increased to the amount of 759,100,000 Russian roubles and the ownership of the Group in the subsidiary decreased to 51%.

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

29) Equity (continued)

vii) 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") were 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 were 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 Programme expired on October 1, 2009.

The following table illustrates the number and weighted average exercise prices (WAEP) of share options during the year:

	2009		2008	
	Number of shares	WAEP	Number of shares	WAEP
Outstanding as at January 1	3,841,204	7.78	7,202,258	9.40
Granted during the year	-	-	-	-
Excercised during the year	-	-	-	-
Expired during the year	(3,841,204)	7.78	(3,361,054)	8.93
Outstanding as at December 31	-	-	3,841,204	7.78
Excercisable as at December 31	-	-	-	-

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

29) Equity (continued)

viii) Purchase of the Company's Shares for the Purpose of Realisation of the Share Options Programme

	2009		2008	
	Number of shares	Cost	Number of shares	Cost
Outstanding as at January 1	7,167,049	37,827	1,081,967	10,752
Purchased during the year	34,318	89	6,089,182	27,110
Sold during the year	-	-	(4,100)	(35)
Outstanding as at December 31	7,201,367	37,916	7,167,049	37,827

In the year ended 31 December, 2009 the Group purchased back from the Programme participants 34,318 shares of the Company for the amount of 89.

In the year ended December 31, 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 and including 43,532 shares purchased back from the Programme participants for the amount of 383. There were no sales of shares to the Programme participants in 2008. The Programme expired on October 1, 2009.

ix) Warrants

On March 5, 2008, the Group purchased 1,200,000 warrants for the total amount of 5,590. Each warrant granted the Group a right to acquire the Company's shares at a strike price of 4.51 US dollars. The Group did not exercise the warrants which expired on October 10, 2009 and were written-off from Additional paid-in capital to Retained earnings.

x) Hedges of Net Investment in Foreign Operations

At the date of acquisition of controlling interests in NS Group, Inc. and IPSCO Tubulars, Inc. the Group hedged its net investment in these operations against foreign currency risk using US dollar denominated liabilities incurred in connection with this acquisition. As at December 31, 2008, such liabilities included 600,000 bridge loan facility, 600,000 10% loan participation notes issued on July 25, 2008 and put option liability to Evraz Group S.A. amounting to 510,625. 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.

As disclosed in Notes 10 and 24, in January 2009 the Group refinanced its liabilities under the bridge loan and put option using the proceeds from borrowings. The refinancing was structured in the way that reduced the Group's liabilities, which are available to hedge the foreign currency risk, to 1,200,000. On August 20, 2009 the Group bought back 4,133 notes with nominal amount of 413,300, which was financed by 450,000 loan provided by VTB for cash consideration of 371,910 excluding transaction costs in the amount of 34,713. As a result, since August 20, 2009 the Group ceased previous hedging relationships and designated 186,700 10% loan participation notes, 600,000 of liability to Gazprombank and 371,910 of liability to VTB as hedging instruments.

The effectiveness of the hedging relationship was tested using the dollar offset method by comparing the cumulative gains or losses due to changes in US dollar/Russian rouble spot rates on the hedging instrument and on the hedged item. In the year ended December 31, 2009, the effective portion of net losses from spot rate changes of the above mentioned liabilities of 3,808,098 thousand Russian roubles (124,077 at historical exchange rate), net of income tax benefit of 221,177 thousand Russian roubles (approximately 7,698 at historical exchange rate), was recognised directly in other comprehensive income (foreign currency translation reserve).

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

30) 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 interest 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 5% of the total loan portfolio at the end of 2009 (29% at the end of 2008), 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 2009		
Increase in LIBOR	100	(42)
Decrease in LIBOR	(25)	10
Increase in EURIBOR	100	(1,893)
Decrease in EURIBOR	(25)	473
As at 31 December 2008		
Increase in LIBOR	55	(3,481)
Decrease in LIBOR	(55)	3,481
Increase in EURIBOR	30	(776)
Decrease in EURIBOR	(30)	776

Foreign Currency Risk

The Group's exposure to currency risk relates to sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries, and the Group's net investments in foreign operations. The currencies in which these transactions and balances primarily denominated are US dollars and Euro.

As disclosed in Note 29 the Group hedged its net investments in foreign operations (NS Group, Inc. and IPSCO Tubulars, Inc.) by holding borrowings in US dollars.

The Group doesn't have other formal arrangements to manage currency risks of the Group's operations and balances. However, the Group seeks to bring its financial liabilities in foreign currency in line with export net sales, thus mitigating currency risk.

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

30) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows as at December 31:

	2009			2008		
	Resulting exchange differences reflected in:			Resulting exchange differences reflected in:		
	Income Statement	Statement of Comprehensive Income	Total	Income Statement	Statement of Comprehensive Income	Total
USD/RUR	(533,735)	(1,158,610)	(1,692,345)	(182,743)	(1,710,625)	(1,893,368)
EUR/RUR	(418,433)	-	(418,433)	(259,737)	-	(259,737)
EUR/USD	(5,018)	-	(5,018)	24,247	-	24,247
USD/RON	(94,818)	-	(94,818)	(133,809)	-	(133,809)
EUR/RON	(39,380)	-	(39,380)	(66,892)	-	(66,892)

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 other comprehensive income. In 2008 the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during 2008. In estimating reasonably possible changes for 2009 the Group assessed the volatility of foreign exchange rates during the three years preceding the end of reporting period.

	As at December 31, 2009					
	Volatility range		Effect on Income Statement		Effect on Statement of Comprehensive Income	
	Low	High	Low	High	Low	High
USD/RUR	10.67%	-10.67%	(56,950)	56,950	(123,624)	123,624
EUR/RUR	8.84%	-8.84%	(36,989)	36,989	-	-
EUR/USD	10.06%	-10.06%	(505)	505	-	-
USD/RON	15.36%	-15.36%	(14,564)	14,564	-	-
EUR/RON	8.46%	-8.46%	(3,332)	3,332	-	-

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

30) Financial Risk Management Objectives and Policies (continued)

Foreign Currency Risk (continued)

	As at December 31, 2008					
	Volatility range		Effect on Income Statement		Effect on Statement of Comprehensive Income	
	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	-	-

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.

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

30) Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

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 2009	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	542,063	31,455	-	-	-	-	**573,518**
Accounts payable to related parties	5,949	15,823	-	-	-	-	**21,772**
Interest-bearing loans and borrowings:							
Principal	459,288	1,065,061	730,095	383,903	293,739	869,901	**3,801,987**
Interest	113,008	229,842	207,861	143,831	109,060	69,505	**873,107**
Dividends payable	449	20	-	-	-	-	**469**
Liabilities under put options of minority interest shareholders in subsidiaries	15,836	-	-	-	-	-	**15,836**
Other non-current liabilities	-	-	22	59	-	13,620	**13,701**
	1,136,593	**1,342,201**	**937,978**	**527,793**	**402,799**	**953,026**	**5,300,390**

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	507,397	202,537	-	-	-	-	**709,934**
Accounts payable to related parties	1,459	-	-	-	-	-	**1,459**
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 interest shareholders in subsidiaries	552,989	-	-	-	-	-	**552,989**
Other non-current liabilities	-	-	3,491	67	4	11,654	**15,216**
	1,621,700	**2,030,997**	**171,381**	**893,862**	**49,371**	**75,948**	**4,843,259**

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

30) Financial Risk Management Objectives and Policies (continued)

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.

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, 2009, accounts receivable from the three biggest debtors of the Group amounted to 184,756 (December 31, 2008: 153,092). 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:

	2009	2008
Cash and cash equivalents	243,756	143,393
Financial investments	4,075	3,885
Trade and other receivables	578,973	751,715
Accounts receivable from related parties	886	6,075
Other	8,033	8,851
	835,723	**913,919**

The ageing analysis of trade and other receivables, accounts receivable from related parties and other financial assets is presented in the table below:

	2009		2008	
	Gross amount	Impairment	Gross amount	Impairment
Current Trade and other receivables – not past due	486,826	(27)	575,467	(20)
Current Trade and other receivables – past due				
less then 30 days	56,977	(35)	66,300	(82)
between 30 and 90 days	14,498	(55)	98,010	(2,855)
over 90 days	35,816	(15,044)	25,034	(10,163)
Accounts receivable from related parties – not past due	886	-	6,075	-
Non-current Trade and other receivables – not past due	28	(11)	36	(12)
Other - not past due	8,033	-	8,851	-
	603,064	**(15,172)**	**779,773**	**(13,132)**

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

30) Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The movement in allowance for doubtful accounts was as follows:

	2009	2008
Balance at the beginning of the year	13,132	9,632
Utilised during the year	(2,199)	(1,565)
Additional increase in allowance	4,219	7,212
Currency translation adjustment	20	(2,147)
BALANCE AT THE END OF THE YEAR	**15,172**	**13,132**

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. In addition, the Group is subject to externally imposed capital requirements (debt covenants) which are used for capital monitoring. Through 2009, the Croup was in compliance with such externally imposed capital requirements. The Group met its objectives for managing capital.

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, short-term accounts receivable and short-term loans approximate their fair value.

The following table shows financial instruments with carrying amounts differ from fair values:

	31 December 2009		31 December 2008	
	Net carrying amount	Fair Value	Net carrying amount	Fair Value
Financial Liabilities				
Fixed rate long term bank loans	1,953,175	1,934,655	17,597	16,342
Variable rate long term bank loans	158,093	140,903	248,190	212,177
Bonds due 2009	-	-	102,078	102,078
Bonds due 2011	165,321	165,445	170,181	144,229
8.5 per cent loan participation notes due 2009	-	-	300,000	235,500
10 per cent loan participation notes due 2011	186,700	191,834	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 14%, 10% and 5% per annum for loans denominated in Russian rouble, US dollar and Euro, respectively, as at December 31, 2009.

31) Subsequent events

Bonds and Equity Offerings

On February 11, 2010, TMK Bonds S.A. completed the offering of 4,125 convertible bonds due 2015 convertible into Global Depository Receipts each representing four ordinary shares of TMK. The notes are registered on the London Stock Exchange.

The bonds have nominal value of 100,000 US dollars and were issued at 100% of their principal amount. The convertible bonds carry a coupon of 5.25% per annum, payable on a quarterly basis. The conversion can be exercised at the option of bondholders on any date during the period commencing 41 days following the February 11, 2010 and ending on the date falling seven London business days prior to the maturity date or, if earlier, ending on the seventh day prior to any earlier date fixed for redemption of the Convertible Bonds. The bonds will be convertible into GDRs at an initial conversion price of $23.075 per GDR.

The Group can early redeem all, but not some only, of the bonds after three years from issuance at their principal amount plus accrued interest, if the volume weighted average price of the GDRs traded on the London Stock Exchange exceeds 130 per cent of the conversion price. In addition, the Group has the option to redeem the bonds at principal amount plus accrued interest if 15% or less of the bonds remain outstanding. Bondholders have the right to request redemption of the bonds on the third anniversary following the issue date at the principal amount plus accrued interest.

The proceeds from the offerings were used to refinance existing short-term indebtedness.

Russian bond obligations

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

Loan participation notes

In February 2010 a consent solicitation with respect to 600,000 loan participation notes issued in July 25, 2008 was implemented. The terms of the notes were modified in order to further enhance a financial flexibility of the Group. In particular, the definition of "Refinancing Indebtedness" and the clause "Incurrence of Indebtedness" in the conditions of the notes were added and amended.

Bank Loans

In March 2010, the Group amended agreement with VTB for borrowing facilities of 450,000 extending the loan term from 1 to 3 years with an option to extend the maturity up to five years from the initial extension and reducing interest rate. The Group will pay additional 12,000 to Bravecorp Limited (an entity under common control with TMK Steel) for the extension of guarantee.

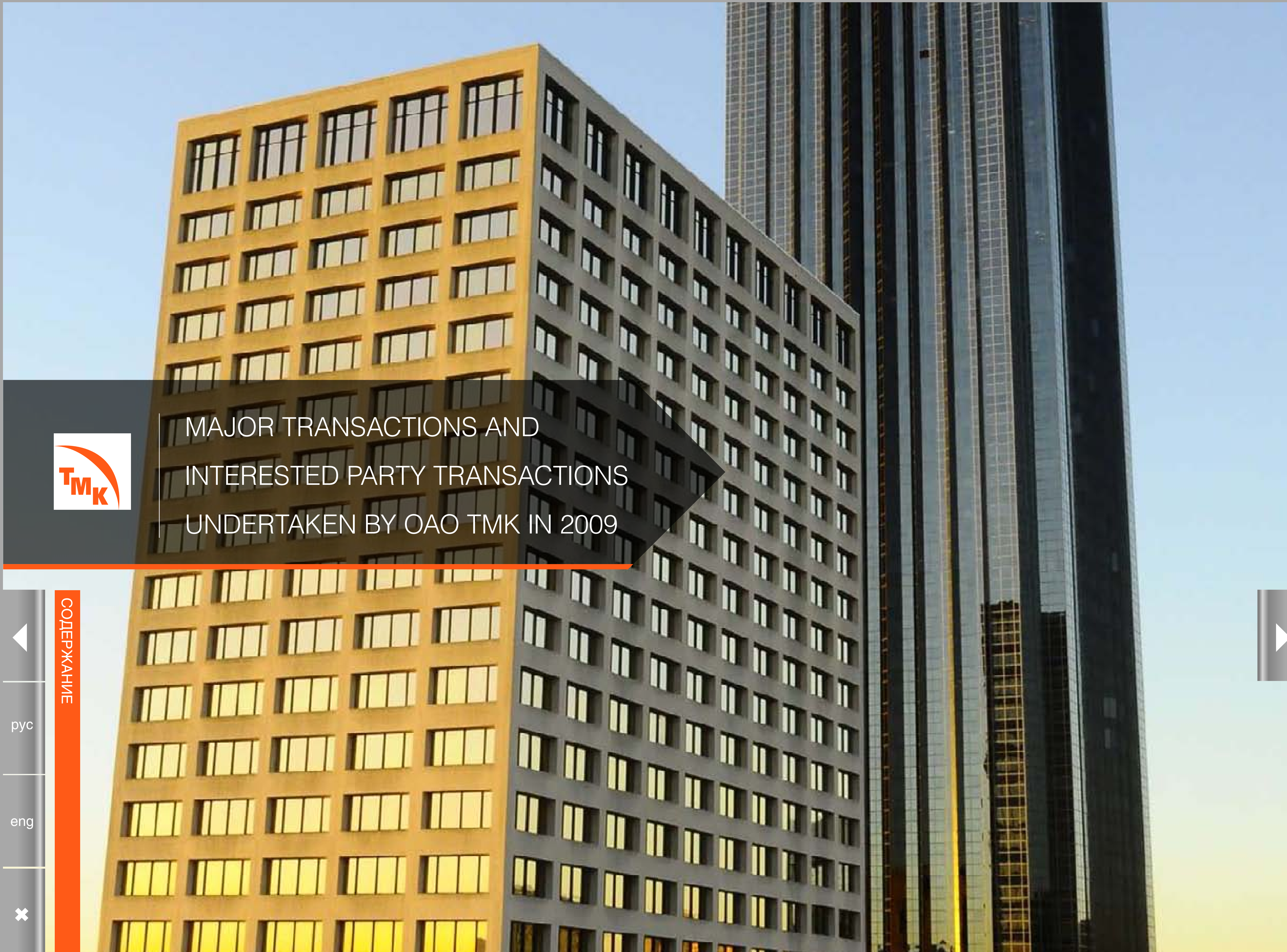
In February 2010, the Group repaid VTB loan facility in the amount of 300,000 and other short-term loans for the total amount of 109,886 using the proceeds from issuance of 412,500 unsecured guaranteed convertible bonds.

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

Increase of Authorised Share Capital

On February 5, 2010, the Board of Directors authorised an increase of share capital by 86,166,871 shares with par value of 10 Russian roubles each. This represents approximately 9.87% of the Company's issued share capital before the additional issue. On March 30, 2010 the documents were submitted to the Federal Service on Financial Markets in Russia. According to the Russian legislation, share capital increase will be approved during one month period from the date of documents submission.

MAJOR TRANSACTIONS AND INTERESTED PARTY TRANSACTIONS UNDERTAKEN BY OAO TMK IN 2009



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MAJOR TRANSACTIONS AND INTERESTED PARTY TRANSACTIONS UNDERTAKEN BY OAO TMK IN 2009

11.1. Major Transactions

#	Company Authority	Parties to the Transactions	Subject of the Transaction and Essential Conditions
1	Board of Directors	Creditor – Gazprombank (Open Joint-Stock Company) Borrower – OAO TMK	Creditor is obliged to provide loans and Borrower is obliged to repay loans and pay interests for the related transactions in amount of USD 600,000,000 and USD 300,000,000 which matured till 21 January, 2014
2	General Meeting of Shareholders	Borrower – IPSCO Tubulars Inc.; Lender – OAO TMK	Lender provides the agreed funding and Borrower is obliged to repay it. Transaction amount – USD 392,116,438.36 Terms: 50% of the loan is repaid by equal quarterly installments starting from 20 January, 2010, remained 50% is repaid as a single payment on 31 July, 2011

11.2. Interested-Party Transactions

#	Company Authority	Parties to the Transactions	Subject of the Transaction and Essential Conditions	Interested Parties
1	General Meeting of Shareholders	Borrower – IPSCO Tubulars Inc.; Lender – OAO TMK	Lender provides loan and Borrower is obliged to repay the loan. Deal amount: USD 300,000,000	OAO TMK Board of Directors member, A. Cobb, OAO TMK Management Board member P. Galitzine
2	General Meeting of Shareholders	Creditor – Sberbank Borrower – OAO VTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under Revolving Credit Line Agreements with the following terms: Total amount of credit lines non-recurring debt is not more than RUB 3,800,000,000 Term of Guarantorship agreement: 05.03.2010	OAO TMK Board of Directors members Pumpyanskiy D.A., Kaplunov A.U., OAO TMK Management Board members Semerikov K.A., Petrosyan T.I., Blagova E.E., Lyalkov A.G.
3	Board of Directors	Pledgor – TMK Steel Limited Borrower – OAO TMK Creditor, Pledgee – Gazprombank (Open Joint-Stock Company)	Agreement on reimbursable basis to provide collateral under the credit agreement. Borrower is obliged to pay Pledgor for providing 25%+1 of Borrower's shares as a pledge under the credit agreement	OAO TMK Board of Directors member Khmelevskiy I.B.
4	General Meeting of Shareholders	Creditor – Sberbank Borrower – OAO SinTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Revolving Credit Line Agreements for a total amount of non-recurring debt not exceeding RUB 3,060,000,000	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I., Brizhan A.I.
5	General Meeting of Shareholders	Creditor – Sberbank Borrower – OAO STZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Revolving Credit Line Agreements for a total amount of non-recurring debt not exceeding RUB 1,125,000,000	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I., Degai A.S.
6	General Meeting of Shareholders	Creditor – Sberbank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Revolving Credit Line Agreements for a total amount of non-recurring debt not exceeding RUB 1,780,000,000	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I., Fartushny N.I.

11.2. Interested-Party Transactions (continued)

#	Company Authority	Parties to the Transactions	Subject of the Transaction and Essential Conditions	Interested Parties
7	Board of Directors	Creditor – ZAO Commertzbank (Eurasia) Borrower – OAO VTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Letter of Credit Agreement for an amount not exceeding EUR 900,665	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I., Blagova E.E., Lyalkov A.G..
8	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO "Orsky Machine Building Plant" Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Revolving Credit Line Agreements and Letter of Credit Agreement for a total amount not exceeding EUR 25,000,000	Board of Directors member Eskindarov M.A.
9	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO VTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Loan Agreement and Letter of Credit Agreement. Guarantorship amount does not exceed EUR 23,960,000.	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I., Blagova E.E., Lyalkov A.G..
10	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO SinTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Loan Agreement and Letter of Credit Agreement. Guarantorship amount does not exceed 733,600 EUR	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I., Brizhan A.I.
11	Board of Directors	Creditor – Commertzbank (Eurasia) Borrower – OAO VTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Letter of Credit Agreement. Guarantorship amount does not exceeds EUR 1,373,048	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
12	Board of Directors	Pledgor – Bravecorp Limited Borrower – OAO TMK Creditor, Pledgee – OAO VTB Bank	Assignment of reimbursable security. Borrower is obliged to pay remuneration to Pledgor for providing 25%+1 Borrower's shares as a pledge under the credit agreement	Board of Directors member Khmelevskiy I.B.
13	Board of Directors	Pledgor – Bravecorp Limited Borrower – OAO TMK Creditor, Pledgee – OAO VTB Bank	Assignment of reimbursable security. Borrower is obliged to pay remuneration to Pledgor for providing 25%+1 Borrower's shares as a pledge under the credit agreement	Board of Directors member Khmelevskiy I.B.

11.2. Interested-Party Transactions (continued)

#	Company Authority	Parties to the Transactions	Subject of the Transaction and Essential Conditions	Interested Parties
14	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantorship agreement. Guarantee amount is RUB 52,000,000	Board of Directors member Eskindarov M.A.
15	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantorship agreement. Guarantee amount is RUB 70,000,000	Board of Directors member Eskindarov M.A.
16	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO VTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Letter of Credit and Loan Agreements. Guarantee amount is EUR 13,370,690.40	Board of Directors member Eskindarov M.A.
17	General Meeting of Shareholders	Creditor – OAO "Uralsib" Borrower – ZAO Trade House TMK Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the General Credit Line Agreement, for a total amount of RUB 1,800,000,000	OAO TMK Board of Directors members: Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
18	General Meeting of Shareholders	Creditor – OAO "Uralsib" Borrower – ZAO Trade House TMK Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the General Credit Line Agreement for a total amount of USD 50,000,000	OAO TMK Board of Directors members: Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
19	General Meeting of Shareholders	Creditor – OAO TMK Borrower – OAO SinTZ	Creditor provides funds to Borrower, and Borrower shall repay the loan. Total amount does not exceed RUB 1,200,000,000	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
20	Board of Directors	Pledgor – OAO TMK Borrower – TMK Steel Limited Creditor, Pledgee – Gazprombank (Open Joint-Stock Company)	Assignment of reimbursable security. Borrower is obliged to pay remuneration to Pledgor for providing 25%+1 Borrower's shares as a pledge under the credit agreement	Board of Directors member Khmelevskiy I.B.
21	General Meeting of Shareholders	Creditor – Ural bank of Sberbank of Russia Borrower – OAO VTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreement. Guarantee amount is RUB 4,000,000,000	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.

11.2. Interested-Party Transactions (continued)

#	Company Authority	Parties to the Transactions	Subject of the Transaction and Essential Conditions	Interested Parties
22	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO SinTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Letter of Credit and Loan Agreements. Total amount under Guarantorship Agreement does not exceed USD 1,528,000	Board of Directors member Eskindarov M.A.
23	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreement. Guarantee amount is RUB 21,004,000	Board of Directors member Eskindarov M.A.
24	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO "Orsky Machine Building plant" Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Letter of Credit Agreement and Loan Agreement for a total amount not exceeding EUR 660,000	Board of Directors member Eskindarov M.A.
25	Board of Directors	Creditor – JSCB Sberbank of Russia Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Non-revolving Credit Line Agreement for an amount of RUB 800,000,000	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
26	Board of Directors	Lendor – OAO THK – BP Holding Borrower – ZAO Trade House TMK Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations on advance payment. Guarantee amount is RUB 1,000,000,000	OAO TMK Board of Directors members: Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
27	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreement for an amount of RUB 50,020,200	Board of Directors member Eskindarov M.A.
28	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreement for an amount of RUB 16,726,500	Board of Directors member Eskindarov M.A.
29	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO VTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under Letter of Credit and Credit Line Agreement for an amount of EUR 3,033,786 Term - 15.12.2012	Board of Directors member Eskindarov M.A.

11.2. Interested-Party Transactions (continued)

#	Company Authority	Parties to the Transactions	Subject of the Transaction and Essential Conditions	Interested Parties
30	Board of Directors	Creditor – OAO VTB Bank, Borrower – OAO TMK	Introduction of material changes into the Loan Agreement – change of Borrower's obligations fulfillment term on signing property pledge / mortgage agreement in order to secure Borrower's obligations under an agreement for an amount of RUB 1,500,000,000	Board of Directors member: Eskindarov M.A.
31	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO VTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreement for an amount of RUB 2,500,000	Board of Directors member Eskindarov M.A.
32	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreement for an amount of RUB 50,000,000	Board of Directors member Eskindarov M.A.
33	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreement for an amount of RUB 2,500,000	Board of Directors member Eskindarov M.A.
34	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Agreement for bank guarantee. Guarantee amount is RUB 75,992,000	Board of Directors member Eskindarov M.A.
35	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO VTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Letter of Credit and Credit Line Agreements. Amount is EURO 1,123,455	Board of Directors member Eskindarov M.A.
36	Board of Directors	Creditor – OAO VTB Bank Borrower – ZAO Trade House TMK Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Borrower and Guarantee Agreement. Guarantee amount is RUB 3,000,000	Board of Directors member Eskindarov M.A.
37	Board of Directors	Creditor – OAO TMK Borrower – OAO VTZ	Supplementary agreement to the Loan Agreement for an amount of RUB 350,000,000, stipulating prolongation of principal debt maturity date.	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.

11.2. Interested-Party Transactions (continued)

#	Company Authority	Parties to the Transactions	Subject of the Transaction and Essential Conditions	Interested Parties
38	Board of Directors	Creditor – OAO TMK Borrower – OAO Tagmet	Supplementary agreement to the Loan Agreement for an amount of RUB 420,000,000, stipulating prolongation of principal amount maturity date.	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
39	Board of Directors	Creditor – OAO TMK Borrower – OAO SinTZ	Supplementary agreement to Loan Agreement for an amount of RUB 340,000,000, stipulating prolongation of principal debt maturity date.	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
40	Board of Directors	Creditor – Banca Comerciala Romana S.A. Borrowers – S.C. T.M.K. – Artrom S.A., S.C. TMK – Resita S.A. Guarantor – OAO TMK	The Guarantor undertakes to the Creditor to be liable for the Borrower's execution of his obligations to the Creditor for an amount not exceeding EUR 27,204,700	OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
41	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO Tagmet Guarantor – OAO TMK	The Guarantor undertakes to the Creditor to be liable for the Borrower's execution of his obligations to the Creditor. Guarantee amount is RUB 15,000,000	Board of Directors member Eskindarov M.A.
42	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreement. Guarantee amount is RUB 45,000,000	Board of Directors member Eskindarov M.A.
43	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreement. Guarantee amount is RUB 56,994,000	Board of Directors member Eskindarov M.A.
44	Board of Directors	OAO TMK, OAO VPP	Delegation of OAO VPP single executive Board of Directors authority to OAO TMK Repayment – no later than 31.12.2011	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.

11.2. Interested-Party Transactions (continued)

#	Company Authority	Parties to the Transactions	Subject of the Transaction and Essential Conditions	Interested Parties
45	Board of Directors	OAO TMK, OAO SinTZ	Supplementary agreement to the Agreement on delegation of OAO SinTZ single executive Board of Directors authority to OAO TMK, stipulating increase of price of OAO TMK services as single executive Board of Directors authority.	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
46	Board of Directors	OAO TMK, OAO SinTZ	Supplementary agreement to the Agreement on delegation of OAO SinTZ single executive Board of Directors authority to OAO TMK, stipulating increase of price of OAO TMK services as single executive Board of Directors authority.	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
47	Board of Directors	OAO TMK, OAO STZ	Supplementary agreement to the Agreement on delegation of OAO STZ single executive Board of Directors authority to OAO TMK, stipulating increase of price of OAO TMK services as single executive Board of Directors authority.	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
48	Board of Directors	OAO TMK, OAO Tagmet	Supplementary agreement to the Agreement on delegation of OAO TAGMET single executive Board of Directors authority to OAO TMK, stipulating increase of price of OAO TMK services as single executive Board of Directors authority.	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
49	General Meeting of Shareholders	Creditor – OAO VTB Bank Borrower – OAO TMK	Creditor is obliged to provide loans and Borrower is obliged to repay loans and pay interests for the related transactions in amount of USD 450,000,000 and USD 300,000,000	Board of Directors member Eskindarov M.A.
50	Board of Directors	Creditor – ZAO Commerzbank (Eurasia) Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Letter of Credit Agreement for an amount of EUR 3,357,000	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I., Fartushny N.I.

11.2. Interested-Party Transactions (continued)

#	Company Authority	Parties to the Transactions	Subject of the Transaction and Essential Conditions	Interested Parties
51	Board of Directors	Creditor – ZAO Commerzbank (Eurasia) Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Letter of Credit Agreements for an amount of EUR 26,690,000	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I., Fartushny N.I.
52	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO “Orsky Machine Building Plant” Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreements for an amount not exceeding EUR 1,260,000	Board of Directors member Eskindarov M.A.
53	Board of Directors	Creditor – OAO VTB Bank Borrower – ZAO Trade House TMK Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreements for an amount not exceeding RUB 3,000,000	Board of Directors member Eskindarov M.A.
54	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO SinTZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Letter of Credit and Credit Agreements for an amount not exceeding EUR 3,355,000	Board of Directors member Eskindarov M.A.
55	Board of Directors	Creditor – OAO “Uralsib” Borrower – ZAO Trade House TMK Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Credit Line Agreement for an amount of RUB 1,000,000,000	OAO TMK Board of Directors members: Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
56	Board of Directors	Creditor – Sberbank Borrower – OAO Tagmet Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Irrevocable Credit Line Agreement for an amount of RUB 320,000,000	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., Shiryaev A.G., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I.
57	Board of Directors	Creditor – OAO VTB Bank Borrower – OAO STZ Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Letter of Credit and Credit Agreements for an amount not exceeding EUR 2,250,000	OAO TMK Board of Directors members: Pumpyanskiy D.A., Kaplunov A.U., OAO TMK Management Board members: Semerikov K.A., Petrosyan T.I., Brizhan A.I.

11.2. Interested-Party Transactions (continued)

#	Company Authority	Parties to the Transactions	Subject of the Transaction and Essential Conditions	Interested Parties
58	Board of Directors	Creditor – OAO VTB Bank Borrower – ZAO Trade House TMK Guarantor – OAO TMK	Guarantor undertakes to the Creditor to be liable for the execution of obligations under the Guarantee Agreement for an amount not exceeding RUB 473,704,142.62	Board of Directors member Eskindarov M.A.

All related party transactions were realized under market conditions.

GLOSSARY AND CONTACTS

Glossary

API	American Petroleum Institute is the main US trade association for the oil and natural gas industry (www.api.org).
Casing	Steel pipes used to line the walls of a well.
DIN	Deutsches Institut fur Normung, is the German national organization for standardization and is Germany's ISO member body.
DNV	Det Norske Veritas, one of the world's three major companies in the classification society business and a provider of services for managing risk. Important industries where the company operates include sea freight, energy, aviation, and automotive (www.dnv.com).
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.
EAF	Electric Arc Furnace, a scrap iron charged furnace that is energized by an electrical arc flowing between three electrodes.
EBITDA	Earnings before Interest, Taxes, Depreciation, and Amortization.
EBRD	European Bank for Reconstruction and Development (www.ebrd.com).
FQM	Fine Quality Mill, is a retained mandrel mill that uses the state-of-the-art process for seamless tube rolling, featuring 3-roll stands. The mill produces tubes of the highest quality up to 18" in a wider range of sizes and steel grades, as compared with the traditional two-roll process. The mill is based on a compact and simplified design, with a high degree of component standardization, and allows easy and quick roll changes (www.danieli.com).
ISO	International Organization for Standardization (www.iso.org).
ISO 9000	Series of standards for quality management systems (www.iso.org).
Ladle furnace	Used in steelmaking to heat up material by means of an electric arc process. Also used in the secondary treatment of steel to improve quality.
Large-diameter pipe (LD)	This type of pipe is used in the construction of trunk pipeline systems for the long distance transportation of natural gas, crude oil and petroleum products. TMK produces longitudinal and spiral large-diameter welded pipes with diameters ranging from 457mm to 2520mm, wall thickness of up to 42mm and in strength groups of up to X100.
Line pipes	Line pipe is used in the construction of oil and gas pipelines for the short-distance transportation of crude oil, oil products and natural gas from deposits to storage reservoirs, oil terminals, and loading and distribution centers. TMK produces both welded and seamless line pipe.
MICEX	Moscow Interbank Currency Exchange (www.micex.com).
OAO TMK	Open Joint-Stock Company TMK.
OCTG	Oil Country Tubular Goods. These are threaded pipes used in the oil and gas industry including, drill pipe, casing, and tubing. TMK produces both welded and seamless OCTG.
OHSAS 18001	An international occupational health and safety management system specification.
OMZ	OAO Orsky Machine Building Plant (Orsky).
PQF	Premium Quality Finishing, a 3-roll type retained mandrel mill for the production of seamless pipes. The use of PQF technology provides advantages in the piercing and sizing and stretch reducing operations (www.sms-meer.com).
RosNITI	OAO RosNITI (Russian Research Institute for the Pipe Industry).

GLOSSARY (continued)

RTS	Russian Trading System Stock Exchange (www.rts.ru).
RUIE	Russian Union of Industrialists and Entrepreneurs (www.rspp.ru)
Seamless pipes	Pipes manufactured through the insertion of a solid billet in a press or a piercing mill (with subsequent hot or cold working). As its name implies, this type of pipe has no weld seam.
Seversky, STZ, OAO STZ	Seversky Tube Works (Polevskoy, Russia) specializes in the production of seamless and welded pipes primarily for the oil and gas industry. Seversky produces seamless well casings and line pipes, arc-welded line pipes, general-purpose industrial seamless pipes, and industrial welded pipes and hollow sections for the power and machine building sectors.
Sinarsky, SinTZ, OAO SinTZ	Sinarsky Pipe Plant (Kamensk-Uralsky, Russia) produces a wide range of pipes including, drill pipes, casing, tubing and line pipe for the oil and gas sector, and seamless steel pipes for the power, chemical and machine-building industries, seamless stainless pipes.
TAGMET, OAO TAGMET	Taganrog Metallurgical Works (Taganrog, Russia) produces drill pipes, casing and line pipes, industrial seamless pipes and electric welded pipes for the oil and gas sector, the machine building, mechanical engineering and power industries and utilities sector. TAGMET also performs its own research and development work on pressure-tight Premium connections for drill pipes, casing and tubing string.
TMK-ARTROM, SC T.M.K.-ARTROM S.A.	TMK-Artrom (Slatina, Olt County, Romania) is one of Romania's largest manufacturers of pipes. The plant produces industrial seamless pipes, including pipes for the machine-building and automotive industries. The majority of the plant's output is intended for export, mainly to the EU, US and Canada.
TMK-Central Pipe Yard, CPY	TMK-Central Pipe Yard, based in Buzuluk (Orenburg region, Russia), is part of TMK Oilfield Services and specializes in the repair of drill pipes and sucker rods, and provides technical assistance in the handling and installation of pipe columns.
TMK or Company	OAO TMK and its affiliates, except where stated otherwise.
TMK-CPW	TMK-CPW (Polevskoy, Russia) is a joint venture between Seversky and Humbel Limited, a subsidiary of Corinth Pipeworks Ltd, specializing in the production of longitudinal electric resistance welded (ERW) pipes for the oil and gas industry and construction sector.
TMK IPSCO	TMK IPSCO (IPSCO Tubulars Inc. and NS Group Inc., Downers Grove, Il) an industry recognized leader in the North American tubular market, produces a wide range of seamless and welded energy tubular products including oil & gas well casing and tubing, line pipe, drill pipe, standard pipe and hollow structural sections. TMK IPSCO also manufactures premium connections for oil and natural gas drilling and production under the Ultra brand name.
TMK-Kaztrubprom	TMK-Kaztrubprom (Uralsk, Kazakhstan) manufactures API-certified tubing and casing pipe.
TMK-Premium Service	TMK-Premium Service (Moscow, Russia) oversees the development, production and supply of pipe products with premium connections and also provides a range of engineering services.
TMK-Resita, SC TMK-Resita S.A.	TMK-Resita (Resita, Romania) produces steel billets as well as heavy round-profiles, blooms and square billets. The bulk of its output is delivered to TMK-Artrom.
TMK Trade House	Founded in 2001, TMK Trade House is a subsidiary of TMK which coordinates raw material procurement for the plants and oversees sales of pipe products.

GLOSSARY (continued)

Truboplast, OOO Enterprise Truboplast	Truboplast is one of Russia's largest producers of protective coatings for steel pipes used in the oil and gas industry.
Tubing	A pipe that is inserted inside the casing string to bring oil or gas to the surface.
Volzhsky Pipe Plant, VTZ, OAO VTZ	Volzhsky Pipe Plant (Volzhsky, Russia) produces seamless pipes for the oil and gas industry, the power generation, mechanical engineering, oil refining and chemical industries, as well as spiral and longitudinal welded large-diameter pipes used for long-distance oil and gas transmission.
Welded pipe	Pipe that is made from metal coil, plate, strip or sheet, rolled and welded, manufactured on a tube welding mill.

Contacts

Information about the Company

Full name: OAO TMK

Short name: TMK

Legal address: Russian Federation, 105062, Moscow,

Pokrovka Street, 40, bld.2A

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: +7 (495) 771 7335

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

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