Management's Discussion and Analysis
of financial position and results of operations

First half of 2011

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The following review of our financial position and results of operations is based on, and should be read in conjunction with, our consolidated financial statements and related notes for the six months ended June 30, 2011.

Certain information contained in this section, including information with respect to our plans and strategy, includes forward-looking statements and inherently involves risks and uncertainties. In assessing this discussion and analysis, various risk factors must be considered, which means that our actual results may differ significantly from those presented in these statements.

Rounding

Certain monetary amounts, percentages and other figures included in this management's discussion and analysis have been subject to rounding adjustments. Amounts shown in tables may not be the arithmetic accumulation of the figures that precede them, and figures expressed as percentages in the text and in tables may not total 100%.

Business overview

We are one of the leading global manufacturers and suppliers of tubular products for the oil and gas industry, as well as other industrial applications. We are the leading manufacturer and supplier of steel pipes for the oil and gas industry in Russia. The largest share of our sales belongs to high-margin oil country tubular goods (OCTG).

We operate 24 production sites, which are geographically diversified with locations in Russia, the United States, Romania and Kazakhstan, and supply to more than 65 countries worldwide. In the first half of 2011, 63% of our sales volumes were derived from the clients located in Russia, and 23% – from the clients located in North America.

In the first half of 2011, the Russian pipe market continued to recover from the economic downturn and grew 31% as compared to the first half of 2010. Sales volumes of our tubular products in the Russian market grew significantly as well; however our market share slightly decreased from 27% to 25% as a result of growing production facilities of other pipe producers and higher imports, in particular from the Ukraine. Nevertheless, we persisted the strong market position for our key products, maintaining 60% market share in seamless OCTG and 72% in seamless line pipe sales.

We are the largest exporter of pipes in Russia. Export sales of pipes produced in Russia constituted 12% of our total sales volumes in the first half of 2011 compared to 14% in the corresponding period of 2010.

In January to June 2011, we sold 2,179 thousand tonnes of tubular products, an increase of 16% compared to the same period of 2010, including 1,235 thousand tonnes of seamless pipes. Our sales of seamless and welded OCTG achieved 797 thousand tonnes, a 7% increase compared to the first half of 2010.

In January to June 2011, we reported total consolidated revenue of U.S.$3,547 million, up 38% as compared to the same period of 2010. Adjusted EBITDA[1] increased 51% to U.S.$625 million in the first half of 2011 from U.S.$415 million in the first half of 2010. Adjusted EBITDA margin reached 18% in the first half of 2011 as compared to 16% in the same period of 2010.

[1] See Group IFRS Financial Statements for calculation methodology.

Key 2011 events

In January 2011, we supplied seamless pipes to Gazprom for construction of the Portovaya compressor station. Unique in its technical and operating characteristics, this compressor station will be a starting point for gas supplies via the Nord Stream gas pipeline.

In January 2011, we completed the offering of U.S.$500 million of 7.75% loan participation notes which fall due in January 2018. The notes have been admitted for trading on the London Stock Exchange. The proceeds were used to refinance existing indebtedness.

In March 2011, we won an open auction for the acquisition of a 25.5% stake in OAO Volgograd River Port for RUB113 million (approximately U.S.$4 million). The auction was held by the Russian Federal Property Management Agency. The acquisition was finalised on August 4, 2011. This acquisition will allow us to optimise logistics for our Volzhsky plant, located close to the Volgograd River Port, and will create additional opportunities to ship OCTG and line pipe to the oil and gas fields in the Caspian region.

In March 2011, the second thread line for ULTRA connections with a capacity of 240 thousand joints was commissioned at TMK IPSCO's facility in Brookfield, USA. The new line will also enhance our product range. The increase in demand for ULTRA connections due to the active development of shale oil and gas as well as the expected growth in development of oil sands in the United States and Canada were the reasons for this furtherer expansion of TMK IPSCO's premium threading capacities.

In April 2011, we completed shipments of casing pipe with ULTRA SF Premium Connections to Gazprom Neft for the Urmanskoye field in the Tomsk region in Western Siberia. The pipes were produced by TMK IPSCO. This was the first of our deliveries to Russia of premium tubular products made in the United States.

In May 2011, we began construction of a research center in Houston, Texas (U.S.A.). The state-of-the-art facility will be used for product design and development, experimental and validation testing and advanced metallurgical research. The center will collaborate with numerous organizations, including the Massachusetts Institute of Technology, our subsidiary RosNITI and several other research laboratories and universities.

In May 2011, we finalised the sale of TMK Hydroenergy Power S.R.L., our non-core asset previously owned by TMK-RESITA, which is comprised of four hydropower generating units located in Romania.

In June and July 2011, as a part of the Programme on Development and Testing of TMK Premium Connections, we successfully completed qualification tests of TMK PF and ULTRA-QX connections in accordance with ISO 13679 CAL IV standard. Certification of the connections will allow us to provide more tailored solutions to the clients and further strengthen our positions in the segment of premium pipe products.

In June 2011, we started production of pipes with a new TMK CWB premium connection for drilling with casing. The implementation of new technology will allow us for an increase in the connection's gas-tightness and operational efficiency. One of the TMK CWB connection's outstanding features is its ability to be coupled with other types of threads and to be used as an adapter.

Business structure

The results of operations are presented in three reporting segments:

- Russian division: manufacturing facilities located in the Russian Federation and Kazakhstan, oilfield service companies and trading companies in Russia, Kazakhstan, Switzerland, the United Arab Emirates and South Africa. The Russian division is engaged in the production and supply of seamless and welded pipes, premium products and rendering of related services to oil and gas companies;

- American division: manufacturing facilities and trading companies located in North America. The American division is engaged in the production and supply of seamless and welded pipes and premium products, including ULTRA connections;

- European division: manufacturing facilities located in Romania, and trading companies located in Italy and Germany. The European division is engaged in the production and supply of seamless pipes and steel billets.

Financial and operating highlights

Operating results for the first half of 2011 have considerably improved compared to the corresponding period of 2010. The following table provides consolidated operating results for the first half of:

	2011	2010	Change
	in millions of U.S. dollars		*in %*
Sales volumes, thousand tonnes	2,179	1,886	16%
Revenue	3,547	2,566	38%
Cost of sales	(2,733)	(1,980)	38%
GROSS PROFIT	**814**	**586**	**39%**
GROSS PROFIT MARGIN, %	**23%**	**23%**	
Operating expenses[1]	(358)	(339)	6%
Foreign exchange gain, net	33	14	136%
Gain on changes in fair value of derivative financial instrument	15	32	(53)%
Finance costs, net	(144)	(191)	(25)%
INCOME BEFORE TAX	**360**	**102**	**253%**
Income tax expense	(102)	(35)	191%
NET INCOME	**258**	**67**	**285%**
NET INCOME ADJUSTED FOR GAIN ON CHANGES IN FAIR VALUE OF DERIVATIVE INSTRUMENT[2]	**243**	**35**	**594%**
ADJUSTED NET INCOME MARGIN, %[3]	**7%**	**1%**	-
ADJUSTED EBITDA[4]	**625**	**415**	**51%**
ADJUSTED EBITDA MARGIN	**18%**	**16%**	-

For the purposes of this management's discussion and analysis, net income has been adjusted for the gain on changes in the fair value of the derivative financial instrument in the amount of U.S.$15 million in the first half of 2011 compared to U.S.$32 million in the corresponding period of 2010 to reflect management's opinion in respect of the treatment of the conversion option. *(See "Gain on changes in fair value of derivative financial instrument".)*

[1] Operating expenses include selling and distribution, general and administrative, advertising and promotion, research and development, impairment of goodwill, gain on disposal of assets held for sale and net other operating income/expense.

[2] Net income adjusted for gain on changes in fair value of derivative financial instrument is presented in the table because we consider the measure an important supplemental measure of performance. Net income adjusted for loss on changes in fair value of derivative financial instrument is not a measurement of performance under IFRS and should not be considered as an alternative to net income or any other performance measures derived in accordance with IFRS.

[3] Adjusted net income margin is calculated as the quotient of Net Income adjusted for gain on changes in fair value of derivative instrument divided by Revenue.

[4] Adjusted EBITDA as stated in the Group IFRS Financial Statements.

Following the continuing economic recovery and growing sales volumes, our operational performance and finance position continued to improve. The following table sets forth information regarding certain key financial measures as of and for the dates/periods indicated:

	June 30, 2011	December 31, 2010	June 30, 2010	December 31, 2009
	in millions of U.S. dollars			
Adjusted EBITDA (LTM) [1]	1,153	942	597	328
Net debt [2]	3,843	3,711	3,555	3,504
Net-debt-to-EBITDA ratio [3]	3.3	3.9	6.0	10.7

As of June 30, 2011, adjusted EBITDA for the last twelve months was U.S.$1,153 million, a 22% increase over the adjusted EBITDA for 2010; the net-debt-to-EBITDA ratio further improved to 3.3 as of June 30, 2011 down from the historic high of 10.7 as of December 31, 2009. We intend to concentrate on further improvement of our operational performance and reduction of debt burden.

[1] Calculated on a rolling twelve-month basis. See "Selected financial data" for calculation.
[2] Net debt calculation – See "Selected financial data".
[3] Net-Debt-to-EBITDA ratio is defined as the quotient of Net Debt at the end of the given reporting date divided by the Adjusted EBITDA for the 12 months immediately preceding the given reporting date.

Sales volumes

The following table shows pipe sales volumes by reporting segment for the half-year ended June 30:

	2011	2010	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Russia	1,648	1,385	263	19%
America	436	412	24	6%
Europe	95	89	6	7%
TOTAL PIPES	**2,179**	**1,886**	**293**	**16%**

Russia. In the first half of 2011, sales volumes of **seamless** and **welded** pipe increased 17% and 21%, respectively. Sales volumes of **seamless** pipe were mostly driven by increased sales of **OCTG** and **line** pipe, affected by strong demand from oil and gas companies. The growth was achieved in spite of the drop in **OCTG** export sales caused by the political instability in North Africa and the Middle East. Growing sales volumes of **welded** pipe were mostly attributed to continuing supplies of **large diameter welded** pipe for the construction of major pipelines such as: Ukhta-Torzhok, Bovanenkovo-Ukhta, Pochinki-Gryazovets and other. Sales volumes of **large diameter welded** pipe grew 35% in the first half of 2011.

***America*.** Sales volumes in the American division increased reflecting growth in pipe consumption in the U.S. market. Sales volumes growth was substantially affected by the imposition of countervailing duties by the U.S. government on the importation of low-cost Chinese tubular products, as well as the high drilling activity in the existing and new shale plays. As a result, **welded line** pipe sales grew 45% and **seamless OCTG** - 13%. Sales of **welded industrial** pipe grew 23% in the first half of 2011 as compared to the first half of 2010.

***Europe*.** The division produces only **seamless pipe** and steel **billets**. Sales of **seamless industrial** pipe, a core product in the division, increased 21% reflecting high market demand, mainly from the engineering industry.

In the first half of 2011, the growth in our total sales volumes was mostly attributable to the increased sales of **large-diameter welded** pipe, as well as **seamless** pipe. The table below presents sales volumes by group of products for the half-year ended June 30:

	2011	2010	Change	Change
	in thousand tonnes		*in thousand tonnes*	*in %*
Seamless	1,235	1,077	158	15%
Welded	944	809	135	17%
TOTAL PIPES	**2,179**	**1,886**	**293**	**16%**

Revenue

The table below presents revenue by reporting segment for the half-year ended June 30:

	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Russia	2,589	1,830	759	41%
America	765	620	145	23%
Europe	193	116	77	66%
TOTAL REVENUE	**3,547**	**2,566**	**981**	**38%**

***Russia*.** Revenue generated by the Russian division increased 41% or U.S.$759 million year-on-year reflecting higher selling prices and increased sales volumes of tubular products.

Growing sales volumes of **seamless** and **welded** pipe contributed U.S.$204 million and U.S.$131 million to the revenue increase, respectively. Changes in selling prices and the product mix resulted in the growth of U.S.$185 million and U.S.$100 million of the **seamless** and **welded** pipe revenue, respectively. The increased share of sales of **large diameter welded** pipe, the average selling prices for which are generally higher than prices for other pipe products, markedly contributed to the revenue growth.

Revenue from other operations grew U.S.$15 million mainly due to an increase in revenue from pipe-related services, e.g. protective coating, repair and field services.

The favorable effect of translation from the functional to the presentation currency[1] accounted for U.S.$124 million.

***America*.** In the first half of 2011, the American division achieved a 23% or U.S.$145 million growth in revenue compared to the relevant period of 2010.

Increased selling prices for tubular products as well as changes in the product mix contributed U.S.$76 million and U.S.$54 million to the growth of **seamless** and **welded** pipe revenue, respectively.

The revenue growth of **seamless** and **welded** pipe attributable to changes in sales volumes accounted for U.S.$14 million and U.S.$19 million, respectively. The growth was mostly derived from increased sales volumes of **seamless OCTG** and **welded line** and **industrial** pipe.

1 For the purposes of this management discussion and analysis, the translation effect on revenue/costs and income/expense illustrates an influence of different rates used for translation of such revenue/costs or incomes/expenses from functional to presentation currency in different reporting periods.

Revenue from other operations, mainly revenue from premium threading services, declined U.S.$18 million as threading capacities were intensively used for pipes manufactured by TMK production subsidiaries, including plants located in Russia and Romania. As a result, sales of high-margin pipe with ULTRA premium connection increased, and revenue from pipe threading services to external customers declined.

***Europe*.** A 66% year-on-year revenue growth was driven primarily by the increase in selling prices for tubular products in response to the market recovery and growing costs of raw materials towards the end of 2010.

Changes in selling prices and the product mix contributed U.S.$35 million to the total revenue growth.

Higher sales volumes accounted for a U.S.$7 million increase in the division's total revenue on account of the growing sales of **seamless industrial** pipe.

An increase in revenue from other operations totaling to U.S.$26 million primarily reflected the substantial growth in the sales of steel **billets**.

The favorable effect of translation from the functional to the presentation currency accounted for a U.S.$9 million.

In the first half of 2011, the growth in our total revenue was mainly attributable to increased sales of **seamless** pipe, as well as **large-diameter welded** pipe. The table below presents pipe sales volumes by group of product for the half-year ended June 30:

	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Seamless	2,021	1,419	602	42%
Welded	1,370	1,020	350	34%
Other operations	156	127	29	23%
TOTAL REVENUE	**3,547**	**2,566**	**981**	**38%**

Cost of sales

In the first half of 2011, the cost of sales increased 38% to U.S.$2,733 million as compared to U.S.$1,980 million in the first half of 2010. The table below presents the cost of sales by reporting segment the half-year ended June 30:

	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Russia	2,008	1,407	601	43%
America	585	483	102	21%
Europe	140	90	50	56%
TOTAL COST OF SALES	**2,733**	**1,980**	**753**	**38%**

***Russia*.** In the first half of 2011, the cost of sales of **seamless** and **welded** pipe grew 31% and 61%, respectively, primarily reflecting growing sales volumes that contributed U.S.$162 million and U.S.$94 million, respectively, to the total cost of sales of the division.

Higher prices for raw materials utilised in production of **seamless** and **welded** pipe, as well as changes in the product mix brought an increase of U.S.$50 million and U.S.$171 million, respectively, to the cost of sales of the division. Particularly, an increase in the share of **large diameter welded** pipe in sales volumes markedly affected the cost of sales growth.

The cost of other operations increased U.S.$28 million, while the effect of translation from the functional to the presentation currency accounted for a U.S.$96 million increase in the cost of sales.

***America*.** The increasing average cost per tonne, as well as changes in the product mix also had a significant effect on the cost of sales. The cost of sales of **seamless** and **welded** pipe increased U.S.$61 million and U.S.$31 million, respectively.

The cost of sales growth in the division mainly reflected the increase in sales volumes of **seamless** and **welded** pipe, accounting for a U.S.$9 million and U.S.$17 million growth, respectively.

The division also provides pipe threading services. In the first half of 2011, the division reduced sales of services to external customers. Consequently, the cost of sales from other operations decreased U.S.$16 million.

Europe. The European division specialises in selling **seamless** pipe and steel **billets**. In the first half of 2011, an increase in the average cost per tonne caused by the significant upswing of scrap prices at the end of 2010 resulted in a U.S.$10 million increase in the cost of sales. A steady increase in sales volumes of **seamless** pipe and **billets** contributed U.S.$5 million and U.S.$26 million, respectively, to the cost of sales growth.

The cost of sales from other operations grew U.S.$2 million. The effect of translation from the functional to the presentation currency resulted in a U.S.$7 million growth in the cost of sales.

The table below shows our total cost of sales by group of products for the half-year ended June 30:

	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Seamless	1,446	1,088	358	33%
Welded	1,139	787	352	45%
Other operations	148	105	43	41%
TOTAL COST OF SALES	**2,733**	**1,980**	**753**	**38%**

The following table provides a breakdown of the cost of sales for the half-year ended June 30:

	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Raw materials and consumables	1,926	1,347	579	43%
Labour costs	333	263	70	27%
Energy and utilities	213	164	49	30%
Depreciation	128	115	13	11%
Other costs	180	152	28	18%
TOTAL PRODUCTION COST	**2,780**	**2,041**	**739**	**36%**
Change in finished goods and work in progress	(95)	(72)	(23)	32%
Cost of externally purchased goods and obsolete stock and write offs	48	11	37	336%
TOTAL COST OF SALES	**2,733**	**1,980**	**753**	**38%**

The principal components of the cost of sales are discussed below.

Raw materials and consumables

Raw materials and consumables are the principle components of the pipe costs; they include scrap, coils, steel sheets, ferroalloys, steel billets and other consumables.

Growth in prices for raw materials utilised in pipe production and changes in the product mix contributed U.S.$318 million to total growth of the cost of sales.

All our divisions were exposed to volatility in prices for certain raw materials in the first half of 2011 compared to the corresponding period of 2010. In the Russian division, average purchase prices for scrap and coils increased 34% and 24%, respectively. Average prices for scrap and coils in

the American division increased 21% and 26%, respectively. The average purchase price for scrap in the European division was up 31%.

The increased share of large diameter welded pipe in the product mix resulted in a higher amount of raw materials consumed as the average purchase prices for steel plates and coil used in the production of this product type were higher than of other tubular products.

Our sales growth resulted in higher production volumes which contributed U.S.$189 million to the increase in the cost of raw materials and consumables.

The effect of translation from the functional to the presentation currency accounted for a U.S.$72 million increase in the cost of sales.

Labour costs

Growth in labour costs primarily reflected increased payroll rates and changes in the Russian tax legislation in respect of the social security contributions effective from January 1, 2011, that resulted in a U.S.$45 million increase. The increase in insurance contribution rates from 26% to 34% and changes in calculation methodology also affected the labour costs in the first half of 2011.

The effect of rehiring production workers in the American division where labour costs increased U.S.$15 million was partially offset by a U.S.$2 million decline due to a minor decrease in the headcount of the Russian division.

The effect of translation from the functional to the presentation currency accounted for a U.S.$12 million increase in labour costs.

Energy and utilities

As a result of increased prices for energy and utilities consumed in the pipe and steel production process, energy costs grew U.S.$14 million in the first half of 2011 compared to the respective period of 2010.

In the first half of 2011 compared to the corresponding period of 2010, on average, the electricity and natural gas tariffs in the Russian division increased 18% and 15%, respectively. In the American division, the average electricity tariff increased only 2% and the average natural gas tariff decreased 6% due to the regressive tariffs system. The average electricity and natural gas tariffs in the European division were up 37% and 9%, respectively.

Energy costs increased U.S.$26 million primarily reflecting growth in production volumes in the first half of 2011 compared to the same period of 2010. The effect of translation from the functional to the presentation currency accounted for a U.S.$9 million increase in energy costs.

Depreciation

Depreciation expenses increased U.S.$13 million in the first half of 2011 compared to the corresponding period of 2010. The effect of translation from the functional to the presentation currency accounted for a U.S.$5 million increase. The principal share of the remaining growth relates to the reduction of the estimated useful lives of some open-hearth furnaces, pilger mill and 2520 welded pipe mill in the Russian division due to the planned replacement of this equipment with the new one before the end of the initially assessed useful lives.

Other costs

Other costs include repair and maintenance, contracted manufacture, transportation among production sites, taxes and other expenses. Growth of other expenses was consistent with the operating activity dynamics.

The effect of translation from the functional to the presentation currency accounted for a U.S.$5 million increase.

Change in finished goods and work in progress

The gradual growth of finished goods and work in progress balances for the first half of 2011 and 2010 reflects growing prices for raw materials and tubular products as well as the increased stock driven by the growth of sales volumes.

Gross profit

The following table shows gross profit and gross margin by reporting segment for the half-year ended June 30:

	2011		2010		Change
	in millions of U.S. dollars	*in %*	*in millions of U.S. dollars*	*in %*	*in millions of U.S. dollars*
Russia	581	22.4%	424	23.1%	157
America	180	23.5%	137	22.1%	43
Europe	53	27.6%	25	21.9%	28
TOTAL GROSS PROFIT	**814**	**23.0%**	**586**	**22.8%**	**228**

In the first half of 2011, gross profit increased 39% or U.S.$228 million as compared to the first half of 2010, and amounted to U.S.$814 million. The gross margin remained nearly unchanged in the first half of 2011.

Russia. The gross margin in the Russian division declined from 23.1% in the first half of 2010 to 22.4% in the first half of 2011, reflecting lower gross margin of **large-diameter welded** pipe, particularly, as a result of completion of some higher-margin projects. The projects included long-distance delivery terms which resulted in higher selling prices and additional selling and distribution expenses. However the decrease in **large-diameter welded** pipe gross margin was partially offset by the growth in gross margin of **seamless OCTG** and **line** pipe.

The increase in gross profit was mainly attributable to the growth in selling prices for **seamless** pipe that outpaced the growth in the average cost per tonne, that together with the changes in the product mix contributed U.S.$134 million. However gross profit per tonne of **welded** pipe was lower in the first half of 2011, that together with the effect of the changes in the product mix resulted in a U.S.$72 million decrease in gross profit.

As a result, the division recorded a U.S.$43 million and U.S.$37 million increase in gross profit from the change in sales volumes of **seamless** and **welded** pipe, respectively.

Gross profit from other operations declined U.S.$13 million. The effect of translation from the functional to the presentation currency resulted in a U.S.$28 million growth in gross profit.

America. Gross margin in the American division increased from 22.1% in the first half of 2010 to 23.5% in the first half of 2011 mainly because of increased sales volumes and prices as well as the increased share of high-margin **seamless OCTG** pipe in the division's sales.

Increased selling prices for tubular products and changes in the product mix contributed U.S.$15 million and U.S.$23 million to the growth of **seamless** and **welded** pipe gross profit, respectively.

In the first half of 2011, the division increased sales volumes of **seamless OCTG,** resulting in a U.S.$5 million rise of the **seamless** pipe gross profit. The growth in sales volumes of **welded line** and **industrial** pipe contributed U.S.$2 million to the increase in gross profit of **welded** pipe. However the division's gross profit from other operations declined U.S.$2 million, as the division was mostly focused on selling high-margin pipes with ULTRA premium connection rather than providing premium threading services to the external customers.

Europe. In the first half of 2011, gross margin in the European division was 27.6% compared to 21.9% in the first half of 2010 as a result of the overall favorable market situation, and, in particular, because of certain high-margin orders related to **industrial** heat-treated alloy pipe. The increase in gross profit during the period was mainly attributable to growing gross profit per tonne of **seamless** pipe sold, resulting in a U.S.$24 million increase in gross profit. Gross profit of steel billets was up U.S.$2 million. The effect of translation from the functional to the presentation currency resulted in a U.S.$2 million growth in gross profit.

The following table represents our gross profit by group of products for the half-year ended June 30:

	2011		2010		Change
	in millions of U.S. dollars	*in %*	*in millions of U.S. dollars*	*in %*	*in millions of U.S. dollars*
Seamless	575	28,5%	331	23,3%	244
Welded	231	16,9%	233	22,8%	(2)
Other operations	8	5,1%	22	17,3%	(14)
TOTAL GROSS PROFIT	**814**	**23,0%**	**586**	**22,8%**	**228**

Operating expenses

Selling and distribution expenses

Selling and distribution expenses decreased as a percentage of revenue to 6% in the first half of 2011 compared to 8% in the corresponding period of 2010. The following table sets out selling and distribution expenses for the half-year ended June 30:

	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Russia	152	140	12	9%
America	39	46	(7)	(15)%
Europe	15	13	2	15%
TOTAL SELLING AND DISTRIBUTION EXPENSES	**206**	**199**	**7**	**4%**

Russia. The increase was mainly attributable to the growth in sales staff costs in the first half of 2011 compared to the corresponding period of 2010. Growing salaries and related social security contributions resulted in a U.S.$3 million growth in the selling expenses. The increase in freight tariffs was fully offset by a decrease of freight expenses under certain sales contracts that resulted in a U.S.$3 million decline in the selling expenses. The effect of translation from the functional to the presentation currency and changes in other expenses accounted for U.S.$7 million and U.S.$5 million, respectively.

America. Selling expenses in the division declined reflecting primarily an U.S.$8 million decrease in depreciation expenses mainly due to the amortisation of an intangible asset "Customer relationships": the asset is amortised using the diminishing balance method which reflects the pattern of consumption of the related economic benefits. Other selling expenses increased U.S.$1 million.

Europe. An increase in selling expenses in the European division reflects higher sales activities in the European division which caused a U.S.$2 million growth in freight expenses in the first half of 2011 compared to the corresponding period of 2010.

The table below provides a breakdown of our total selling and distribution expenses for the half-year ended June 30:

	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Freight	107	103	4	4%
Depreciation	33	41	(8)	(20)%
Staff costs	31	26	5	19%
Other expenses	35	29	6	21%
TOTAL SELLING AND DISTRIBUTION EXPENSES	**206**	**199**	**7**	**4%**

General and administrative expenses

The following table sets out general and administrative expenses for the half-year ended June 30:

	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Russia	106	81	25	31%
America	29	25	4	16%
Europe	5	4	1	25%
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	**140**	**110**	**30**	**27%**

Russia. The growth in general and administrative expenses was primarily the result of increased salaries and related social security contributions that resulted in a U.S.$15 million growth of the division's expenses. According to the amended Russian tax legislation in respect of the social security contributions, the insurance contribution rates increased from 26% to 34% and the regressive calculation methodology was changed, that affected the staff costs growth in the first half of 2011. The effect of translation from the functional to the presentation currency and changes in other expenses accounted for U.S.$5 million each.

America. An increase in general and administrative expenses in the American division was mostly due to an increase in salaries and accrued bonuses in the first half of 2011.

Europe. In the European division, general and administrative expenses slightly increased as a result of the growth in staff costs and other expenses, and the effect of translation from the functional to the presentation currency.

The table below provides a breakdown of our total general and administrative expenses for the half-year ended June 30:

	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Staff costs	81	60	21	35%
Professional services	27	22	5	23%
Depreciation	7	6	1	17%
Travel	5	4	1	25%
Other expenses	20	18	2	11%
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	**140**	**110**	**30**	**27%**

Foreign exchange gain, net

In the first half of 2011, a foreign exchange gain was recognised in the amount of U.S.$33 million as compared to U.S.$14 million in the corresponding period of 2010. In addition, a foreign exchange gain of U.S.$96 million was recognised during the first half of 2011 as compared to a U.S.$36 million loss from exchange rate fluctuations in the corresponding period of 2010 in the statement of other comprehensive income, representing the effective portion of foreign exchange gains or losses on our hedging instruments. At the date of acquisition of controlling interests in

NS Group, Inc. and IPSCO Tubulars, Inc. we hedged our net investment in these operations against foreign currency risk using US dollar denominated borrowings made by Russian entities of TMK. Hedging is used to eliminate the foreign currency exchange rate risk associated with a repayment of these liabilities resulting from changes in the US dollar/Russian rouble spot rates.

Gain on changes in fair value of derivative financial instrument

In February 2010, we issued U.S.$413 million 5.25% convertible bonds due 2015, convertible into TMK's GDRs. The bonds are convertible into GDRs at a conversion price of U.S.$23.075 per GDR. The convertible bonds represent a combined financial instrument containing two components: (i) a bond liability and (ii) an embedded derivative representing a conversion option in foreign currency combined with an issuer call. In accordance with IFRS, a bond liability of U.S.$368 million (net of transaction costs of U.S.$9 million) was recognised and the liability under the embedded conversion option of U.S.$35 million at the initial recognition date.

As of June 30, 2011, the bond liability and the liability under the embedded conversion option were U.S.$382 million and U.S.$33 million, respectively. As of 31 December, 2010, the liability under the embedded conversion option was U.S.$48 million. Consequently, we recognised a gain of U.S.$15 million on changes in the fair value of the derivative financial instrument in the first half of 2011.

Management nevertheless believes that the IFRS accounting treatment of the conversion option of the bond does not reflect the expected outflow of resources under the conversion rights. The conversion option, whether exercised or expired, will not result in cash outflows. In the event of the bond not being converted, the liability under the conversion option will be recognised as a gain in our income statement. In the event of the exercise of the option, the liability will be transferred to equity (together with the carrying value of the converted bonds); no gain or loss will be recognised on the transaction. Additionally, the accounting treatment of the conversion option requires that changes in the fair value of the embedded instrument be recognised in the income statement. The price and volatility of TMK's GDRs have significant impact on the fair value of the embedded derivative. In the event the GDRs perform well, the liability under the conversion option will increase and result in losses in the income statement. The changes in the fair value may be material in comparison to our net income and may cause distortions in the income statement.

As such, for management discussion and analysis purposes, in addition to net income as reflected in the consolidated income statement for the first half of 2011 and 2010, it has been decided to present, in this management discussion and analysis, an adjusted net income so that it does not reflect gains in changes in the fair value with respect to the embedded derivative component of the convertible bond. The adjusted net income is an alternative performance measure that is not reflected in our consolidated financial statements and has not been audited or reviewed in accordance with ISA.

Finance costs, net

Finance costs decreased 20% or U.S.$40 million in the first half of 2011 compared to the corresponding period of 2010. In 2010, we negotiated lower interest rates for the existing loans with major creditors and acquired cheaper loans to refinance the existing debt. Consequently, the weighted average nominal interest rate declined gradually to 7.33% as of June 30, 2011 compared to 8.95% as of June 30, 2010. A decline in the amount of unamortised debt issue costs absorbed in the income statement in the first half of 2011 also decreased our finance costs.

Finance income increased 80% to U.S.$15 million in the first half of 2011, primarily due to the growing dividend income.

As a result, net finance costs decreased U.S.$47 million or 25% in the first half of 2011 compared to the corresponding period of 2010.

Income tax

TMK, as a global company with production facilities and trading companies geographically diversified and located in Russia and the CIS, the United States, and Europe, is exposed to taxes charged to businesses in those countries. In both the first half of 2011 and 2010, the following corporate income tax rates were in force in the countries where most of our production plants are located: 20% in Russia, 35% (federal tax rate) in the United States, 16% in Romania.

In the first half of 2011, a pre-tax income of U.S.$360 million was reported as compared to U.S.$102 million in the corresponding period of 2010. As a result, in the first half of 2011 an income tax expense of U.S.$102 million was recognised compared to U.S.$35 million in the first half of 2010. Our effective income tax rate declined to 28% in the first half of 2011 from 34% in the first half of 2010, first, due to the growth in the pre-tax income that outpaced the growth in non-deductible expenses, and, second, due to the decreased share of the pre-tax income in the U.S. with a higher income tax rate compared to the pre-tax income in other jurisdictions.

Net income for the period

As a result of the above-mentioned factors, net income in the amount of U.S.$258 million was recognised in the first half of 2011 as compared to U.S.$67 million in the first half of 2010. Net income adjusted to the gain on changes in the fair value of the derivative financial instrument equals U.S.$243 million. *(See "Gain on changes in fair value of derivative financial instrument" for reasons of using such non-IFRS measure.)* Adjusted net income margin[1] increased to 7% in the first half of 2011 from 1% in the relevant period in 2010.

Adjusted EBITDA

Adjusted EBITDA margin improved to 18% in the first half of 2011 from 16% in the first half of 2010. The following table represents information about Adjusted EBITDA by reporting segments:

	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Russia	430	285	145	51%
America	160	122	38	31%
Europe	35	8	27	338%
TOTAL ADJUSTED EBITDA	**625**	**415**	**210**	**51%**

Russia. In the first half of 2011, Adjusted EBITDA increased 51% or U.S.$145 million. The cost of sales grew at a slightly faster rate than revenue (*See "Gross profit"*); however, a decreased share of selling, general and administrative expenses in the revenue resulted in the overall Adjusted EBITDA margin growth from 16% to 17%.

America. Adjusted EBITDA grew 31% or U.S.$38 million in the first half of 2011. Adjusted EBITDA margin increased from 20% to 21% as a result of the faster pace of the revenue growth (+23%) over that of the cost growth (+21%).

Europe. The growth of Adjusted EBITDA margin from 7% to 18% mostly resulted from an increased share of certain high-margin orders related to industrial heat-treated alloy pipe in the division's sales.

[1] Adjusted net profit margin is calculated as a quotient of Net Income adjusted for gain on changes in fair value of derivative instrument divided by Revenue.

Liquidity and capital resources

Cash flows

The following table illustrates total cash flows for the first half ended June 30:

	2011	2010	Change	Change
	in millions of U.S. dollars		*in millions of U.S. dollars*	*in %*
Net cash flows from operating activities	378	197	181	92%
Net cash flows used in investing activities	(185)	(162)	(23)	14%
Net cash flows used in financing activities	(180)	(191)	11	(6)%
Increase/(decrease) in cash and cash equivalents	**13**	**(156)**	**169**	**108%**
Effect of exchange rate changes on cash and cash equivalents	(1)	(3)	-	-
Cash and cash equivalents as of 1 January	158	244	(86)	(35)%
CASH AND CASH EQUIVALENTS AS OF JUNE 30	**170**	**85**	**85**	**100%**

Operating activities

Net cash flows from operating activities in the first half of 2011 grew 92% to U.S.$378 million from U.S.$197 million in the first half of 2010.

Net cash flows from operating activities before changes in working capital increased from U.S.$415 million in the first half of 2010 to U.S.$625 million in the corresponding period of 2011. The increase was mainly attributable to a pre-tax income of U.S.$360 million in the first half of 2011 as compared to U.S.$102 million in the first half of 2010. In the first half of 2011, cash flows in the amount of U.S.$211 million were used to finance working capital as compared to U.S.$227 million in the corresponding period of 2010. Working capital increased in both periods in response to growing production and sales activities.

Investing activities

In the first half of 2011, net cash used in investing activities equalled to U.S.$185 million, or 14% higher than in the corresponding period of 2010. In the first half of 2011, significant payments related to certain capital expenditure projects were made, particularly, the construction of the electric arc furnace at Tagmet and the modernisation of our seamless pipe production line with the new FQM mill at STZ.

Financing activities

In the first half of 2011, net cash used in financing activities amounted to U.S.$180 million as compared to U.S.$191 million in the first half of 2010.

A reduction in net cash used in financing activities was principally attributable to a decrease in interest paid from U.S.$182 million in the first half of 2010 to U.S.$142 million in the first half of 2011 as a result of lower interest rates negotiated with our creditors. Net cash repayment of borrowing increased from U.S.$8 million in the first half of 2010 to U.S.$36 million in the first half of 2011. Significant amounts of cash related to proceeds and repayments of borrowings reflect refinancing of existing loans with lower interest rates.

Indebtedness

The following table illustrates the maturity profile of our total financial debt:

	1 year or less	1 to 3 years	Over 3 years	Unamortised debt issue costs	Total debt
	in millions of U.S. dollars				
At June 30, 2011	542	1,544	1,956	(25)	4,017
At December 31, 2010	706	1,222	1,968	(24)	3,872

The current debt portfolio comprises diversified debt instruments, including bank loans, bonds, convertible bonds and other credit facilities. Total financial debt increased 4% from U.S.$3,872 million as of December 31, 2010 to U.S.$4,017 million as of June 30, 2011. The net amount of debt repayment in the first half of 2011 equaled to U.S.$36 million. However, the appreciation of the Russian rouble against the U.S. dollar resulted in an increase of the U.S. dollar equivalent of the Russian rouble-denominated loans in the financial statements as of June 30, 2011. As of June 30, 2011, U.S. dollar-, Russian rouble- and euro-denominated debt accounted for 47%, 47% and 6%, respectively, of the total financial debt.

As a result of actions undertaken to improve the debt maturity profile, the share of short-term debt decreased to 13% as of June 30, 2011 as compared to 18% as of December 31, 2010.

The debt portfolio includes fixed as well as floating interest rate debt facilities. As of June 30, 2011, borrowings with a floating interest rate represented U.S.$309 million or 8% as compared to U.S.$3,671 million or 92% of borrowings with a fixed interest rate.

The weighted average nominal interest rate decreased 53 basis points as compared to December 31, 2010 and stood at 7.33% as of June 30, 2011. Measures to improve the structure of our loan portfolio will be continued.

The most significant credit facilities as of June 30, 2011 were as follows:

Type of borrowing	Bank	Original currency	Outstanding principal amount	Maturity period
			in millions of U.S. dollars	
Loan	Gazprombank	USD	608	January 2017
7.75% LPN	-	USD	500	January 2018
5.25% convertible bonds	-	USD	413	February 2015
Loan	Alfa-Bank	RUR	363	November 2016
Loan	Sberbank of Russia	RUR	356	September 2015
10% LPN	-	USD	187	July 2011
Bonds, series БО-01	-	RUR	178	October 2013
Loan	Gazprombank	RUR	163	March 2014
Loan	Sberbank of Russia	RUR	157	April 2016
Loan	Sberbank of Russia	RUR	142	December 2015
Loan	Gazprombank	RUR	122	February 2014
			3,189	
Other facilities			780	
TOTAL BORROWINGS			**3,969**	

In January 2011, we completed the offering of 7.75% loan participation notes in the amount of U.S.$500 million due in January 2018. The notes have been admitted for trading on the London Stock Exchange. The proceeds from the issuance were used to refinance existing indebtedness.

Capital expenditure

A comprehensive renovation of production facilities performed by us during the past years resulted in a considerable increase in the efficiency of seamless and large-diameter welded production processes and advanced product quality.

The key projects planned for the next several years include:

- replacement of the open hearth furnaces with EAF steelmaking facilities at Tagmet with an annual steel-making capacity of 400 thousand tonnes; the project is planned to be completed in 2013;
- construction of a new Fine Quality Mill ("FQM") at Seversky with an annual seamless pipe production capacity of 600 thousand tonnes and completion in 2013;
- installation of additional nondestructive testing instrumentation, construction of the new hydro-press, new pipe-threading and coupling-threading facilities at Sinarsky to further improve quality of OCTG produced at the works; the project is planned to be completed in 2012.

Other investment projects started in the first half of 2011:

- construction also began on a line to produce premium threaded casing at the Orsk Machine-Building Plant, with a total capacity at 30 thousand tonnes per year. Project completion is scheduled for 2011 and will strengthen the premium segment of the business.

The following projects will enable TMK IPSCO to strengthen its position in the segment of premium connections for horizontal and directional drilling in North America:

- at TMK IPSCO, construction continued of the ULTRA Premium Connections threading line which was started at the Wilder plant (Kentucky, USA) at the end of 2010;
- consolidation of threading operations at TMK IPSCO's production facility located in Odessa, Texas is also underway.

Development trends

Results of the first half of 2011 came out stronger than expected as we managed to increase our sales volumes and profitability in the environment of increasing costs and competition pressures. We expect to see a robust demand for oil and gas pipes through the rest of the year as oil and gas companies keep up their drilling programmes without much sensitivity to short-term volatility in energy prices.

Going into the third quarter, lower sales volumes, particularly in the large-diameter segment, compared to the second quarter and scheduled maintenance of equipment at Seversky, Volzhsky and Sinarsky plants in Russia might adversely affect our financial results and profitability. However, stronger operating performance expected in the fourth quarter of 2011 should largely offset a negative impact of the preceding quarter.

We continue improving our product mix and introducing innovative products and services to Russian oil and gas companies. Recently, we introduced a few high-graded products, like ULTRA premium threads, Chrome 13 pipe and insulated lift pipe, to the Russian market. Also we plan to support overseas projects of Russian oil and gas companies by supplying full range of products and services globally.

We continue to prioritise deleveraging and intend to reduce the total amount of debt in 2011. Staying committed to reduce the amount of debt, we look to further improve our debt profile and reduce the cost of borrowings. Availability of debt financing remains strong and we expect to continue refinancing as designated.

Selected financial data

Reconciliation of income/(loss) before tax to Adjusted EBITDA for the twelve months ended:

	June 30, 2011	December 31, 2010	June 30, 2010	December 31, 2009
		in millions of U.S. dollars		
Income/(loss) before tax	443	185	(59)	(427)
Depreciation and amortisation	321	301	313	313
Finance costs, net	366	412	414	404
Impairment of assets	3	-	10	47
(Gain)/loss on changes in fair value of derivative financial instrument	29	12	(32)	-
Foreign exchange loss/(gain), net	(29)	(10)	(40)	(14)
(Gain)/Loss on disposal of property, plant and equipment	(15)	10	10	4
Movement in allowances and provisions	35	32	(18)	3
Other non-cash items	-	-	(1)	(2)
Adjusted EBITDA	**1,153**	**942**	**597**	**328**

We use Adjusted EBITDA, which is NOT a measure to be reported under IFRS, to analyse our operating performance. Adjusted EBITDA is not a measurement of our 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 our liquidity. In particular, Adjusted EBITDA should not be considered to be a measure of discretionary cash available to invest in our growth.

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

• Adjusted EBITDA does not reflect the impact of financing or finance costs on our operating performance, which can be significant and could further increase if we were to incur more debt;

• Adjusted EBITDA does not reflect the impact of income taxes on our operating performance;

• Adjusted EBITDA does not reflect the impact of depreciation and amortisation on our 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 our future cash requirements for these replacements; and

• Adjusted EBITDA does not reflect the impact of other non-cash items on our 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. We compensates for these limitations by relying primarily on its IFRS operating results and using Adjusted EBITDA only supplementally.

Net debt has been calculated as of:

	June 30, 2011	**December 31, 2010**	**June 30, 2010**	**December 31, 2009**
		in millions of U.S. dollars		
Short-term loans and borrowings	539	702	829	1,538
Long-term loans and borrowings	3,478	3,170	2,815	2,214
TOTAL DEBT	**4,017**	**3,872**	**3,644**	**3,752**
Net of:				
Cash and short-term financial investments	(174)	(161)	(89)	(248)
NET DEBT	**3,843**	**3,711**	**3,555**	**3,504**

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 our 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. We believe Net Debt provides an accurate indicator of our ability to meet its financial obligations, represented by gross debt, from available cash. Net Debt allows demonstrating investors the trend in our 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 our 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 our financial structure is adequate to achieve its business and financial targets. Our management monitors the net debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess our liquidity and financial structure relative to such companies. Our management also monitors the trends in our Net Debt and leverage in order to optimise the use of internally generated funds versus borrowed funds.

Principal Risks and Uncertainties

Industry risks

Increases in the cost of raw materials

Raw materials and consumables remain the principle component of our production costs. The principal raw materials we use in production processes include scrap, ferroalloys and refractories for use in steelmaking operations, steel billets used for the production of seamless pipes and steel coils and plates for the production of welded pipes. The demand for the principal raw materials we utilise generally correlates with macroeconomic fluctuations, which are in turn affected by global economic conditions. The prices for raw materials and supplies, one of the main factors affecting our results of operations, are influenced by many factors, including worldwide economic growth, oil and gas prices, capacity utilisation rates, inflation, exchange rates, trade barriers and improvements in steelmaking processes.

In the first half of 2011 raw materials and consumables accounted for 69% of total cost of production as compared to 66% in the first half of 2010. All our divisions were exposed to volatility in raw material prices in the first half of 2011. The average purchase price for scrap in the Russian, American and European divisions increased by 34%, 21% and 31% in the first half of 2011, respectively, as compared to the first half of 2010. The average purchase price for coils in the Russian and American divisions also increased by 24% and 26%, respectively. As a result of increased prices for raw materials and increased sales volumes, our costs of raw materials and consumables rose from U.S.$1,347 million in the first half of 2010 to U.S.$1,926 million in the first half of 2011. Prices for raw materials continue to have a key influence on our production costs. If not passed on to customers in a timely fashion, the increase in prices for scrap, coils and other principle raw materials can adversely affect our profit margins and results of operations.

We also consume significant quantities of energy, particularly electricity and gas. In the first half of 2011 energy costs amounted to 8% of the total cost of production and remained relatively flat as compared to the first half of 2010. Further price increases for energy resources will increase our costs of production and could have an adverse effect on results of operations and financial results.

Dependence on the oil and gas industry

The oil and gas industry is the principal consumer of steel pipe products worldwide and accounts for most of our sales, in particular sales of OCTG, line pipe and large diameter welded pipe. In the first half of 2011, sales of pipes used in oil and gas industry (OCTG, line pipe and large diameter pipe) accounted for 75% of our total sales volumes.

Any downturns in the oil and gas markets can adversely affect the demand for our products which largely depends on the number of oil and gas wells being drilled and completed, the depth and drilling conditions of wells and on the construction of oil and gas transportation pipelines. The level of such capital spending by major oil and gas companies is largely driven by prevailing prices for oil and natural gas and their stability. In case of significant and/or sustained decline in oil and natural gas prices energy companies could reduce their levels of expenditures and investment activity. As a result, the demand for pipes used in oil and gas industry can substantially decrease, which can also lead to tightening of competition and possible decreases of market prices for tubular products. Thus, the decline in oil and gas exploration, drilling and production activities and in prices for energy commodities could have a negative impact on our results of operations and financial position.

Dependence on a small group of customers
We remain focused on supplying a wide range of products to the oil and gas industry, which contributed to 75% of our total sales volumes in the first half of 2011. Therefore our largest customers are oil and gas companies. In the first half of 2011, our five largest customers were Gazprom, Rosneft, Surgutneftegas, TNK BP and Lukoil, which together accounted for 39% of total pipe sales. We have strong business relationships with its key customers and expect a proportion of sales to a limited number of companies to remain high in the foreseeable future. Nevertheless, the increased dependence of pipe sales on a single large customer bears the risk of an adverse effect on our results of operations in the event that our relationship with any of these major customers deteriorated.
Our large diameter welded pipe business is largely dependent on one of our largest customers, Gazprom, which is one of our largest customers for 1,420 mm diameter welded pipes used for construction of gas transportation pipelines. Further increases of the level of competition in the supply of large-diameter pipe or a change in relationships with Gazprom could negatively affect our competitive position in large-diameter pipe market, resulting in decreased revenues from sales of these products and adversely affecting our results of operations and financial position. Additionally, large diameter welded pipe business depends significantly upon the level of construction of new oil and gas pipelines in Russia and the CIS. The delay, cancellation or other changes in the scale or scope of significant pipeline projects, or the selection by the sponsors of such projects of other suppliers could have an adverse effect on our sales of large diameter welded pipes, and thus on our results of operations and financial position.
Our American and European divisions, together with direct sales to end customers, cooperate with a wide range of distributors, each of whose share in our total sales volumes is not significant

Competition
The global steel pipe market, particularly in the oil and gas sector, is highly competitive and primarily based on compliance with technical requirements, price, quality and related services. In the Russian and CIS markets, we face competition primarily from Russian and, to a certain extent, Ukrainian seamless and welded pipe producers. In the United States, our American division faces competition primarily from first-tier domestic steel pipe producers, as well as from imported OCTG and line pipe products, principally from Asia, Canada and Mexico. Several of our key competitors are currently building and/or ramping-up new pipe capacities, which is expected to increase competition in certain pipe segments in Russia, CIS the United States and other international pipe markets.

Financial risks

Liquidity risk
Following the growth of sales volumes and improvements in operating performance our leverage level continued to improve in the first half of 2011. Our net-debt-to-EBITDA ratio stood at 3.3x as of June 30, 2011, down from 3.9x as of December 31, 2010 and 6.0x as of June 30, 2010. Our adjusted EBITDA for the twelve months ended June 30, 2011 reached U.S.$1,153 million on the back of further improvements in operating performance in the first half of 2011. On the other hand, our total debt amounted to U.S.$4,017 million as of June 30, 2011, as compared to U.S.$3,872 million as of December 31, 2010. Appreciation of the Russian rouble against the U.S. dollar resulted in an increase of the U.S. dollar equivalent of the Russian rouble-denominated loans and, consequently, in a growth of total debt as compared to the beginning of the year.
In the first half of 2011 we continued to improve our liquidity profile and optimise financial performance. The ratio of short-term debt relative to total debt, which stood at 18% as of 31 December 2010, was further improved to 13% as of June 30, 2011. The weighted average nominal interest rate further

decreased in the first half of 2011 and stood at 7.33% as of June 30, 2011, down 53 basis points from 2010 end.
We continue to carry out measures to maintain sufficient liquidity and improve loan portfolio structure. Nevertheless, there can be no assurance that our efforts to improve liquidity profile and reduce leverage will prove successful. Negative market developments or deteriorating global financial situation may have an adverse impact on our ability to refinance existing obligations or new borrowings in banks or on capital markets, and may put pressure on our liquidity, increase borrowing costs, temporary reduce the availability of credit lines and lead to unavailability of financing on acceptable terms.

Interest rate risk

We currently benefit from relatively low interest rates. Our interest payments continue to decrease: in the first half of 2011 our total interest paid amounted to U.S.$142 million as compared to U.S.$182 million in the first half of 2010. While our cost of funding continues to decrease, there can be no assurance that rates will stay on their low levels in the future. Should the rates increase in the future, our interest expense can increase and adversely affect our financial position.
Certain part of our loan portfolio is represented by loans taken out at floating interest rates. As of June 30, 2011, loans with floating interest rates represented 8% of our total loan portfolio and amounted to U.S.$309 million. The underlying floating interest rates in current loans remained close to their historical lows in the first half of 2011, which kept our interest expense on the relevant loans low. The share of floating rate loans in our loan portfolio remains insignificant and we consider relevant interest rate risk negligible. At present we do not use derivative instruments to hedge such interest rate risks. Nevertheless, should floating interest rates increase in the future, our interest expenses on relevant loans will increase.

Currency risk

Our products are typically priced in roubles for Russian sales and in U.S. dollars and euros for CIS, U.S. and other international sales. Our direct costs and interest expense are largely incurred in roubles and U.S. dollars, while capital expenditures are incurred principally in roubles, euros and U.S. dollars.
In the first half of 2011 we incurred gains from spot rate changes in the amount of U.S.$129 million, including gains in the amount of U.S.$33 million recognised in the income statement and gains in the amount of U.S.$96 million recognised in the statement of comprehensive income. Gains from foreign exchange difference in the income statement were primarily attributable to the fact that during first half of 2011 the U.S. dollar exchange rate decreased and the income arose from non-hedged part of U.S. dollar denominated loans. Gains from foreign exchange difference in the statement of comprehensive income relating to hedged financial instruments arose from the revaluation of dollar denominated loans attracted by Russian companies of the Group.
As of June 30, 2011, U.S. dollar-denominated debt, Russian rouble-denominated debt and euro-denominated debt accounted for 47%, 47% and 6%, respectively, of our total financial debt. The significant part of our debt is currently denominated in U.S. dollars, and the possible devaluation of the rouble against the U.S. dollar in the future could result in foreign exchange losses. To mitigate this risk, we continue to decrease the share of U.S. dollar-denominated debt in debt portfolio. Nevertheless, if U.S. dollar appreciates against rouble in the future, this could adversely affect our net profit.

Inflation risk

As our production activities are largely located in Russia, the majority of our direct costs are incurred in Russian roubles. We tend to experience inflation-driven increases in raw material costs, transportation costs, energy costs and salaries that are linked to the general price level in Russia. In the first half of 2011, inflation rate in Russia reached 5% and may increase in the future. We may not be able to increase the prices that we receive from the sale of pipe products sufficiently in order to preserve existing operating margins.

Inflation rate in the United States, with respect to our American division, is historically much lower than in Russia. The U.S. inflation rate over the last 12 months reached 3.6% in June 2011. Accordingly, high rates of inflation, especially in Russia, could increase our production costs, decrease operating margins and materially adversely affect our operating performance and financial position.

Legal risks

Changes in tax legislation and tax system

Our subsidiaries make significant tax payments, in particular, profit tax, VAT, social and pension contributions and property tax. Changes in tax legislation could lead to an increase in tax payments and, as a result, to a lowering of our financial results. As significant part of our 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 generally reduce the number of taxes and the overall tax burden on business while simplifying tax legislation. Despite measures to improve the tax system, tax legislation continues to give latitude to local tax authorities and leaves a multitude of unresolved problems which may have a negative effect on our operating results.

According to Russia's Finance Ministry forecasts the budget will remain deficit in 2011 in spite of improvements in the effectiveness of budget spending. Should the Russian government increase tax burden on corporate sector to finance the budget deficit, we can be subject to higher tax payments in the future, which may adversely affect our financial results. Additionally, the Russian oil industry is subject to substantial taxes, including significant resources production taxes and significant export customs duties. Negative changes to the tax regime and customs duties rates may adversely affect the level of oil and gas exploration and development in Russia, which can adversely affect demand for our products sold in Russia.

Changes in environmental law

We meet the requirements of national environmental regulations at its Russian plants, the directives and regulations of EU and national Romanian legislation at its Romanian plants and, with the acquisition of TMK IPSCO the U.S. environmental laws.

The main ecological-and-economical risks for us are related to expected changes and tightening of Russian environmental protection laws. Environmental legislation in Russia is currently undergoing significant change. The imposition of a new environmental law and regulation system may require further expenditures to modernize production operations, install pollution control equipment, perform site clean-ups and reclamation. Stricter regulations may 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 or unforeseen environmental liabilities, which could have a material adverse effect on our financial position and results of operations.

With the acquisition of TMK IPSCO, we are now responsible for compliance with U.S. laws on the environment which differ significantly from Russian environmental legislation. The environmental protection

regime in the United States is more onerous than what we face with respect to operations in Russia and other countries and compliance with these U.S. laws may expose us to additional costs. We estimate that the environmental legislation of the European Union and the United States will not undergo any material changes in the near future. Romania's admission into the European Union, which occurred in 2007, resulted in increased environmental liabilities for our Romanian operations. TMK Romanian subsidiaries may be required to adopt and implement more stringent environmental and labor laws in the future. There can be no assurance that the European Union will not impose new environmental regulations or that Romanian state authorities will not change national environmental laws in the future.

Although we do not anticipate any significant environmental matters in the United States and Romania, 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

Our production capacities are subject to the risk of equipment failures due to unanticipated events, such as fires, explosions and adverse weather conditions. Manufacturing processes depend on critical pieces of steel-making and pipe-making equipment. Such equipment may, on occasion, be out of service as a result of unanticipated failures could require us to close part of the relevant production facility or cause to reduce production on one or more of production lines. Any interruption in production capability may require us to make significant and unanticipated capital expenditures to affect relevant repairs, which could have a negative effect on our profitability and cash flows. We currently maintain insurance against losses that may arise in case of property damage, accidents and transportation of goods. We also maintain 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.

Insurance against all potential risks and losses

We do not carry insurance against all potential risks and losses that may arise in connection with the quality of our products, property damage, work-related accidents and occupational illnesses, natural disasters and environmental contamination. We currently maintain no business interruption insurance. Losses or liabilities arising from these or other events could increase our costs and could adversely affect our business, financial position and operating results.

Ability to effect staff alterations and shortages of skilled labor

Our Russian subsidiaries are in many regions the largest employers in the cities in which they operate, such as Volzhsky, Taganrog, Kamensk-Uralsky and Polevskoy. While we do not have any specific legal social obligations or responsibilities with respect to these regions, the ability to effect alterations in the number of our 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 our results of operations and prospects.

Competition for skilled labor in the steel pipe industry remains relatively intense, and labor costs continue to increase moderately, particularly in the CIS, Eastern Europe and the United States. We expect the demand and, hence, costs for skilled engineers and operators will continue to increase, reflecting the significant demand from other industries and public infrastructure projects. Continual high demand for skilled labor and continued increases in labor costs could have a material adverse effect on our business, financial position and results of operations. Furthermore, any work stoppages, strikes or other labor-related developments could have an adverse effect on our business, financial position and results of operations.

Responsibility Statement

We confirm to the best of our knowledge:

1. The consolidated financial statements of OAO TMK presented together with this management's discussion and analysis of financial condition and results of operation of OAO TMK and established in conformity with International Financial Reporting Standards give a true and fair view of the assets, liabilities, financial position and profit of OAO TMK and the undertakings included in the consolidation taken as a whole; and
2. The management report includes a fair review of the development and performance of the business and the position of OAO TMK and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Chief Executive Officer OAO TMK
Alexander G. Shiryaev

Chief Financial Officer OAO TMK
Tigran I. Petrosyan

2 September 2011